

HISTORIC ORIGINS OF AUSTERITY AND THE ORDOLIBERAL SCHOOL OF THOUGHT

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Abstract

In the course of the European sovereign debt crisis, some blamed Germany for forcing austerity measures upon the European debtor countries, with ordoliberalism seen as the theory behind Germany's policy making.

However, despite the fact that Germany's actions in the GFC to some extent show similarities to ordoliberal principles, it would be overly simplifying to take that as evidence of German policy making being inspired by ordoliberalism. Using process tracing, in the first part of the study I analyze the development and the main principles of ordoliberalism as well as their alleged connection to austerity. The second part discusses the historic record of ordoliberalism in Germany's policy making, whereas the third part examines Germany's policies in the Eurozone crisis from an ordoliberal perspective and provides some alternative explanations for Germany's actions.

The key findings of this study indicate that German policy making is not dominated by ordoliberalism, which although strongly present in German academia and public discourse plays only a limited role in Germany's approach to the sovereign debt crisis. In this respect the study contradicts the widespread notion of ordoliberalism being the culprit for Germany's pro-austerity policy, and offers a more elaborate explanation of the role that this school of thought has in Germany.

Keywords: austerity, Eurozone crisis, ordoliberalism, Freiburg School, fiscal policy, monetary policy, Germany

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List of abbreviations

- AG** – Joint-Stock Company (*Aktiengesellschaft*)
- ASM** – Action Group Social Market Economy (*Aktionsgemeinschaft soziale Marktwirtschaft*)
- BbankG** – Deutsche Bundesbank Act (*Gesetz über die Deutsche Bundesbank*)
- CDU** – Christian Democratic Union of Germany (*Christlich Demokratische Union Deutschlands*)
- DB PP** – German Federal Diet, Plenary Protocols (*Deutscher Bundestag, Plenarprotokoll*)
- DP** – Düsseldorf Platform (*Düsseldorfer Leitsätze*)
- DT** – Düsseldorf Thesis (*Düsseldorfer Thesen*)
- EC** – European Commission
- ECB** – European Central Bank
- EMU** – European Monetary Union
- EU** – European Union
- FDP** – Free Democratic Party (*Freie Demokratische Partei*)
- FRH** – Federal Republic of Germany (*Bundesrepublik Deutschland*)
- GDR** – German Democratic Republic (*Deutsche Demokratische Republik*)
- GFC** – Global Financial Crisis
- GG** – Basic Law for the Federal Republic of Germany (*Grundgesetz*)
- GmbH** – Limited Liability Company (*Gesellschaft mit beschränkter Haftung*)
- GWB** – Act Against Restraints of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*)
- HREG** – Hypo Real Estate Group
- IMF** – International Monetary Fund
- INSM** – Initiative New Social Market Economy (*Initiative Neue Soziale Marktwirtschaft*)
- OMT** – Outright Monetary Transactions Mechanism
- QE** – Quantitative Easing
- SPD** – Social Democratic Party of Germany (*Sozialdemokratische Partei Deutschlands*)
- StabG** – Act to Promote Economic Stability and Growth (*Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft*)
- SVR** – German Council of Economic Experts (*Sachverständigenrat*)

0.0 Introduction

After the outbreak of the GFC Germany became increasingly perceived as the key actor in the EU's approach to the crisis, a reluctant hegemon of Europe (Paterson, 2011), and blamed for fiscal and monetary orthodoxy (The Economist, 15.06.2013). Berlin's insistence on liability of deficit countries for their debts, its opposition to Eurobonds and deficit spending were thus perceived as the main reasons behind the EU's insistence on "austerity" (Morici 2015, Truger 2013, De Grauwe & Ji 2013 et.al.) and the bailout-cum-retrenchment approach to solving the crisis (Scharpf, 2011, 24). In this context, the influence of the ordoliberal school of thought emerged as one of the explanations for Germany's "pro-austerity" approach (Bergan & Young, 2013; Dullien & Guerot, 2012).

Given the tradition that this school of thought allegedly has in Germany, it is argued that ordoliberal heritage is responsible for Germany's stance in the Eurozone crisis (Compare. Feld, Köhler & Nietiedt 2015). Ordoliberalism was hence declared the "ideological edifice behind German economic orthodoxy" (Dullien & Guerot, 1), or the concept "that Angela Merkel wants for the Eurozone" (Müller 2012, 19). Moreover, Eurozone's approach to the global financial crisis has been described as "inspired by ordoliberal ideas" (Funk 2015, 31), with the German Bundesbank perceived as the bastion of ordoliberal tradition (Dyson 2009, 141) and the EMU "exhibit[ing] evidence of incremental 'ordoliberalization'" (Nedergaard & Snaith 2015, 1107).

This narrative of an alleged ordoliberal motivation of Germany's approach to the Eurozone crisis is made even stronger if one takes into consideration links between the leading German politicians and this school of thought. Angela Merkel, the Chancellor of Germany, emphasized the influence that social market economy had and still has on the German economy (Merkel 2007, 107), tracing its historic origins to the ordoliberal school of thought and its founding-father Walter

Eucken (Merkel 2007, 111). In a more recent speech at the celebration of Eucken's 125th birthday, Merkel stressed that "[t]he ordoliberal principles of the Freiburg School have lost nothing of their actuality and importance." (Merkel, 13.01.2016). At the same time, Wolfgang Schäuble, Germany's Federal Minister of Finance, who was recently announced as the winner of Walter-Eucken-Medal, described Eucken as his "spiritual ally" (Badische Zeitung, 11.06.2011).

However, mere homage given to ordoliberalism by politicians does not necessarily mean, that their policies can be connected to ordoliberal teachings. Therefore, in order to examine the alleged connection between this school of thought and "austerity" I will firstly analyze the theory of ordoliberalism and discuss whether "austerity" is indeed an ordoliberal concept. Secondly I will take a look at the historic record of ordoliberalism after the Second World War, in order to evaluate to which extent ordoliberal ideas influenced Germany's policy making. Thirdly, I will analyze Germany's approach to the GFC from an ordoliberal point of view, and finally offer some alternative explanations for Germany's "pro-austerity" attitude.

The goal of this study is to discuss the role of ordoliberalism in Germany and counter the widespread narrative of an ordoliberal influence being decisive for German policy making in the Eurozone crisis. I will argue that, whilst ordoliberalism is indeed influential among German academics and in political discourse, both the ordoliberal theory as well as its historic record provide little evidence in support of the claim that Germany's "pro-austerity" policy is dominantly motivated by ordoliberalism. The study will argue that ordoliberal ideas have little direct influence on actual policy making in Germany, which is characterized more by pronounced pragmatism than by the influence of any single school of thought.

However, it is nevertheless important to discuss the ordoliberal theory and its role in Germany for several reasons. First of all, given its multidisciplinary, ordoliberalism influenced a

variety of theories including the rational choice theory and on constitutional economics. Moreover, ordoliberal writings addressed issues such as the optimal role of the state in the economy, state interventionism and efficacy of institutions, which are still of importance to today's political scientists.

Secondly, given its role in social market economy and in the German economic wonder of the 1950s, ordoliberal theory is essential for understanding the post-war recovery and development of the German economy. Since ordoliberalism is also seen as having a substantial influence on the creation of the EMU, it is important to clarify its theoretical foundations in order to assess Germany's role in the European integration process.

Finally, despite the fact that ordoliberalism has lost the influence it had on policy-making during the 1940s and 1950s, it is still present in German academia and political discourse, with politicians using the ideal of social market economy as justification for their policies (Nedergaard & Snaith 2015, 1097). All of this makes a good understanding of ordoliberalism indispensable for dealing with German economic policy making.

Due to the scope of the topic and the type of sources which will be used, I decided to take a qualitative approach and use process-tracing. Given, that most of the sources are books of ordoliberal authors, their speeches, statements and biographies as well as laws and a variety of secondary literature, I consider process tracing to be the best method for reconstructing the context of the sources, and their interpretation. In the study I will use process tracing as described by Collier in his review of process tracing, from which I specially intend to focus on the descriptive inference (Collier 2011, 824). Namely, given that this study aims at clarifying connections between ordoliberalism and German policy making looking at a broader historical and theoretical context, the nature of this thesis will be mostly descriptive. Following Collier's framework (Collier 2011,

825) I will not only focus on sequences and changes over time, but describe key moments in the development of the ordoliberal thought as well as in the post-war German economic policy.

Furthermore, since a constitutive part of the study will be reconstructing mechanisms through which ordoliberal ideas could have influenced Germany's economic policy making, process tracing will be used to detect possible actors such as institutions (Walter Eucken Institute, German Council of Economic Experts, Bundesbank, etc.) as well as individual actors (Ludwig Erhard, Walter Eucken, Alfred Müller-Armack, etc.). The time frame of this study covers the period from 1930s until the present day, with emphasize on the development of ordoliberal thought in 1930s and 1940s, its heyday during the 1950s and its influence in Germany during the GFC.

1.0 Theoretical framework and literature review

In this chapter I will address three key issues that are important for the analysis in chapters 2, 3 and 4. First of all, in order to discuss the connection between ordoliberalism and “austerity” it is necessary to discuss the many meanings of the term “austerity”, given that despite being widely used, there is still no consensus about its definition. Secondly, I will discuss the school of constructivism and the idea-based approach to explaining the behavior of economic actors, and elaborate why I will not be focusing on this framework in my analysis but rather emphasizing pragmatism as the key to explaining ordoliberal influence in Germany. Finally, I will present the scholarship on ordoliberalism and its alleged connections to German policy making, pointing out main flaws of these approaches.

1.1 The meaning(s) of austerity

During the First and Second World Wars “austerity” referred to rationing cuts provoked by shortages during the war, emphasizing reduced consumption due to scarcity of resources (Anderson & Minneman 2014, 112). Nowadays, the meaning of austerity has shifted away from issues of rationing and is mostly used in the context of governmental policies aimed at the reduction of public deficit.

On the one hand, “austerity” is defined as a condition, a period of government spending cuts and tax increases (Financial Times Lexicon), or periods of difficult economic conditions created by the government budget reduction measures (Oxford dictionary). Pierson perceived “austerity” as a long-term “fiscal regime of austerity”, differentiating it from the short-term anti-deficit policy (Pierson 2001, 55). On the other hand, “austerity” is defined through policy measures, such as pro-cyclical reduction of structural deficit (The Economist, 20.05.2015) or more generally as reductions in debt-financed government spending (Wolf, 2013). Röpke for instance wrote about

“austerity” in the context of restricted imports with the goal of solving balance-of-payment problems (Röpke 1969, 150).

There are also further classifications of different types of austerity. Forbes made a distinction between good, bad and ugly “austerity”. The first one “putting pain on the government sector”, the second “trying to spread the pain across the public and private sectors” and the “ugly austerity” hitting the private sector only (Forbes). In addition, Tarschys distinguished among “across-the-board” cuts, “single-year vs. multi-year reductions”, “investment vs. consumption cutbacks” and “abolished vs. deferred consumption” (Tarschys, 1984).

Whereas the general public perceives austerity mostly through the outcomes of austerity measures, such as rise in unemployment, reduced social benefits, deterioration of living standards, academic debates about austerity mostly focus on fiscal or monetary austerity. While some authors look at austerity in strictly fiscal terms emphasizing the “size of deficit reductions”, Alesina & Giavazzi argue that it is more important to differentiate between the areas to which austerity measures apply, such as spending cuts, tax increases or structural reforms (Alesina & Giavazzi 2012, 11-12). Sometimes, austerity is used as synonym for fiscal discipline, as for instance by Wyplosz, who defines austerity as “pro-cyclical fiscal politics” (Wyplosz 2012, 32), whilst others understand it as “fiscal consolidation” (Tamborini 2015, 123; Reenen 2012, 56) or “fiscal tightening” (Corsetti 2012, 103).

At the same time, monetary austerity is defined as “tightening of money supply”, currency devaluation (Leonard 2006, 441), or as a period of “high real interest rate” (Rochon & Seccareccia 2013, 4). Among all these definitions, Blythe gives the most comprehensive one, defining austerity as deflationary policies implemented with the goal of restoring competitiveness by cuts in wages,

public spending and reductions of price levels. All of which are supposed to boost the confidence of the market in government policy and stimulate economic recovery (Blyth 2015, 2).

Taking these definitions into consideration one can easily see why austerity is still a very broad and disputed term. Moreover, nowadays austerity evokes exclusively negative connotations, and can be compared to Hartwich's argument of how neoliberalism became a "political swearword" (Hartwich, 2009), since over the past few decades austerity has also become a term, which is used and misused on daily basis, with for instance Krugman waging a public campaign against the "zombie monster" (Krugman, 20.11.2015) as well as the mainstream economics that he sees bullied (Krugman, 24.09.2011) by "austerians" (The Guardian, 29.04.2015).

In this study, I will not be using one specific definition of austerity, but rather look at different policy approaches to the GFC made by Germany, which have been declared as pro-austerity policies, such as, German opposition to shared liability in the Eurozone area, refusal to increase domestic demand in order to help other European countries and opposition to quantitative easing of the ECB.

1.2 The role of ideas

Using ideas to explain such policy decisions is not new to political economy. Constructivism for instance stressed the importance of shared ideas on the creation of individual identities and social norms (Broome 2014, 25) and saw the origins of ideas in values, which tell us how things should be and lead to particular attitudes that influence our behavior (Dan Voich & Stepina 1994, 1). From this follows that ideas are crucial for understanding the actions of economic actors, with dominant ideas being formalized into laws (Ravenhill 2014, 98, 248).

Talani differentiates among neo-constructivists focused on identity and those who stress the importance of economic ideas (Talani 2014, 98). The leading representative neo-constructivists, who stress the dominance of economic-ideas, McNamara, argued that shared ideas among European elites about the desirability of EMU were the key reason for its success (McNamara 1998, IX). Further differentiation between identity- and idea-oriented constructivism can be detected in Hall's writings, who distinguishes between three idea-based approaches in political economy, two of which are especially interesting regarding the topic of this thesis (Hall 1997, 184).

On the one hand, some argue in favor of the complete primacy of ideas over interests by interpreting the actions of individuals as a consequence of their cultural context (Hall 1997, 185). These are the scholars who would argue that austerity is a policy typical for Germans, whereas Americans prefer deficit spending. According to this approach one could explain German economic policy by stressing the collective German trauma caused by inflation in the Weimar Republic (Issing, 2000; Silvia 2011). Accordingly, Germany's insistence on stable money policy and central bank independence would be seen from the perspective of the inflationary fear that Germans collectively share, an idea also promoted by the German Minister of Finance Wolfgang Schäuble (Schäuble, 23.06.2010).

However, this approach fails to explain why it was inflation rather than austerity of the Brüning cabinet that became part of collective economic memory,¹ whilst underestimating the importance of interests of economic actors, an issue that will also be addressed by this thesis.

¹ As chancellor of Germany, Brüning introduced savings- and deflationary policy measures (Mommsen 1998, 364) that led to an "austerity psychosis" (Mommsen 1998, 397). This made some historians describe him as the one who "paved the way for Nazi assumption of power" (Epstein 2015, 34). Whereas some authors saw Brüning's austerity measures as a policy aimed at showing the western allies that Germany is not able to pay its reparations (Wirsching 2001, 51), or a result of the struggle between the economic elites and trade unions as well as dominant economic dogmas

On the other hand, some scholars give greater importance to the influence of expert culture and epistemic communities on decision making (Hall 1997, 184). Haas sees epistemic communities and their ideas being especially influential on governmental policy making in rich democratic societies (Haas 2015, 11). One could for instance argue that ordoliberalism itself build one epistemic community as opposed to Keynesians and monetarists, thus describing the changes in the German economic policy as a result of the changing influence of these groups. Such was the approach of Silvia, who argued that there is a dominance of ordoliberalism and monetarism in German economic thought, stressing economic ideology as the reason behind German resistance to the European Stability Mechanism (Silvia 2011, 70).

It is exactly this focus on the influence of certain ideas and schools of thought that leaves less space for the evaluation of the role of pragmatism and compromising in policy making. By trying to prove the dominance of this or that idea one risks oversimplifying reality by ignoring the importance of different influence factors and interests, all of which shape the way policy decisions are made.

1.3 Debate on austerity in the Eurozone and ordoliberalism

After the outbreak of the GFC ordoliberalism was proclaimed to be the source of the German insistence on stable prices, fiscal discipline and stable institutional setting by a series of authors (Berghan & Young, 2013; Dullien & Guerot, 2012; Bonefeld, 2012; Hillebrand, 2014; Nedergaard & Snaith, 2015; Tilly, 2015; Feld, Köhler & Nientiedt, 2015). At the same time, ordoliberalism was discarded as an outdated approach that has characteristics of a religion (The

of that time (Schui, 2014), other authors saw it as a result of conviction that austerity was needed to prevent another hyperinflation (Jenson 2014, 192). However, given the capital flight from Germany as result of political struggle with France, Ryder argued that one can hardly blame Brüning for sticking to austerity measures, given that he had no other options (Ryder 1973, 267).

Economist, 09.05.2015), and is unable to address problems of the globalized world, whilst causing much harm to the economy by enforcing devastating austerity measures (Cafruny, 2015). Moreover, opponents of austerity measures described Germany's response to the crisis of the Eurozone as being narcissist (Kundnani, 2012), relying on some kind of magical reform (Agnew, 2015), or even compared it to living in a parallel universe (Münchau, 2014).

However, it is unclear why austerity should be seen as the brainchild of ordoliberalism. Rather than being an “inhumane” ideology, as some have implied, the establishment of a humane economic system that would base on law and freedom of individuals was the main goal of ordoliberalism (Eucken 1952, 176), with austerity being explicitly denounced by one of key ordoliberal thinkers, Wilhelm Röpke (Hieronymi 2015, 15).²

Regarding ordoliberalism and its influence in Germany, a lot has been written about various implications of this school for the economy, among which, ordoliberalism's antimonopolistic rules and market regulation (Vanberg, 2004; Gerber, 1994), its relationship to the welfare state (Vanberg, 2004; Berghan & Young, 2013), social policy (Volkert, 1991) as well as its theological roots in Protestantism (Manow, 2001). With respect to its influence on policy making, Peter Oberender did extensive research on the role of ordoliberalism and the concept of social market economy in the post-war German economy. Examining the role of Eucken's ideas in post-war West Germany, Oberender concluded that ordoliberalism had an only limited influence on German policy making (Oberender, 1997). Brigitte Young also pointed out that there are some discrepancies between

² Writing about restricted imports of luxury goods in Denmark in 1948 Röpke argued that “the philosophy of `austerity` is all wrong” (Röpke 1969, 144), and considered it to be “bad economics and false calculation” (Röpke 1969, 153) at the same time pointing out the state bureaucracy as “the real luxury that nations can no longer afford” (Röpke 1969, 145).

ordoliberal doctrine and policies implemented in Germany thus arguing against the myth of omnipresent influence of ordoliberalism in German economic policy (Young, 2014).

Based on similarities between ordoliberal principles and German economic policy, other authors ascribed greater importance to the ordoliberal influence in Western Germany, such as Otto Schlecht, who stressed the role of the Federal Ministry for Economic Affairs in the implementation and development of the social market economy concept (Schlecht, 1997). Others argued that German economists are inspired by ordoliberalism and therefore insist on monetary stability, central bank independence and the principle of liability (Nedergaard & Snaith 2015, 1101-3). Even Young argued that ordoliberalism supports the idea that fiscal prudence and strict adherence to rules are the only way how a government can earn the trust of the market (Young, 2013). Moreover, Biebricher saw ordoliberal influence as being behind the drastic “austerity” measures that were implemented in deficit countries with the aim of restoring competitiveness and preventing inflation (Biebricher 2014, 8). Ordoliberalism was also seen as the source of the idea that “austerity” measures are necessary in order to solve the crisis, with excessive government expenditures seen as a major problem (Blyth 2015, 141; Dullien & Guerot 2012, 3).

But one thing that these approaches have in common is that they rely too heavily on similarities between ordoliberal ideas and German policies, namely, even if an ordoliberal principle can be seen as in line with austerity measures this does not have to mean that Germany’s policies are inspired by those very principles. Given that the theoretical foundations of ordoliberalism were struck by the late 1940s it is oversimplifying to argue, that they are influencing current policy making in Germany just based on similarity of goals. Therefore, it is important to discuss which ordoliberal principles could be connected to austerity measures and then detect actors and institutions, which might explain the causal link between these ideas and concrete policy decisions.

2.0 Ordoliberalism

What is ordoliberal about austerity? This is the question I will try to answer in this chapter. Namely, it is ironic that a theory designed to protect the freedom of individuals both from the unconstrained economic forces of the market as well as from an overly expansive state (Eucken 1952, 170-71; 1953, 8) is nowadays perceived as a strictly economic doctrine preoccupied with preserving currency stability, creating rules and promoting austerity measures in debtor countries. Whereas ordoliberals seek to create conditions for the development of what they describe as a fully functional competitive market, competition is not seen as virtue per se, but as the best way of achieving the ultimate goal of ordoliberalism, a humane society in which people are not treated as means of reaching the goals of some (Müller 2007, 99; Eucken 1952, 179). In order to clarify the theoretical foundations of ordoliberalism and argue against simplifying interpretation of this school of thought, I will firstly discuss the development of the ordoliberal thought and its main principles and then situate ordoliberalism in the broader context of other economic theories.

The history of ordoliberalism is older than the term “ordoliberal”. Despite the fact that ordoliberalism’s origins can be traced to the 1930s, the term itself was coined in 1950 by Hero Moeller, who used it to describe scholars gathered around the *ORDO*, Yearbook of Economic and Social Order (Moeller, 1950). The core of the Ordoliberal school of thought was formed in 1933 under the name “Freiburg circle”, consisting of Eucken, Franz Böhm and Hans Grossmann-Doerth (Rieter & Schmolz 1993, 96). Although the literature usually uses the term Freiburg School as a synonym for ordoliberal doctrine, ordoliberalism is not a homogenous school of thought (Compare, Streit 1995, Renner 2000). In this study I will distinguish between three strands of ordoliberal thought, the first being the Freiburg School around Eucken und Böhm, the second being

Sociological ordoliberalism represented by Röpke und Rüstow³ and a third approach which is connected to the writings of Alfred Muller Armack.⁴

Despite the differences among these three schools, one should not look at them as conflicting, but rather as complementary branches of ordoliberalism. Whereas the Freiburg School provided the theoretical foundation of the ordoliberal thought that can be seen as commonly shared by ordoliberal authors, subsequent two schools built upon these basic principles and further expanded some of its topics. Therefore, opposition to laissez-faire and collectivism, the idea of the interdependence of orders and the need to constrain the free market are all notions shared by ordoliberals (Compare, Lorch 2014, 67), whilst the biggest difference between them lies in the operationalization of these common goals and ideas.

2.1 Historical development of the ordoliberal theory

In 1932, Walter Eucken published a paper in which he discards intrinsic failures of capitalism as causes of the crisis, emphasizing monopolies and interest groups, who use the interventionist state to protect their interests on the market, as the main reasons of crisis of capitalism (Eucken 1932/1997, 10).⁵ The cartelization of the economy was thus perceived as

³ In the literature one can also find Röpke and Rüstow's strand of ordoliberalism described as "sociological neoliberalism" (Robert 1976, 74) or "social humanism" (Lorch 2014, 49), for more information on the typology of ordoliberal schools compare Hegner 2000, 8.

⁴ Whereas some authors make a distinction only between the Freiburg School and the sociological ordoliberalism (Razeen 2002, 106; Mirowski & Plehwe 2015, 115; Bönker, Labrousse, Weisz 2001), others even made no distinction at all identifying ordoliberalism with the Freiburg School (Funder 2011, 188). Given the importance of social market economy for the implementation of ordoliberal ideas in post-war Germany and the distinctiveness of Armack-Müller's writings I side with authors who see Müller-Armack's work as a separate strand of ordoliberalism (Ptak 2004, 17).

⁵ In addressing the issues of serving the interests of some to the detriment of many, ordoliberal theory stood in opposition to Bently's optimism regarding the role of groups in democracies (Bently, 1908) and by several decades preceded the writings of Olson (Olson, 1982) and Buchanan (Buchanan & Tullock, 1962) on the seizure of the political system by powerful interest groups.

decisive for the failure of laissez-faire liberalism, which turned the general public towards the idea of planned economy and state interventionism. Ordoliberals therefore took upon them the task of rehabilitating the liberal thought and thus preventing the shift towards command economies, which they saw as detrimental for the freedom of the people (Böhm 1948, 212-213). This ideas build the core of what would become ordoliberal thinking, namely, a fierce opposition to monopolies and power concentration of all kind.

Because of such concentration of economic power, “the individuals” are namely no longer able to make economic choices for themselves, but find themselves confronted by a “large, anonym, overpowering apparatus” that consists of “trade unions, corporations [and] trusts” on which they are becoming dependent (Eucken 1948, 74). In order to protect this freedom of choice ordoliberals sought to come up with such an economic order, which would make the economy both functional (economically efficient) and humane (respective of human dignity, allowing people to pursue their interests) (Lorch 2014, 51; Gerken & Renner 2000, 16).

2.1.1 The Freiburg School

The core idea of the early ordoliberals is summarized best by Eucken: “State planning of the forms [rules] – yes, state planning and managing of the economy – no” (Eucken 1951, 71). Seeing the state as a referee and not a player on the free market, Freiburg ordoliberals stressed the need for a strong state that would impose rules on the economy, without interfering with the functioning of market mechanisms, because the freedom of individuals was seen not only as endangered by monopolistic power concentrations but also by state interventionism in the economy (Eucken 1952, 176). It is this opposition to excessive state interventionism that can be seen as the basis of ordoliberal opposition to deficit spending. Seeing interventionism as a slow disease, whose early stages are not very painful but on the long run lead to disaster (Böhm 1950, XXXVI),

ordoliberals opposed excessive state interventions on the grounds that they are not compatible with free market economy (Eucken 1952, 101-102).

Furthermore, the Freiburg School connected state interventionism to the notion of institutional capture of the government by powerful interest groups, namely, interventions in the economy were seen as selective and favoring the interests of some, leading to concentration of power on the market. In turn, a weak state, dependent on the “demands of power groups” would become unable to protect the regulatory framework of the economy, hence creating a state of anarchy on the market (Eucken 1932/1997, 14-15). Therefore, it is necessary to constrain state interventions to performing limited corrections on the market in support of the regulatory framework. Such permissible interventions include state sponsored anti-monopoly commissions, regulating power relations between employers and employees, environmental protection etc. (Dürr 1954, 29-30).

For Eucken “those who want to represent social interests” ought to focus on the “designing a comprehensive [economic] order“ rather than using selective interventions (Eucken 1952, 313), namely, on the long run, creating a functional economic order for the economy was seen as the only way of achieving goals such as full employment (Eucken 1948, 90). Therefore ordoliberals envisioned a competitive order (*Wettbewerbsordnung*)⁶ as a system of perfect competition characterized best by Böhm, who described it as an economic order, in which “nobody has the right to command” and every economic actor is free to follow his economic interests (Böhm 1950, XVI).

However, ordoliberals were aware of the difficulties that might accompany the implementation of such a model in the real economy, which is why one should understand the

⁶ Also translated as „ordered competition“, compare Behlke 1961, 52.

competitive order as a first best solution, an ideal case in comparison to which ordoliberals devised their policy prescriptions. However, Eucken and Böhm took different approaches to achieving perfect competition. Eucken was aware that perfect competition is to be achieved only with a combination of both economic and political rules, whilst Böhm's writings, had a stronger emphasize on the need for a well-constructed economic constitution (Behlke 1961, 48). Accordingly, Böhm had the leading role in devising the legal framework and institutions of such an economic order (Böhm 1950, XXXIV), whilst Eucken developed seven constitutive principles (economic and political) as preconditions for functioning of such an economic order.

A functioning price mechanism and stable money policy build the first two principles. Price system was seen as the backbone of the economy, responsible for giving signals to economic actors, thus making perfect competition possible (Eucken 1952, 157). It is for this reason that Eucken opposed anti-cyclical policies, lax monetary policy or monopolies, all of which could threaten the price system (Compare, Eucken 1990, 255). Furthermore, criticizing that after 1945 many countries intervened in the economy selectively (*punktuell*) to improve balance of payments and reduce deficits, Eucken warned that the resulting wage, credit and price-policies caused domestic purchasing power to increase, leading to imports exceeding exports, hence perpetuating the problems that the interventions were trying to solve in the first place (Eucken, ORDO I, 83)

The following three principles refer to the free access to the market (no or low entry barriers), private property over productive assets, and the freedom of economic actors to make contracts (Eucken 1952, 270-279). Eucken's warning that "the steering of economic processes" is "in hands of a class of functionaries, who bear no risks", stresses the core issue of his sixth principle, liability (Eucken 1953, 21). Maintaining that he who benefits must bear the costs (Eucken 1953, 20), Eucken complements the ordoliberal idea of freedom of economic actors with the

responsibility they have for their actions, a concept that can be understood as an insurance policy against irresponsible behavior of economic actors.⁷

Finally, Eucken stresses the importance of policy continuity. Both the continuity of stable money policy as well as fiscal responsibility of the government is seen as means of creating an “atmosphere of trust” on the market, which will reduce uncertainty and stimulate investment (Eucken 1953, 23). If one accepts the ordoliberal notion of market mechanisms functioning within a framework of rules, then it is easy to see how rapid policy changes (changes of rules) can have detrimental effect on the functioning of market mechanisms. However, even if these conditions are met, an economic order cannot exist separated from political and other orders in the society, because politics that is benevolent towards concentration of power can lead to the creation of monopolies irrespective of the economic order. Therefore, the Freiburg School introduced the notion of the “interdependence of orders” (Eucken 1948, 72; Eucken 1952, 14, 180).

To conclude, the Freiburg School set the foundations of ordoliberal thought by envisioning a strong state providing framework of rules for the free market, with the goal of establishing conditions as close as possible to perfect competition. With such a framework Freiburg ordoliberals intended to prevent power concentration in the hands of the few, which was seen as the ultimate problem of the capitalist economy. Besides that, other key characteristics of Freiburg ordoliberals is their support for liability and opposition to excessive state interventionism, as well as any measures, which could hamper the price mechanism.

⁷ It is worth noting that ordoliberals developed the concept of full liability in 1930-40s, decades before the western scholarship renewed its interest for the issue of moral hazard during the 1960s.

2.1.2 The sociological ordoliberals – Röpke and Rüstow

Compared to the Freiburg School, Wilhelm Röpke and Alexander Rüstow took a more universalistic and humanistic approach to the economy and foresaw a bigger role for state interventions, which are not only supposed to complement the competitive order (as envisioned by Eucken) but should also serve non-market spheres of the economy (Renner 2000, 5). If we label the Freiburg School as ordoliberalism in the narrow sense than Rüstow, Röpke and Müller-Armack would represent ordoliberalism in its broader meaning (Compare, Lorch 2014, 26; Wörsdörfer 2010).

Whilst sharing the ordoliberal quest for a third way between laissez-faire and planned economy Röpke's third way was a universal-liberal one, a global economy free of barriers of any kind (Röpke 1954/2008, 477). He opposed excessive state interventionism making the same distinction as Eucken between permissible and impermissible interventions, and elaborated different contexts in which they are needed, going beyond the need to break up monopolies he saw interventions as correcting wealth inequalities (Dürr 1954, 31). Nevertheless, Röpke recommended redistribution of income through the wage system whilst enforcing anti-monopoly laws, which will prevent “undeserved enrichment of the few at the expense of the many” and make workers independent of state subsidies (Röpke 1963, 200).

Röpke saw state subsidies as detrimental on the long run, since in his view systematic “[g]overnment-organized relief” equals proletarianization of masses (Röpke 1960, 154), with people being degraded to an “obedient domestic animal in the state's giant stables“ (Röpke 1960, 155). He considered that “unworried about their future” the masses will “have neither the economic ability nor the moral readiness to look after themselves” (Röpke 1957/87, 65). Hence one can interpret his standpoint as opposition to making the people passive and exclusively reliant on state

ensuring their welfare. Röpke was also as a strong opponent of any kind of collectivism and planned economies (Compare, Röpke 1959, 261; Röpke 1950, 176), who given his support for a universal free market economy and opposition to economic barriers, stood against the EU customs union and the single market (Peukert 2008, 471).⁸

Seeing the economic order as something, which separates the economy from non-economic spheres, Rüstow considered society, ethic, religion and family as more important values than the economy itself (Hegner 2000, 43), namely, according to him the economy is the servant of humanity (Compare, Rüstow 1960). In this respect Rüstow diverges from the contemporary understanding of neoliberalism, which stands for economization of all spheres of life, of erasing borderlines between economic and non-economic spheres (Nijs 2016, 52). According to Rüstow, the state has a moral obligation to be active in solving social issues within the ordoliberal framework (Starbatty 2008, 419).

Regarding inequalities Rüstow was even more radical than Röpke, supporting progressive inheritance taxation (Wörsdörfer 2010, 9) as well as corporate taxation aimed against large companies (Hartwich 2009, 17). With respect to liability, Rüstow even called for dissolution of GmbHs, given that they stand in violation of the full liability principle (Rüstow 1949/2008, 435).⁹

⁸ Röpke strongly opposed protectionism and bureaucratic state planning, which according to him distort market mechanisms and thus opposed supranational institutions on grounds that they centralize decision making and stir bureaucratization and overregulation (Brent & Guth 2015, 246). For him, European Economic Community was seen as “a device for protectionism, dirigism and cartelization” (Grin 2012, 85). However, Röpke did not oppose integration per se, calling for a balance between nation states and the international community (Röpke 1959, 44). Also compare Röpke 1942, 56-58.

⁹ Rüstow supported the idea of all AGs and GmbHs being fully liable for their business decisions (Meyer 2013, 989). In his criticism he went even further than Eucken, who criticized the limited liability of GmbH and wanted the big AG auctioneers to be liable with their whole possessions (Eucken 1952, 284), but approved limited liability for small auctioneers (Eucken 1952, 282). This ordoliberal view of limited liability is even more interesting if one considers that GmbH are

Finally, similar to Röpke, Rüstow saw enabling people to take care of their welfare themselves as the ultimate goal, whilst blaming Bismarck for “protectionist-subventionist-monopolist degeneration” of the market economy (Rüstow 1949/2008, 431).¹⁰

Whilst sharing basic ideas of the Freiburg School, Röpke and Rüstow expanded the economic-legal approach of Eucken and Böhm to a sociological level stressing the need for a more socially balanced economic policy, an approach best explained by Rüstow’s “politics of vitality” concept (*Vitalpolitik*). Namely, politics of vitality stands in opposition to the destructive forces of laissez-faire capitalism but is still in line with the ordoliberal principles (Hegner 2000, 54) and aims at creating “conditions of vitality”, which would ensure well-being of all people, making them “satisfied and happy” (Dörr et. al. 2016, 56). At the same time a guaranteed social minimum should release individuals from “the fear of economic freedom” and make the people stop relying on the state for their well-being by empowering them to be responsible of themselves (Bonefeld 2013, 37). From this follows that Rüstow’s concept of the state, directly opposes the understanding of austerity as the state cutting social benefits and leaving people in poverty, given that he saw the state as a safety net, which should ensure existential minimum to everyone.

essential parts of capitalism, since without limited liability by buying stocks of a company one would become fully liable for company’s debts (Compare, Rajan & Zingales 2013).

¹⁰ Bismarck once said “Give the worker the right to work (...) [and] give him a job as long as he is healthy, provide him with health-care when he is sick, and give him a rent once he is old”. (Bismarck, Reichstagsrede 1884). During his term in office, Germany introduced a welfare system that included social security, health insurance for workers and pensions (Leibfried & Wagschal, 8). Ordoliberals opposed this kind of welfare state seeing it as paternalistic, with the state making decisions instead of the workers themselves (Compare, Habermann 2014, Part 3, Chapter 5 “*Bismarck’s new welfare state*”).

2.1.3 Social market economy and Alfred Müller-Armack

A third strand of ordoliberal thought emerged from the philosophy of Alfred Müller-Armack, who came into the spotlight after the Second World War with his concept of social market economy that he defined as “not a liberal market economy [that is] left on its own” but as “a socially steered market economy” (Müller-Armack 1947/1990, 96). Whereas some authors have seen this concept as an “economic-political extension” of “the economic-theoretical ordoliberalism”, making social market economy the practical implementation of ordoliberal theory. (Quaas 2000, 255), others have stressed that social market economy is to be understood as a more pragmatic version of ordoliberal theory (Quaas 2000, 256).

Given that he considered that the writings of Eucken and the Freiburg School are neglecting social issues, Müller-Armack searched for ways how to solve social issues without hampering the ordoliberal regulatory framework. Therefore he envisioned the social market economy as a system that would reconcile a functional economy with the pursuit of social objectives (Wiseman 1989, 164). This is why he supplemented the Freiburg School’s concept of competitive order with anti-cyclical policy and developed a system of anti-cyclical state interventions aimed at constraining the business cycle during its peak in order to reduce the impact of economic downturns (Watrin 2008, 454), hence favoring the use of constrained state interventions to offset business cycles in the economy (Müller-Armack 1948, 153).

Although the rejection of state interventionism as a long-term social policy was central to Müller-Armack’s thinking, he tolerated discrete measures of income redistribution through taxation and minimal wages (Müller-Armack 1948, 152). Whilst keeping the price system and free competition as key mechanisms of economic coordination and having the state taking care of income redistribution, Müller-Armack supported state interventionism only as long as it does not

interfere with market mechanisms (Müller-Armack 1989, 83-84), rejecting full employment policy as something that destroys economy on the long run for the sake of temporary reduction of unemployment (Müller-Armack 1948, 152).

To conclude, if we see ordoliberalism as a theory that looks for ways how to unite the goals economic efficacy and humanity in an economic order, Müller-Armack's objective was to create an economic system, which would satisfy both the need for economic freedom and social security (Müller-Armack 1952/2008, 461). Accordingly, in his theory he stood closer to Rüstow and Röpke than he does to the Freiburg School, but nevertheless shared Eucken's rejection of selective interventionism.

2.2 Ordoliberalism in theoretical context

Given the many misconceptions about this school of thought, it is also important to identify the specificity of ordoliberal theory and policy in relation to other economic theories. In this subchapter I will embed ordoliberal theory in its theoretical context by analyzing the main differences between ordoliberalism and its main theoretical rivals.

2.2.1 Between laissez-faire and socialism – the story of neoliberalism

The term neoliberalism was coined in 1938 by a group of liberal thinkers,¹¹ who agreed upon the need for a new kind of liberalism as a third way between the unpopular laissez-faire and socialism (Dürr 1954, 9). The main characteristics of this third way was the rejection of laissez-faire as a strictly economic theory, as opposed to a socio-political approach of neoliberalism. However, despite the agreement of neoliberal authors regarding the need of relying on market

¹¹ Some authors have argued that it was Alexander Rüstow, who coined the term neoliberalism (Compare, Hartwich 2009, 6, 14, 16; Maczynska & Pysz 2010, 20).

mechanisms and reduction of the state interventionism, one ought to look at neoliberalism as a broader term, of which ordoliberalism is just one part (Compare, Schnyder & Siems 2013).¹²

Unlike the contemporary discourse which often does not distinguish between the two terms, there is not just semantic but also a substantive difference between ordoliberalism and neoliberalism. Ordoliberals were never quite satisfied with the term neoliberalism, with Eucken denouncing it as “biased and inappropriate” (Eucken, Grundsätze, 1952, 374). From a substantive point of view, one can divide neoliberalism in at least three main subgroups: ordoliberalism, the Austrian School and the Chicago School. As will be shown in this chapter, despite their conflicting ideas, these three schools not only shared some common ideas, but were closely interconnected.¹³

The borderline between ordoliberalism and the Austrian School, who are classified by some as subgroups of an individualistic-neoclassical strand (Rieter & Schmolz 1993, 90), is difficult to determine. Both schools share a belief in market competition, the role of the price system that is threatened by inflation as well as the freedom of choice for individuals (Peacock & Willegordt 1989, 6). Another common thread by Mises, Hayek and Eucken is a negative view of monopolies and their detrimental effect on governmental policy making (Peacock & Willegordt 1989, 6). However, one big difference between them concerns the ways of how to deal with monopolies. For

¹² The title of Chomsky’s book “*Profit over People: Neoliberalism and the Global Order*” nicely summarizes the big change in meaning of the term “neoliberalism” in the 20th century (Chomsky, 1999). Whereas it was created with the intention to protect the people from the forces of the unconstrained free market, with the rise of Reagan and Thatcher in 1980s, neoliberalism was ascribed the completely opposite meaning, now representing the theory behind the reemergence of 19th century liberal ideas in 1970s and 1980s. For instance, Milton Friedman described Thatcher not as a neoliberal but as supporter of classic liberalism (The observer, 28.09.1982).

¹³ For instance, most of the key thinkers of these three schools such as Hayek, Eucken, Rüstow, Röpke, Knight, and Friedman were active members of the Mont Pelerin society, within which they regularly met and exchanged ideas (Maczynska & Pysz 2010, 21).

“Austrians” it is the market mechanism itself that will eventually self-correct, whereas ordoliberal considered state interventions necessary to preform that task.

The case of Hayek additionally blurs the borderline between these two schools. Due to Hayek’s connections to the circle around Eucken and his involvement in the emergence of neoliberalism in the 1930s, a series of authors have tried to portray him as an ordoliberal (Gertenbach 2007; Gerken 2000). However, despite his many contacts with ordoliberal authors,¹⁴ Hayek advocated a stricter stance against state interventionism and foresaw an even more minimal state that the ordoliberals did. His rejection of redistribution made Rüstow accuse Hayek of neglecting the issue of social justice (Dürr 1954, 6). Hayek’s famous book, *Road to serfdom*, summarizes best his deep conviction that any kind of interventionism in the economy leads to planned economy, which in turn eliminates diversity and introduces “authoritarian principle in human affairs” (Hayek 2001, 29). Therefore, given his radical stance towards state interventionism he could be to some extent seen as the representative of ordoliberalism’s “radical wing” (Kolev 2010, Renner 2000, Robert 1976).

Another difference comes regarding crisis management. ”The Austrians” were more radical when it comes to opposing minimal wages and various mechanisms of worker protection during crisis, calling wage cuts “natural healing method” (Klausinger 2008, 30), whilst even Eucken, who was strongly relying on market mechanisms supported minimum wages when it comes to ensuring

¹⁴ Hayek had strong connections to both the Freiburg School and Röpke. One of his articles appeared in the first volume of the *ORDO* yearbook, where he continued to publish regularly. Furthermore, Hayek described Eucken as the most serious socio-political thinker that Germany had in the last 100 years (Gertenbach 2007, 72) and praised Röpke’s book “*Civitas Humana*” (Leeson 2016, 130). In 1978 Hayek was even appointed honorary president of the Walter-Eucken Institute in Freiburg (Eucken Institute Webpage). Moreover, he helped Eucken to become the first German member of the Mont Pelerin society (Gertenbach 2007, 73).

existential minimum, and described providing social security as the biggest concern of his time (Compare, Eucken 1952, 318-319).

When talking about the Chicago School one ought to differentiate between its older strand represented by Frank Knight and Henry Simmons, and the newer strand associated with Milton Friedman and George Stigler. On the one hand, it has been argued that the older Chicago School had an important influence on Eucken's writings. Simmons for instance stressed a division of labor between the government intervention and market competition, according to which state was not the evil to be constrained but a necessary provider of the regulatory framework for the economy (Köhler & Kolev 2011, 5; Leeson, 89). On the other hand, Simmons differed from Eucken in terms of progressive taxation as well as rather anti-cyclical crisis management present in older Chicago School. Although Simmons and Knight did not see activist monetary and fiscal policy as a long-term solution to the crisis, they did support budget deficits and government spending in order to get out of the crisis (Ebenstein 2015, 71).

The newer strand of Chicago School is marked by a strong support for monetary policy and monetarist ideas, with Friedman's claim that "inflation is always and everywhere a monetary phenomenon" as typical for the newer strand of this school (Friedman 1970, 11). Based upon this idea, Friedman attacked Keynesianism stating that on the long run monetary rather than fiscal policy has more influence on "economic outcomes and inflation" (Ebenstein 2015, 106). This insistence on monetary stability and rejection of selective state interventions, are main similarities they share with ordoliberals. However, whereas monetarists see the stability of money supply as crucial for solving the problems of the economy, for ordoliberals the primacy of monetary policy comes only second to the principle of perfect competition, the so called "Freiburg imperative" (Eucken, Grundsätze 270).

2.2.2 Ordoliberalism and Keynesianism

The fundamental difference between neoliberals and Keynesians is in the understanding of the relation between demand and supply. Whereas neoliberals support the Say's law of supply creating its own demand, Keynesians propagate the idea that one needs to create demand, which will create its supply (Compare, Maczynska & Pysz 2010, 25). Furthermore, Keynes did not share ordoliberal understanding of crisis in capitalism as caused by power concentration, but as result of lacking aggregate demand in the economy (Keynes 2007, 14). According to him, boosting the demand is the key to solving economic issues such as unemployment and can be achieved through governmental demand management (Held 1982, 87). An idea quite different than the Freiburg School's understanding of the state as mere referee and provider of rules of the game on the market.

Keynesianism also differs from sociological ordoliberalism that despite being more tolerant towards state interventionism, clearly distances itself "from unprincipled [Keynesian] state interventionism" (Lorch 2014, 53). Relying on the legal framework in the tradition of the Freiburg School Röpke and Rüstow did not see boosting aggregate demand as the ultimate solution (Compare, Dürr 1954, 32; Rauhut 2000, 64), and rather relied on economic order (Gregg 2010, 109). At the same time Keynesian idea of monetary policy accommodating an expansive fiscal policy also went against the general neoliberal idea of constrained and minimal state interventions. Whereas ordoliberals in general opposed anti-cyclical state interventionism focusing on how to provide security for those for instance lose their jobs due to economic downturns, Müller-Armack's anti-cyclical policies also stood in opposition to the Keynesian understanding of demand management.¹⁵

¹⁵ For a discussion on the differences between Müller-Armack's and Keynesian anti-cyclical policies compare (Quaas 2000, 261).

To conclude, following from teachings of disproportional influence of rise and fall of demand on overall economy (multiplication effect), Keynesianism introduced the idea that the state should compensate for decreased demand during economic downturns by increasing state expenditures. To give the state such a big role in the economy and making it interfere into market mechanisms, goes against the core idea of constrained state interventionism in ordoliberal theory. Therefore, whereas a Keynesian would suggest expansive fiscal policy during economic downturns, a Freiburg ordoliberal would argue against it, given that it endangers the price mechanism and leads to overly expansive state.

3.0 Historical record of ordoliberalism in German economic policy making

Based on the previous chapter, ordoliberal policy suggestions can be summarized as in the following way:

1. Creating a good general framework of rules (*Rahmenbedingungen*), a sort of constitution, to which all economic actors must adhere, is seen as the best way of solving the problems of the economy.
2. The state is needed to ensure this framework as well as to intervene to solve problems arising from the imperfections of the framework. One such permissible intervention would be breaking up monopolies or to correct injustices regarding working conditions on the labor market. In other issues the state should refrain from interfering in the economy.
3. Price mechanism must be backed up by stable monetary policy, which is why expansive monetary and fiscal policies as for instance anti-cyclical policy making are not advisable.
4. The goal of the economic constitution and the price mechanism is to create conditions as close as possible to perfect competition, which will constrain monopolies as well as prevent irresponsible behavior on the market.
5. According to the precept that he who benefits from something must bear the related costs, full liability is to be ensured on the market, in order to prevent irresponsible behavior of economic actors.

But the question remains, to what extent we can see these policy suggestions implemented in German economic policy. It is the aim of this chapter to see whether and to which extent ordoliberalism succeeded in influencing economic policy in Germany after the Second World War, an aspect that is important when discussing its present role in the Eurozone crisis. Much of the connections that are being made between ordoliberalism and Germany's approach to the crisis of

the Eurozone are based on two arguments. On the one side, some authors stress the similarity of ordoliberal ideas and policies that are being implemented and, on the other side, the alleged ordoliberal tradition in Germany. However, whilst it can be argued that there are indeed similarities between certain ordoliberal ideas a policies being implemented in Germany, the issue of ordoliberal tradition is much more inconclusive. Therefore, it is needed to look at whether there is evidence for a strong presence of ordoliberalism in Germany's policy making.

3.1 Rise and fall of social market economy (1945-1966)

The period between 1945 and the power loss of the CDU government in 1966 can be considered the heyday of ordoliberalism, during which ordoliberals popularized their ideas despite the support that socialism enjoyed in the general public and politics (Herrmann-Pillath 1994, 51). In 1940s even Germany's Chancellor Adenauer supported the idea of a "socialism of freedom" (Wünsche 2001, 75). In the course of these two decades, ordoliberalism developed from a rather small economic school to a widely influential socio-economic concept and managed to exert decisive influence on the overall framework of German economy thus setting it on a path on which Germany stayed until today (Compare, Lenel 1989, 19).

3.1.1 Rise of ordoliberalism during late 1940s

After the Second World War ordoliberals became partners of occupation authorities and gained influence in various advisory boards and institutions. For instance, half of the members of the Academic Advisory Council that was formed in 1947 to advise the federal government consisted of ordoliberals (Gerber 1994, 59). Furthermore, by the end of the decade, ordoliberal principles penetrated the CDU with social market economy being adopted as the official party program in Düsseldorf platform of 1949 (DP 1948, 1). The DP was drafted under Böhm's influence and stressed the ordoliberal ideas of competition and opposition to monopolies (DL 1948, 4).

However, this period was also marked by pronounced pragmatism. Despite their rising popularity ordoliberals faced opposition both in the parliament, the government and powerful groups in the economy (Kempf & Merz 2013, 233),¹⁶ all of which set limits to the amount of influence ordoliberals were able to exert. Whereas Erhard's currency reform that successfully eliminated price controls went in line with the Eucken's concept of a functioning price system, it did not extend to all economic sectors, with prices of raw materials and agricultural goods staying fixed (Lenel 1989, 18).¹⁷

Furthermore, the GG from 1948 failed to become an economic constitution as envisioned by Eucken. Apart from defining Germany as a social state the GG did not bind German economy to one specific economic doctrine, a fact that left the door open to political compromises, which would mark the 1950s (Behlke 1961, 208). Therefore, the successes that the ordoliberals achieved in promoting their ideas must be understood as constrained by compromise-making, which explains why even during their heyday ordoliberal ideas were not systematically implemented in the economy.

3.1.2 Partial institutionalization of ordoliberal ideas in 1950s

Despite Erhard's consistent support for social market economy and ordoliberal principles, as well as the influence the ordoliberals had in his ministry, ordoliberal policy went against the prevailing spirit of the time. Namely, ordoliberals were facing with opposition of not only powerful

¹⁶ In the 1940s Erhard was mostly exposed to the criticism of the SPD, which at that time still supported a socialist central management in Germany, and criticized Erhard's removal of price controls. In the 1950s Erhard was mostly attacked because of the cartel law, which was fiercely opposed by the German industrial sector, and the law that secured independence of the German Bundesbank which went against the wishes of Adenauer (Compare Kempf & Merz 2013, 235-238).

¹⁷ On further restrictions of market mechanisms in the banking sector, transport sector and construction sector compare Hardach 1974, 178-179.

interest groups but even within the CDU itself, with Erhard ending up in conflict with Adenauer.¹⁸ Cornered by demands for more state interventionism and policy oriented towards full employment, Erhard was forced to engage in compromises, as in the case of the GWB from 1957 (Heilmann et. al. 2003, 67).

Although the GWB banned almost all cartels in West Germany, it did not move decisively against all kinds of concentration of economic power and was ratified in the parliament only after concessions were made to various interest groups such as agriculture (GWB 1957, Art 100), transport (GWB 1957, Art 99) and the energetic sector (GWB 1957, Art 103). Consequently, an all-encompassing struggle against power concentration on the market as envisioned by the Eucken or Rüstow could not to be achieved (Behlke 1961, 172).

Overall the 1950s had an ambiguous result for the social market economy. On the one hand this concept became political mainstream, when after Godesberger program of 1959 even the SPD started converging towards social market economy (Ptak 2004, 254; Hardach 1974, 188). On the other hand, despite seeing it “as the beginning of the end of social market economy” (Lauk 2007, 23), Erhard was helpless in trying to stop the pension reform of 1957, which opened the way for a shift towards a development of a stronger welfare-state (Wünsche 2001, 107) causing a rise of selective state interventionism (Heus 1998, 340).

¹⁸ Their conflict can be seen as an example for a typical conflict between a politician, who needs support of various interest groups to stay in power, and an „interest-free“ expert, who tries to achieve optimal outcomes according to his/her theoretical background. Whereas Erhard tried to maximally distance himself from various interest groups, Adenauer kept pressuring him to take their interest into consideration.

3.1.3 Decline of social market economy

The 1960s introduced a new institutional player, the SVR. Faced with rising pressures for a more active role of the state in the economy Erhard supported the creation of an advisory body that would be independent of any interest groups and back him up in the ongoing change of the public support from stable money policy to growth and full employment policy (Tietmeier 2011, 39). At the same time, the ministry funded various research institutes, which stood under ordoliberal influence and helped establish ordoliberalism on both national and international level (Ptak 2004, 28). One of such institutions was ASM, with Rüstow as chairman and Müller-Armack and Böhm amongst its members. Founded with support of Ludwig Erhard in 1953 ASM was perceived as a “watchdog” that will make sure that German economy stays on the path of social market economy (FAZ, 23.11.1953), but never had as much influence on policy making as the “five wise man” of the SVR.

In the SVR ordoliberal ideas were represented by W. Fritz Meyer, one of its initial five members whose doctoral supervisor was Walter Eucken (Schanetzky 2007, 72). In that way ordoliberal ideas were present both in politics and political counseling. However, contrary to Erhard’s expectations, the SVR did not back him up but rather started criticizing the government also favoring a more growth-oriented policy making (SVR 1965, VI; SVR 1967, 117).¹⁹

¹⁹ In its yearly report of 1965/66, the SVR accused the government of being responsible for the ongoing rise of inflation, saying that “current rise of the price levels are results of bad decisions and mistakes” done a year ago (SVR 1965, VI). In the report of 1967/68 the SVR stressed that their warnings of an upcoming recession were ignored both by the “Federal government as well as the Bundesbank” (SVR 1967, 119), whereas SVR’s request to talk to the government about possible measures to counteract inflationary tendencies “remained unfulfilled” (SVR 1967, 118). Namely, the SVR proposed a “concentrated stabilization campaign” (*Konzentrierte Stabilisierungsaktion*), which Erhard saw as “institutionalized exertion of influence of interest groups on the government” (Schanetzky 2007, 93).

This went in line with a general increase of Keynesian influence. Academics such as Karl Schiller, who became Erhard's successor as SPD's minister of economic affairs, started blaming ordoliberalism for being too focused on monetary stability and called for state interventionism, increase of social benefits and pursuit of full employment. Nicholls stresses that this was the point in which, the CDU started its ideological shift towards Keynesianism in order to prevent losing more of its voters (Nicholls 1994, 309), hence weakening the footing that ordoliberals had in the government and signaled the beginning of their decline.

The final blow to ordoliberalism came in 1966 when Germany entered a recession, first of its kind since the 1940s (Rittershausen 2007, 42). Being the politician known as the father of the economic wonder, without economic success, Ludwig Erhard lost his footing, causing his government to fall apart.

3.2 Short decade of Keynesian experiment (1966 – 1974)

With Erhard removed, ordoliberal thought lost its last great defender, and the way was paved for the rise of Keynesianism. A major change came when the Grand Coalition of CDU and SPD under Georg Kiesinger passed the StabG in 1967 (Compare, Heilmann et. al. 2003, 111) that proclaimed steady growth as one of policy goals (Schanetzky 2007, 84). Germany thus shifted towards demand-side economic policy, with price stability, high employment, balance of imports and exports and continuous growth as four main policy objectives (StabG 1967, Art 1). Furthermore, Erhard's principle of distancing decision-making from the influence of interest groups was abandoned in favor of a more corporatist model of "concentrated action", effectively neutralizing ordoliberal ideas about the role of the state and reduction of power concentration in the economy (Wünsche 2001, 111).

However, given the success of German economic wonder of 1950s and the fact that ordoliberalism was closely connected to that era, it did not lose all of its influence. Karl Schiller, also tried to maintain a link to social market economy, by framing the changes of 1967 as the second phase of social market economy (a reference to Müller-Armack, who was the first to come with the idea of a second phase) (Schanetzky 2007, 83). Despite being in favor of Keynesianism and introducing policies that de facto violated main principles of social market economy, Schiller still supported the idea of combining the Freiburg imperative with Keynesian principles (Tietmeier 2011, 41; Maczynska & Pysz 2010, 23).²⁰

The SVR initially looked favorably at the course taken by the new government, applauding the stability law, which they saw as necessary in given conditions (SVR 1966, 143) as well as supporting the concept of “concentrated action” (SVR 1967, 122). However, the rising state interventionism and anti-cyclical policy making that accompanied the shift of focus from economic to social growth, were not followed by higher taxation but raising levels of state indebtedness and led to inflation (Löwe 2006, 19).²¹ Alarmed by the impact of inflation on the German economy, SVR distanced itself from Willy Brandt’s government in 1972 and criticized an “overly expansive

²⁰ The stability and growth law of 1967 introduced the so called “global steering” (*Globale Steuerung*) concept with which Schiller tried to balance between Eucken’s principles such as the free competition, regulatory framework, stable currency, and at the same time introduce Keynesian demand management in service of social goals such as full employment (Compare, Coats 2005, 115; Abelshauser 2004, 410).

²¹ This shift is also to be seen as a consequence of growing impatience in the population, who wanted “their share” of the German wonder demanding bigger benefits from the government (Löwe 2006, 19, 25). Whereas people are in general ready to endure economic hardships for a certain period of time they deem needed for economic recovery and development, they lose that patience once economy starts enjoying growth. Parallels can be made between this experiences of 1960s Germany and declining growth rates in Eastern Asian countries from 1990s onwards, whose economies are also confronted with rising social expenditures and welfare demands of the people (Compare, Kwon 2016, 124, 127).

fiscal policy” (SVR 1972, 114),²² thus playing an important role in the return to supply-side economic policy (Schanetzky 2007, 128).

3.3 Return to supply-side economics and reunification (1974-1998)

Keynesian experiment ultimately failed leading to a period of profound change in German economic policy, during which supply-side economics becoming the mainstream, both in the academia and politics.

3.3.1 Incomplete break away from Keynesianism (1974-1982)

Although he became famous for saying that he would prefer 5% inflation over 5% unemployment,²³ in his first address to the Bundestag Chancellor Helmut Schmidt called for “sober-mindedness” and stressed the need to “repel all exaggerated [budget] demands”. (Schmidt 17.05.1974, 1, 20). Beside his intention to bring the budget in balance and achieve more price stability, he also emphasized the need to improve competitiveness of the German economy (Schneider 1997, 241). Under Schmidt, social market economy regained some of its influence, and was eventually included in Schmidt’s “Model Deutschland” that he used in for the 1976 election campaign (Hertfelder & Rödder 2007, 33). Furthermore, some authors argued that Müller-Armack’s philosophy of combining the principle of freedom with social compensation, was the leading idea behind Schmidt’s policy making (Compare, Schallmeyer 2014, 34). Nevertheless,

²² Parallel to the shift in SVR’s orientation, ordoliberal influence rose within the SVR with three out of five members being connected to ordoliberalism. In 1970 the ordoliberal Norbert Kloten, became the new chairman, with Olaf Sievert, member of the Kronberger circle, and the ordoliberal Armin Gutowski joining SVR (SVR members, 03.06.2016). However, Schanetzky stresses that the ideological change in the SVR was not a result of ordoliberal influence but a shift towards monetarism that came about thanks to Claus Köhler, a monetary theoretician, who shifted the focus to the importance of monetary policy (Schanetzky 2007, 130-131).

²³ What he actually said was: “It appears to me, that the German people (...) would more likely tolerate a 5% rise in inflation, than in unemployment.” (Süddeutsche Zeitung, 28.07.1982).

Schmidt was no follower of ordoliberalism, which he saw as “too technocratic and arrogant” (Dyson & Featherstone 1999, 288).

However, Schmidt’s tenure as German chancellor did not bring a definite end to Keynesianism in Germany. The main obstacles to a complete shift in economic policy were on the one hand the left-wing of the governing party SPD that constantly opposed reform proposals²⁴ and trade unions that opposed budget consolidations demanding higher state expenditures (Löwe 2006, 22). Moreover, Schmidt’s government never really gave up on Keynesian demand management, which can be seen on the example of stimulus packages passed during economic downturns in 1974, 1975 and 1978.²⁵

At the same time monetarism penetrated not only the SVR but the Bundesbank as well, which was until then by no means a bastion of ordoliberalism as argued by some authors (Nedegaard & Snaith 2015, 1097). Despite the mandate to preserve the stability of the price system (BbankG 1957, Art 3), the Bundesbank showed consideration for anti-cyclical policy of the era Brandt (Johnson 1998, 59). Moreover, in 1959 the Bundesbank even urged Adenauer’s government to act “as much as possible in an anti-cyclical” way, stating that deficit spending “desperately required” (Monthly report 11.1959, 3). Whereas Helmut Schlesinger is usually seen as the one who introduced monetarism and money supply targeting to the German Bundesbank, between 1974 and

²⁴ Even Schmidt stressed the need to silence the “social utopians” – radical left-wingers in the SPD, who were standing in the way of reforms and would eventually bring about a break of SPD – FDP coalition due to radically different policy views (Compare, Löwe 2006, 22).

²⁵ In 1974 the government introduced a 1,73 billion DM “Program of promotion of stability, employment and growth”, in 1975 a 5.73 billion DM “Program of strengthening of building and other investment” (Geyer 2008, 123) and in 1978 an over 20 billion DM “Program of strengthening the demand and improvement of economic growth” (Geyer 2008, 163).

1999, the Bundesbank missed its annual money supply target in approximately “half percent of the time” (Kaltenthaler 2006, 47).

It would be therefore oversimplifying to argue that in 1970s monetarism had acquired dominant influence over Germany’s monetary policy. On the one hand, despite their role in discrediting Keynesian demand management and support for monetarism, the SVR, supported a policy mix of monetarism in monetary policy and anti-cyclical fiscal policy during the 1973/74 crisis (Schanetzky 2007, 271), and gave support for 1978 expansion of fiscal policy (Compare, Stoltenberg 1997, 259). On the other hand, Bundesbank approached monetarism in a rather pragmatic way, whereas monetarist policies “mattered only as long as they” led to achieving “the goal of price stability“, with price stability always seen as more important than money supply targeting (Kaltenthaler 2006, 47).

At the same time, SPD’s junior coalition partner FDP adopted a monetarist platform demanding drastic cuts in social expenditures and consolidation of the public budget, which stood in stark opposition to SPD left-wing’s interventionist policies aimed at reducing unemployment (Stoltenberg 1997, 266). Ultimately, the socio-democratic coalition broke apart after the so called Lambsdroff-paper, in which the minister of economics, Otto Graf Lambsdorf, called for a complete restructuring of the German social system and comprehensive reduction of budget expenditures (Compare, Lambsdorf, 1982). In turn, the new chancellor Helmut Kohl called for a “move away from more state and a move towards more market” hence announcing a return to ordoliberal values (Kohl, 13.10.1982).

3.3.2 Revival of the social market economy? (1982-1998)

Quoting from Wilhelm Röpke, Kohl announced a return to the principles of social market economy naming “freedom, dynamic and self-responsibility” as CDU’s main guidelines (Kohl,

12.10.1982). This marked the beginning of a transition back to supply-side economics, with policy once again focused on creating a framework for the economy. Whilst stressing self-responsibility of individuals for their welfare, Kohl in turn introduced substantial cuts of government expenditures (Hübinger 2001, 118).

However, government's focus on the supply-side economics did not last long. Kohl failed to tackle rigidities of the labor market as well as to reform the system of social security (Zohlhöfer 2013, 373), which is why his time in office showed continuities with the inability to push through reforms during the Schmidt era. Another reason for lacking decisive policy change was unwillingness of the government to risk losing voters due to unpopular reforms, as did Schmidt, who faced strong protests of trade union in response to his "Operation 82" that foresaw massive expenditure cuts (Spiegel, 19.07.1982; SVR 1997, 149).

SVR thus warned that despite successes in reducing inflation, in consolidating the budget as well as battling monopolies (Compare, Stoltenberg 1997, 344; Heilmann et. al. 2003, 332), Kohl's government failed to implement "deep reaching structural reforms" (SVR 1997, 148). Moreover, even after openly discarding Keynesianism Kohl still introduced an economic stimulus package in 1987 (Die Zeit, 11.12.1987). Therefore, Germany's economic policy in 1980s can be best described as a policy mix, marked by pronounced pragmatism and not as a return to social market economy of 1950s. Kohl's government did not just simply shift towards supply side policy, but building on an "ordoliberal basis of Eucken's principle of competition" varied between Friedman's theory of money supply and Keynesian demand management depending on the situation (Schanetzky 2007, 260). Such pragmatism in policy making was also the guiding principle of economic policy after the reunification.

Despite the fact that social market economy was officially made “the basis for further economic and social development” in the treaty of union between FRG and GDR (Währungs-, Wirtschafts- und Sozialunion 1990, 1), in the course of 1990s Kohl’s government abandoned its policy of fiscal consolidation. Rising state interventionism due to the needed transformation of the economy of former GDR, led to an increase of state expenditures and indebtedness (Löwe 2006, 26). In addition, massive transfers and investments were accompanied with steep rise of wage levels in former GDR, which together with rising competition from abroad resulted in deterioration of Germany’s competitiveness (Compare, SVR 1993, 9) and falling growth rates, all of which contributed to Germany becoming the “sick man of Europe” by the late 1990s (Sinn 2007, 150-151).

3.4 New/old challenges in the new millennium (1998-2005)

One can say that the 1980s and 1990s showed little evidence for a renaissance of neither social market economy nor ordoliberal thinking. Yes, Kohl’s government did implement several major reforms including cutting public expenditures and taxes and creating a more business-friendly environment, but unlike Erhard, he was not ready to implement social market economy concepts at any cost (Schlecht 1995, 21).²⁶ Nevertheless, during his tenure the term social market economy became the “central concept” of political debates (Radnitzky & Bouillon 1991, 49), with the new Chancellor Gerhard Schröder, stating his support for a “modern politics of social market economy” (DB PP 10.11.1998, 51).

²⁶ In his paper on the difference between academic counselling and policy making, Schlecht mentions that Kohl used to answer criticism coming from ordoliberal circles due to lacking reforms by saying “I do not want to get the Walter-Eucken Prize, what I want is to win the next elections.” (Schlecht 1995, 21).

Despite the opposition of SPD's left-wing (Lafontaine) and trade unions, Schröder managed to push through several reforms, which made his opponents portray him as another "Brüning" (FAZ, 19.11.2002). Schröder showed his willingness to reform the SPD and German economy in the so called "Dresden theses", in which he called upon the legacy of Ludwig Erhard and Karl Schiller stressing the need for the state to create a good framework for the economy (Die Zeit, 19.09.1997). In tandem with British Prime Minister Tony Blair, Schröder published a programmatic paper on the future of social-democracy in Europe in 1999, in which they de facto adopted all the key recipes of social market economy. Apart from criticizing overly extensive state interventionism they called for more self-responsibility (Blair & Schröder 1999, 2), curtailment of state expenditures (Blair & Schröder 1999, 3) and return to supply side policy (Blair & Schröder 1999, 4).

At the same time, in 2000, Jürgen Donges, a Freiburg ordoliberal became chairman of the SVR, replacing on that duty Hax Herbert, also an ordoliberal, who had been chairman since the early 1990s (SVR members, 03.06.2016). In the same year INSM was founded, whose goal is to preserve and renew the concept of social market economy, "which has proven its worth for decades" (INSM, about us). Besides propagating ordoliberal ideas in Germany, two of its members, Otmar Issing and Rolf Peffekoven also used to be members of the SVR. Furthermore, during the 1990s the president of the Bundesbank was Hans Tietmeyer, who is seen as the "founding father of the ordo-liberal coalition on EMU" (Dyson & Featherstone 1999, 263), and who would in 2000 become the first president of ISME (INSM, about us). His successor in the Bundesbank, Jens Weidmann also sympathized with ordoliberal principles, calling for more regulation during the GFC (Feld 2016, 47). All of this indicates that both ordoliberalism and the concept social market

economy, although not put into praxis through direct policies, were still influential as general concepts at the turn of the century

Together with the fact that Schröder reshaped the face of the SPD, the implementation of the “Agenda 2010” and Hartz reforms, made some authors depict him as a follower of Ludwig Erhard. However, it would be wrong to see Schröder as a follower of ordoliberal thought, given that he often stressed that he considers demand- and supply-side policies a complimentary (Blair & Schröder 1999, 6), an idea which opposes to the core of ordoliberal teachings (Compare, Eucken 1952, 101-102). Nevertheless, Schröder did introduce important reforms, which went in line with ordoliberal principles by for instance improving labor flexibility, reducing reservation wages and relying on market mechanisms to combat unemployment (Bonatti & Fracasso 2013, 12).

4.0 Germany in the Global Financial Crisis

When talking about Germany's response to the Global Financial Crisis one ought to differentiate between the way how Germany dealt with its domestic banking and economic crisis between 2007 and 2009, and its approach to the sovereign debt crisis in Europe 2009-2016. Therefore, I will start this subchapter by giving an overview of Germany's main policies, then dedicate a separate chapter to analyzing these policies from an ordoliberal perspective.

4.1 Banking and economic crisis in Germany (2005-2009)

In the years before the outbreak of the GFC, the Grand Coalition of CDU and SPD under Angela Merkel, proclaimed reduction of state deficit as its primary goal (Streek & Martens 2010, 23). Throughout this period, social market economy reentered daily political discourse, with Merkel constantly calling for a return to the principles of Ludwig Erhard (Merkel, 18.07.2007) and social market economy (Focus, 30.01.2009). However, whereas in her inaugural speech Merkel congratulated Schröder for commencing a process of much needed reforms (Merkel, 30.11.2005), the consolidation course of the new government did not last long. With the subprime-crisis in the US starting to spill over to Germany, the Merkel's loosened the austerity measures and gradually moved away from Schröder's "Agenda 2010".

In 2007, Merkel's government took part on a first bailout deal to save the German Industry Bank (*Deutsche Industriebank*) from defaulting (Spiegel, 01.08.2007) and was soon afterwards confronted with solvency problems of a series of regional state banks (*Landesbank*). After the Hypo Real Estate Group (HREG) was bailed-out in 2008, the government established a fund, which was intended to provide liquidity for banks in need and prevent overall collapse of the German banking sector (Merkel, 07.10.2008). However, the fund itself did not prove to be a durable solution, which

is why in 2009 the Grand Coalition decided to nationalize the HREG that became the first bank in Germany to be nationalized since 1949 (Die Zeit, 05.10.2009).

With banking crisis being constrained by the end of 2008, Germany was now facing an economic crisis and a decline of economic growth. The government responded with stimulus packages that reduced taxes and increased government expenditures, thus creating some kind of a policy mix between supply- and demand-side policies (Illing 2013, 57). Among others, government's catalogue of anti-cyclical measures included short-time working benefits to avoid large-scale layoffs (Handelsblatt, 01.01.2010), investments of billions of Euros in infrastructural projects and increase of child benefits (Süddeutsche Zeitung, 17.05.2010) as well as boosting demand by subsidizing the purchase of new cars (Die Zeit, 25.03.2009). Furthermore, in the course of the electoral campaign of 2009 Merkel showed little concern for the piling up of state debt and continued defending stimulus measures against the criticism in the public and academia (Heisse Online, 29.01.2009; Bild 05.06.2009,).

However, as a response to the wave of criticism that accompanied the adoption of the 50 billion euro worth second stimulus package (Spiegel, 27.01.2009), Merkel promised to define "clear repayment rules" for the accumulated debt as well as to introduce the so called "debt brake" (Balanced Budget Amendment), which would constrain new borrowing on federal level to 0.35% of the GDP and completely prohibit borrowing on regional level as of 2020 (Frankfurter Allgemeine, 12.06.2009). One of the creators of this debt brake was Lars Feld, member of the SVR and president of the Walter Eucken Institute (Frankfurter Allgemeine Zeitung, 29.08.2011). A rigorous measure, which was to ensure "credible fiscal policy" even in the wake of "comprehensive, necessary (...) stimulus measures" (Bundesministerium für Finanzen 2015, 6).

At the same time, her nominal support for social market economy did not stop Merkel from offering federal assistance to Opel, which was recapitalized with over 4 billion Euro. A move that was seen as evidence of increasing state interventionism in the economy, and aroused much criticism. Martin Kannegiesser, the president of INSM's advisory board, compared the saving of the Opel to the "original sin [Sündenfall], that resulted out of political opportunism" and called for a return to the "rules of social market economy" (Spiegel, 02.06.2009).

In its yearly report from 2009, SVR proclaimed the end of crisis in Germany and asked from the government to develop an exit strategy, which would return "state interventions to a normal extent", de facto calling for austerity measures, which would offset the "immense new indebtedness" that emerged during the crisis (SVR 2009, 1). Shortly afterwards, Merkel promised to curb the anti-cyclical measures of the Grand Coalition and announced that the "standards of social market economy must hold" (Merkel, 24.11.2009).

4.2 Germany's approach to the crisis of the Eurozone (2009-2016)

In October 2009, the newly elected Greek government publicly admitted that the Greek deficit was higher than previously proclaimed and saw its credit rating soon degraded to junk status (Telegraph, 16.06.2011). Whilst expressing support for the Greek government the Economic and Financial Affairs Council started urging Greece to start consolidating its budget, which in turn meant austerity policy that provoked nationwide protests (Bundesministerium für Finanzen, 02.06.2016). At that time, Merkel rejected the idea of providing financial aid for Greece (Business Insider, 28.02.2010), and proposed defining a procedure by which countries non-compliant to EMU standards could be expelled from the union (Euroactive, 19.03.2010).

However, exposed to rising criticism of EMU member countries, in the end Merkel revised Germany's stance towards the crisis in Greece and consent to the first financial aid package in 2010

despite “widespread hostility at home to bailing out Greece“ (The Guardian, 26.03.2010). However, Berlin insisted that the aid package be supplemented by the implementation of austerity measures such as tax increases and wage cuts in Greece, which led to the rise of Troika (IMF, ECB and EC) (Die Zeit, 02.05.2010). Following the escalation of the crisis in Spain and Portugal the an additional 750 billion Euro bailout fund was established, which was justified by Merkel who said that “the monetary union is a community of fate” stressing that this bailout fund deters the threat of a transfer union, in which all members would share liability for “decisions of single member states”, a scenario that she “as German Chancellor (...) was not ready to back”. (DB PP 19.02.2010, 4126).

In 2011 Germany extended further 100 billion Euro in guarantees for Greece, with Wolfgang Schäuble warning that it is Greece “who for years took on too high debts [and now] cannot avoid implementing adaptation measures [austerity measures to consolidate budget]” (DB PP 08.09.2011, 14533). At the same time, Schäuble supported a 50% debt relief for Greece on behalf of its investors and banks saying that the private sector must take part on the Greek bailout (Zeit, 16.10.2011). Under the threat of Greece being excluded from the EMU if it refuses to continue with planned reforms, in the end Papandreu was forced to implement further austerity measures (Illing 2013, 103). During the same year Merkel consented to further financial aid packages for Spain, Portugal and Ireland.

At the same time, together with Sarkozy, Merkel started the initiative to increase budget discipline in the EMU due to obvious inadequacy of the Stability and Growth Pact and the bailout clause (CNN, 05.12.2011). Their joint efforts ultimately led to the adoption of the “Six-pack” (2011), “Fiscal compact” (2013) and “Two-pack” (2013), all of which are supposed to improve oversight of EMU member states and provide incentives for fiscal responsibility (European

Commission, 02.06.2016). Another success came with the creation the banking union in 2014, through which a common monetary policy of the EMU got a common bank oversight body, the Single Supervisory Mechanism (Focus, 04.11.2014).

However, Germany had less success in exerting its influence on the policy of the ECB. Namely, the most recent two presidents of the ECB, Jean-Claude Trichet and after him Mario Draghi, showed little understanding for the stability oriented policy of the Bundesbank. (Beyer & Wolf 2014, 131). Especially after „Super“ Mario Draghi became president of the ECB (Bild, 01.11.2011), Germany proved unable to prevent the ECB from what was perceived as moving away from the policy of monetary stability. Namely, in 2012 ECB started buying government bonds, with the overall volume of its actions increasing with the introduction of the OMT, all of which provoked much criticism in Germany (Compare, Frankfurter Allgemeine Zeitung, 11.09.2013). The main accusation was that such a lax monetary policy de facto removes incentives for responsible fiscal policy created by the mentioned fiscal reforms, by allowing governments to easily refinance their debts and thus postpone necessary structural reforms. Moreover, SVR stressed, that such a policy of the ECB de facto indirectly leads to shared liability in the EMU, something Germany has constantly been opposing (SVR 2015, 24).

The issue of the Eurobonds and joint liability has thus been a big stumbling stone in the relations between Germany and other EMU members (Frankfurter Allgemeine Zeitung, 17.07.2011). Namely, with the same rationale as in the case of lax monetary policy, Merkel warned that joint Eurobonds would collectivize the debt of the Eurozone and thus remove incentive for debtor states to reform. In this issue she also showed strong resilience, vowing that there will be no Eurobonds “as long as I live” (Spiegel, 27.06.2012). However, for Merkel, saving Europe was at the first place, which is why even she publicly supported Draghi’s in his promise that the ECB

would “whatever it takes to preserve the euro” (Draghi, 26.07.2012; Reuters, 25.09.2012), by saying that “Europe fails, when Euro fails” (DB PP 27.02.2012, 19078).

More recently the conflict with the ECB escalated again with regard to QE, pursued by Draghi as a part of ECB demand stimulus policy. In January 2015 he announced that the ECB would now start buying 60 billion euro worth of government bonds and securities each month (Tagesschau, 22.01.2015). This caused dissatisfaction with ECB’s policy by the German government that stressed the need for “sound fiscal policy” seeing expansive monetary policy as threatening the progress that has been done in consolidating state budgets in Europe (Financial Times, 22.01.2015). Furthermore, the German public also negatively responded to the expansion of an already expansive monetary policy of the ECB (Die Welt, 12.01.2015), with three constitutional appeals against QE being presented to the Federal Constitutional Court in Karlsruhe in late 2015 (Finanzen1000, 10.11.2015).

This conflict between Germany and the ECB continued well into 2016, but Draghi remained firm to German criticism, answering to Schäuble’s accusations that low interest rate policy is causing “extraordinary problems to Germany” (CNBCa, 21.04.2016; TWSJ, 09.04.2016), by saying that ECB is independent of political pressure and that they “protect money stability for the whole of the euro” and “not just Germany” (CNBCb, 21.04.2016) and that for the moment “there is no alternative” (Euractiv, 03.05.2016).

4.3 German policy approach from an ordoliberal perspective

If Germany was following ordoliberal ideas, its approach to the Eurozone crisis should be characterized by opposition to Keynesian demand boosting policies as well as to any policy that endangers money stability and rejection of any form of shared liability. Therefore, the question is,

what evidence is there, that Merkel's government is following ordoliberal principles. With respect to that one can point out following main characteristics of Germany's approach to the crisis:

1. Germany insisted on reforming EMU's regulatory framework (Six Pack, Two Pack, Fiscal Compact) as a measure to prevent future crisis and improve crisis management. Moreover, Merkel ascribed utmost importance to the creation of investment friendly "framework conditions" in the EMU, with structural reforms seen the only way of achieving it (Merkel, 18.12.2014),
2. Faced with the crisis of domestic economy, German government introduced stimulus packages and directly intervened in the economy by bailing out the banking sector as well as saving certain companies from bankruptcy (For instance Opel).
3. Throughout the GFC Germany remained a strong supporter of stable money policy and fiercely opposed the implementation of the quantitative easing by the ECB, but nevertheless supported Draghi in his declaration that he would do whatever it takes to save the Eurozone.
4. Germany insisted on liability of debtor countries for their debts and stressed their responsibility in implementing structural reforms. Accordingly, Berlin opposed any measures which would lead to shared liability in the Eurozone such as Eurobonds. Nevertheless, Germany accepted to participate in the bailout programs and extended credit guarantees for debtor countries.

The balance sheet of the crisis in Germany shows that after the outbreak of the crisis Merkel's government resorted to anti-cyclical measures in Germany, thus choosing interventionist policies over the ordoliberal prescriptions. Not only was the principle of liability neglected but the state directly intervened in market mechanisms, an action irreconcilable with ordoliberal principles. Moreover, even Merkel's promise to set clear criteria of how to repay the debt after the crisis

sounds awfully similar to the Keynesian idea of using deficit spending during economic downturns and save during upturns, a model, to which the German approach to domestic crisis fits nicely. At the same time, whilst the debt brake indicates Germany's commitment to fiscal rigor, even this measure does not prohibit further cyclical (*konjunkturbedingt*) borrowing (GG 2014, Art 109).

These measures are indicative for the limits of ordoliberal influence on German policy making. Whilst paying lip-service to ordoliberal principles, Merkel's government gave higher priority to short-term objectives of preventing mass layoffs and boosting the economy over long-term goals of social market economy, thus resorting to pragmatism and in practice siding more with Keynes than Eucken. Nevertheless, one should not overemphasize the Keynesian element in German policy making, since even the supply-side oriented SVR showed understanding for temporary deficit spending of Merkel's government, seeing it as necessary in the given situation, and ultimately Merkel did return to supply-side policy and did not indefinitely stick to Keynesian demand management. Nevertheless the German government showed readiness for a pragmatic course of action if deemed necessary.

On the level of the Eurozone, Germany has taken a supply-side approach. Berlin refused to increase deficit spending and stimulate domestic demand, whilst strongly supporting the fiscal responsibility of EMU countries, thus opposing Keynesian demand management, which is interesting, given that Germany was applying similar measures domestically. However from an ordoliberal perspective, Germany's effort to bring about a change in the regulatory framework of the EMU is the key "ordoliberal approach" that Germany took in the Eurozone crisis, namely the idea of addressing problems of the economy by devising a good set of rules rather than just relying on the good will of economic actors can be seen as central to the ordoliberal thought.

Secondly, regarding monetary policy Germany took a very strong stance against QE of the ECB, hence being in line with ordoliberal principles of stable money. However, despite that preserving the Eurozone was given priority over insisting on less expansive monetary policy, again a signal of Merkel's pragmatism. Finally, when it comes to liability, the evaluation is somewhat ambiguous. On the one hand, strictly adhering to ordoliberal principles would for Germany mean to reject any kind of financial aid for other EMU member states, given that this would violate the principle of liability, according to which individuals are fully liable for their actions, a maxim which translated to the level of sovereign countries implies that every country is liable for its debts. According to this criterion one could say that German policy was not acting in a very ordoliberal way.

However, on the other hand, even though Merkel consented to financial aid packaged for debtor countries, Germany insisted that these loans be conditioned by structural reforms, which meant austerity measures of cutting state expenditures and wage levels. In that respect, Germany did insist that every country stays liable for implementing the needed reforms in order to repay debts. Therefore, whereas Germany did extend help to debtor countries, it in fact kept adhering to the principle of liability by making each of the debtor countries responsible for solving the problems, according to the precept "no benefits without a service in return" (Merkel, 18.12.2014), whilst refusing any new proposals for further debt reliefs (Compare, Spiegel 04.04.2016; Frankfurter Allgemeine Zeitung, 05.05.2016). On that ground, one can see Germany's rejection to accept joint Eurobonds as a refusal to share liability with the debtor countries, whereas the bailout system in fact ensures that the debtor countries stay liable for their economic failures.

4.4 Alternative explanations for Germany's approach to the Eurozone crisis

Despite the fact that some of Germany's actions in the GFC can be seen as ordoliberal, they are still to a large extent circumstantial and depending on adopting the idea of a strong ordoliberal influence on Germany's policy making. Therefore, in this subchapter I will present some alternative approaches, which could also be used to explain Germany's actions in the Eurozone crisis.

Firstly, some authors have argued that one can understand Germany's actions from the perspective of a "normalization" process of the German state after its reunification. According to their interpretation, Germany's enthusiasm about the European integration has cooled down as a consequence of the pursuit of more nationalistic goals connected to Germany's transition from a "tamed" to a "normal" power (Bulmer & Paterson, 2010). All of this is said to have reflected itself in Germany's reorientation to national rather than common European goals, which is why their insistence on monetary stability and opposition to debt-cuts for indebted countries, is to be seen as Berlin giving priority to the interests of German banks and German export-oriented industry over the interest of the EMU (Cafruny 2015, 64).

Despite the fact that it is questionable whether reunification had a substantial influence on Germany's stance towards the European project, this approach does provide an interesting perspective from which to analyze Germany's policy. Instead of searching for ordoliberal roots of Germany's opposition to deficit spending, one could argue that Berlin opposes it because such a measure would possibly have negative effects for Germany's economy by leading to an increase of imports. The same goes for monetary policy, namely, Germany could be opposing lax monetary policy not just because of adherence to ordoliberal principles but because QE is diminishing profits of German banks (Europblog, 12.05.2016). From this follows that Germany's actions in the

Eurozone crisis might be understood as the German government protecting the national interests by supporting interests of various interest groups within the German export industry as well those of the German banking sector (Compare, Zuleeg 2016, 92; Burda 2016, 26).

Secondly, one could also look at Germany's policy towards the Eurozone in the light of the responsibility that the politicians have towards their voters domestically and their international obligations. In that respect Merkel must balance between supporting the Eurozone and keeping the German public satisfied, a public that is often unhappy about tax money being sent abroad. From this perspective, one could understand Merkel's insistence on the liability of debtor countries, opposition to Eurobonds, insistence on fiscal discipline for EMU countries, as measures aiming to appease the German public and to gain its support. This can be especially contextualized in the light of rising right-radical populist parties in Germany that oppose Germany's participation in bailout programs (Compare, Junge Freiheit, 15.07.2015).

Finally, one could ascribe the insistence on reforms to Germany's experience of the early 2000s, when Germany underwent a series of structural reforms, which in turn improved the country's competitiveness and helped Germany regain its status as an economic power. Accordingly, German politics is now expecting from debtors states to do the same what Berlin did a decade ago. The German experience with shared liability can also be understood as a reason why Germany is opposing Eurobonds. Germany had experiences with smaller federal states and the city of Berlin piling up debt, which then had to be paid by larger states like Bayern and Baden-Württemberg through the so called "Equalization of Payments system" (Compare, Focus, 20.06.2013; 09.01.2013). Thus according to this scenario Germany wants to avoid the same problem happening on the EU level (Compare, Burda 2016, 25).

5.0 Conclusion

Whereas I do not oppose the idea that ordoliberalism is important for understanding Germany's economic history and still to some extent influential in policy making, I argue against all approaches that try to explain Germany's stance in the crisis of the Eurozone by stressing the dominance of ordoliberalism (For example compare, Bofinger 2016). In the post-war recovery of Germany in 1940s and 1950s ordoliberalism indeed had a strong influence on the regulatory framework of German economy. The historic record of the following decades indicates that although its influence was weakened, ordoliberalism stayed present in German academia and more importantly political discourse until the present day. And it is here where the strength of ordoliberalism lies. Since the concept of social market economy still enjoys support in the general public, German political leaders, regardless of their political orientation payed to a larger or smaller extent their homage to this concept. The most recent example is Angela Merkel, who both domestically as well as internationally promotes social market economy, and thus ordoliberal principles.

Within this context, one could indeed argue that ordoliberal focus on the need for a good regulatory framework as well as insistence on liability and opposition to deficit spending, are indeed policy options associated with ordoliberal line of thinking. However, this study has also shown that such argumentation would be superficial. First of all, ordoliberal theory *per se* is not a theory that offers concrete suggestions how to act in time of crisis. It is true that one can formulate specific policy suggestions based on ordoliberal theory, but austerity measures, such as reduction of state expenditures, or opposition to liability, have a completely different rationale in ordoliberal thinking. Liability is there to provide incentive for reasonable behavior of economic actors, not to punish heavily indebted countries. Opposition to state interventionism and thus deficit spending,

was not envisioned as a measure to reduce piled up debts, but as a measure, that if followed, will never bring a country in a position to need austerity measures.

Furthermore, opponents of ordoliberal thinking often forget about the social dimension of ordoliberalism, especially that of later ordoliberal writers such as Röpke or Müller-Armack, who prioritized society over economy. A key feature of ordoliberalism is thus the understanding that the state is there to make its citizens better off by shaping the economy in their favor, and not as it is often interpreted, leaving each man to himself. Even Eucken stressed the need that one must ensure existential minimum to each and every individual. Therefore, austerity perceived as a retreat of the state, should not be associated with ordoliberal thinking.

Whilst it indicates a continuous presence of ordoliberalism in German economy and politics, the historic record also reveals that this theory never really had a monopoly on German decision-making. It can hardly be argued that ordoliberalism in its pure form, was ever in position to strongly influence German decision making. It was rather the more praxis-oriented and pragmatic concept of social market economy, through which ordoliberal influence spread and stayed influential until today. Moreover, even during its heyday Erhard was unable to avoid making compromises with various interest groups, which he so much despised. German economic history also indicates two other major ideologies that influenced policy making, one inspired by Keynes and the other by Friedman. To conclude, when talking about the direct influence on policy-making, ordoliberal influence is to be measured with caution, whilst keeping in mind that throughout the post war period pragmatism rather than a single school of thought was the guiding line of Berlin's policy making.

The same goes for Germany's attitude in the crisis of the Eurozone. Whilst Merkel indeed does emphasize her commitment to social market economy and Ludwig Erhard, Germany's

reaction to the domestic banking and economic crisis was characterized rather by Keynesian than ordoliberal measures. In the approach to the sovereign debt crisis Germany again opted for a mix of ordoliberal ideas and pragmatism. If Germany had been strictly following ordoliberal principles it would not have given support for bailout packages in the first place. Thus the moral of the story is that it is naïve to depict Germany as blindly following ordoliberal principles.

But the question remains, what is ordoliberal on Germany's pro-austerity policy. To this I would offer the following explanation. Ordoliberalism is to be perceived as an influence factor that shapes the overall context within which German policy making takes part. The main characteristic of this influence is the approach of using regulations rather than interventions to address economic issue. It can therefore be argued that insisting on rules is part of an ordoliberal legacy in Germany. Apart from this however, I would argue against the idea of an omnipresent ordoliberal rationale behind policy decisions. There are too many influence factors in play, so that one could isolate and trace a certain decision to certain policy. For instance, Germany's dispute with the ECB over monetary policy, could be seen as inspired by ordoliberalism but to the same extent one could talk about a monetarist background of such a policy.

To conclude, the aim of this study was not to downplay ordoliberal influence in Germany but to stress that one should not be superficial when accusing a school of thought for causing certain policies, as for instance austerity measures in the case of the Eurozone crisis. Following from the arguments presented here, the study stresses that Germany's austerity approach is not to be seen as a brainchild of ordoliberalism, a theory that apart from influencing the general context of German policy making has limited influence on concrete policy decisions.

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