

BAŞKENT ÜNİVERSİTESİ
AVRUPA BİRLİĞİ VE ULUSLARARASI İLİŞKİLER ENSTİTÜSÜ
SİYASET BİLİMİ VE ULUSLARARASI İLİŞKİLER ANA BİLİM DALI
ULUSLARARASI İLİŞKİLER YÜKSEK LİSANS PROGRAMI

CONTRADICTIONS OF GERMAN ORDOLIBERALISM
AND THEIR IMPACT ON THE EUROPEAN UNION
DURING THE EURO CRISIS

YÜKSEK LİSANS TEZİ

HAZIRLAYAN
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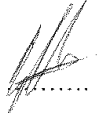
Tez Başlığı: Contradictions of German Ordoliberalism and Their Impact on the European Union During the Euro Crisis

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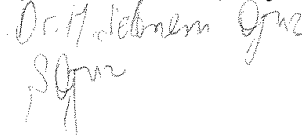
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Teşekkür

Öncelikle tez danışmanım ve hocam Hasibe Şebnem Oğuz’a tez süreci boyunca ayırdığı vakit için, ve gösterdiği yol ile sürecin başında sadece “fikir” olan tezimi somutlaştırdığı için teşekkür ederim. Ayrıca H. Tolga Bölükbaşı ve Süleyman Sezgin Mercan hocalarıma da verdikleri fikirler ve yorumları için teşekkür ederim.



Özet

Bu tez Almanya'nın ekonomik uygulamalarını, Alman ekonomisini yönlendiren ordoliberalizm düşüncesi ile karşılaştırmaya çalışmıştır. Ordoliberalizm, daha yaygın olarak “sosyal piyasa ekonomisi” olarak tanımlanmaktadır. Tezin ilk bölümü ordoliberalizmin ne olduğunu, ordoliberele göre ekonominin nasıl olması gerektiğini, ve ordoliberalizm içindeki farklı görüşleri ele almıştır.

İkinci bölüm ise Almanya'nın ekonomik uygulamalarını ve ordoliberalizmin uygulamadaki çelişkilerini ele almıştır. Ordolibereleler devletin güçlü bir “piyasa polisi” olmasını istemişlerdir ve Ludwig Erhard ile başlayarak Alman ekonomisi ordoliberal ve “sosyal piyasa ekonomisi” olarak tanıtılmıştır. Ancak uygulamada teorinin aksine “ulusal şampiyonların” yaratılmasını desteklemiş ve güçlü bir ihracat performansı ile devletin gücünü arttırmak istemiştir. İkinci bölüm serbest piyasa ideallerinin nasıl kenara itildiğini de göstermektedir. Bunun ötesinde Almanya'nın (ordo)liberalliği üzerinde durmasına rağmen ihracatçı-merkantilist bir ülke olması çelişkilidir. İkinci bölümde gösterilen bir diğer çelişki ise Alman sosyal devletidir, öncelikle 90'larda yapılan kesintiler ve 2000'lerde gelen Hartz reformları sosyal devlette kesintiler getirmiştir, bu “sosyal piyasa ekonomisinin” sosyalliğini şüpheye düşürmektedir.

Üçüncü ve son bölümde ise Almanya'nın artan ekonomik gücü ile Avrupa Birliğinde artan ordoliberalizm etkisi tartışılmıştır. Almanya'nın artan ekonomik gücünün sebeplerinden biri de European Monetary Union (EMU)'a geçiş olmuştur, bazı para birimleri böylece Deutschemark'a (DM) karşı değer kazandığı gibi DM'in değeri azalmış, ayrıca başka ülkelerin devalüasyon yaparak Alman ihracatı ile rekabet etme olasılığı ortadan kalkmıştır. Almanya'nın 90'larda ve 2000'lerde Hartz reformları ile yaptığı sosyal kesintiler ile iç devalüasyon olmuştur ve Alman ihracatı rekabetçiliğini arttırmıştır. Bunun sonucunda Almanya 2002'den beri cari fazla vermektedir, bu Avrupa'daki bazı diğer ülkelerin açık vermesine sebep olmaktadır. Avro Bölgesi borç krizinde ise bu cari açıkların önemi vardır. Son olarak bu bölümde Avro krizi ve peşinden gelen ordoliberalizm etkili kemer sıkma politikalarının Avrupa ülkelerini ekonomik sağlığa kavuşturmadığından bahsedilmiştir.

Sonuç olarak bu tezde Almanya'nın Avrupa Birliğine faydalı ve iyi niyetli bir liderlik yapmadığı ve kendi çıkarları doğrultusunda çıkarıcı bir yaklaşımda bulunduğu sonucuna varılmıştır.

Anahtar Kelimeler: Ordoliberalizm, Almanya, Avrupa Birliği, Liderlik

Abstract

This thesis sought to look at German economic practices and contrast them with the “guiding principles” of German economic thought, ordoliberalism, which is more commonly labeled the “social market economy”. Thus, the first chapter of this thesis looked at ordoliberalism and its view of how the economy should be, and what the views of different “cliques” of ordoliberalism are.

The second chapter looks at German economic practices to show the contradictions of ordoliberal economic practice. Ordoliberals argued for a strong “market police” state, and starting from Ludwig Erhard and to this day Germany has prided itself in its ordoliberalism and the “social market economy”, yet in practice the state wanted the creation of national champions and a strong export performance to bolster economic strength. Chapter Two shows that the ideals of free market get sidelined when the push comes to shove. Furthermore, Germany while labels itself a liberal (ordo) state, it is commonly considered to be an export-mercantilist country. And another contradiction of German economy shown in Chapter Two was the state of German welfare state, which saw cut-backs starting in the 90’s and then in the 2000’s with the Hartz reforms to make the economy more competitive (to internally devalue so as to bolster exports), which makes the “social” in the “social market economy” also dubious.

The third and final chapter looked at how ordoliberalism also influenced the European Union as a result of rising German economic power which was also mostly a result of the European Monetary Union (EMU), which revalued some currencies (against the Deutschemark) and prevented competitive devaluations, which combined with the internal devaluation of Germany through the Hartz meant Germany would become more competitive. Thus, Germany has been running a surplus since 2002, which is considered to be the cause of the persistent deficits that led to the Eurozone debt crisis. The Eurozone debt crisis is also looked at to show that the ordoliberal austerity measures have not benefited the crisis countries and has not brought their economies back to health.

This thesis thus concludes by saying that Germany and its ordoliberalism has not been beneficial to the European Union and Germany has not acted as a benevolent leader acting for the benefit of the Union, but instead acted opportunistically in its own interests.

Key Words: Ordoliberalism, Germany, European Union, Leadership

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List of Abbreviations

ACEA	European Automobile Manufacturers Association
GDP	Gross Domestic Product
GIPS(I)	Greece, Ireland, Portugal, Spain, and Italy
ECB	European Central Bank
EMU	European Monetary Union
EMS	European Monetary System
ERM	Exchange Rate Mechanism
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development
NATO	North Atlantic Treaty Organization
WB	World Bank

INTRODUCTION

Germany since the creation of the European Union in 1992 and the adoption of the Euro in 1999, emerged as the single leader of Europe, as opposed to the Franco-German alliance of the past. This leadership was the result of German economic supremacy in a peaceful Europe. By way of its economic strength, Germany took the leadership spot. The institutions, criteria, rules and regulation governing the Eurozone as a result were influenced by the German way of economic thinking, ordoliberalism.¹ This economic ideology was prescribed by Germany to all other Eurozone members to “better” their economies.² The economic ideology of ordoliberalism combined with strong German industries did indeed serve Germany very well, achieving a trade surplus every year since the establishment of the Eurozone (excepting the first three years of the Euro).³ German ordoliberalism was also influential in the creation of the Eurozone, most importantly, the convergence criteria which aspiring members had to fulfill to gain access, was fundamentally inspired by ordoliberalism and its austerity provisions (fiscal responsibility) and focus on price stability (preventing inflation).⁴ Maintaining austerity became the mandate of national economic policy, and preventing inflation became the mandate of the European Central Bank as per ordoliberal thought.⁵

This ordoliberal Eurozone worked relatively well in its first years, although there was criticism of the rigidity and potential weakness of the currency union to potential shocks.⁶ The critics were justified in their criticism when we came to 2008. The U.S. centered financial crisis spread to Europe as European banks were exposed to the U.S. mortgage crisis. This led to a financial crisis in Europe, requiring bank bailouts, and also to a sovereign debt crisis, in which some countries, such as Spain and Ireland, were further indebted as they

¹ David N. Balaam and Bradford Dillman. *Introduction to International Political Economy*. (New York: Routledge, 2015) p. 45.

² Alan Cafruny and Leila Simona Talani, “German Ordoliberalism and the Future of the EU” *Critical Sociology* 45, no. 7-8 (November 2019) doi:[10.1177/0896920519837334](https://doi.org/10.1177/0896920519837334) p. 1012.

³ OECD (2020), Current account balance (indicator). doi: 10.1787/b2f74f3a-en Accessed on 14 January 2020

⁴ Balaam, p. 44-5.

⁵ Willem Molle. *The Economics of European Integration: Theory, Practice, Policy*. (Gower House: Ashgate, 2006) p. 280.

⁶ Joseph Stiglitz. *The Euro: And its Threat to the Future of Europe*. (London: Penguin Books, 2017), p. 13-14.

bailed out their banks,⁷ and in which some were persistently running deficits, like Greece, Portugal and intermittently, Italy.⁸ The currency union meant that these nations could not devalue their currency and get out of the crisis by increasing exports. But the ordoliberal criteria of the Eurozone also meant that these nations could not spend to provide stimulus to their economy, they instead had to subject themselves to measures of austerity to ensure their debts would be paid.⁹ Meanwhile, throughout the crisis Germany kept its export performance, coming to a peak in 2017, with a surplus nearing three hundred billion dollars.¹⁰ Germany has thus been satisfied with the way the European Union and the Eurozone works, but can ordoliberalism be beneficial to the whole of the Eurozone? The crisis countries of Greece, Spain, Portugal and Italy have not fully recovered,¹¹ Ireland's recovery on the other hand is mostly due to foreign direct investment.¹² Ordoliberal influenced policy response to the sovereign debt crisis has not returned the debt-to-GDP of crisis countries to the convergence criteria levels.¹³

Looking at the German guiding German economic thought (which had significant influence on the economic framework and ruleset of the European Union) as well as German economic practice and its reflection in Europe, and looking at the contradictions between thought and practice (especially considering the German economic thought of ordoliberalism is touted as the cure to the woes of others), thus, the aim of this thesis is to discern the nature of German leadership of Europe. This thesis, through showing that the German economy is neither "social" nor "market", and through showing its deviation from its own theoretical tenets and foundations, concludes that the Germans practice ordoliberalism arbitrarily. The question this thesis seeks to answer through showing these contradictions in theory and practice and the German economic approach to the European Union, is whether Germany could become a benevolent leader for the Union or not.

⁷ Stiglitz., p. 196.

⁸ Stiglitz, p. 81; OECD (2020), Current account balance (indicator). doi: 10.1787/b2f74f3a-en (Accessed on 14 January 2020)

⁹ Cafruny and Talani, p. 1015.

¹⁰ OECD (2020), Current account balance (indicator). doi: 10.1787/b2f74f3a-en (Accessed on 14 January 2020)

¹¹ Stiglitz, p. 63-64.

¹² Stiglitz, p. 412-13 note 29.

¹³ OECD (2020), General government debt (indicator). doi: 10.1787/a0528cc2-en (Accessed on 14 January 2020)

Before the contradictions between German thought and practice are shown, it is important to look at other perspectives to German leadership or hegemony (or whether it exists at all), and show why their answers are not satisfactory. First and foremost, looking at Germany from a realist perspective, and specifically taking the lack of strong German defense policies and spending (military), and its reliance on NATO for security as its basis, Barbara Kunz argues that Germany has neither a wish, nor a reason to become a hegemon, either globally or regionally (Europe).¹⁴ Thus, she argues that discussions of German hegemony are exaggerated, that looking out for its interests is “what all states do”.¹⁵ Similarly, Simon Bulmer considers German hegemony to be “largely confined to the economic domain”.¹⁶ Bulmer calls Germany hegemony as “reluctant and contested”, as in, Germany neither wishes to be a “leader” nor could it be, arguing that it is the European Union mechanisms and other member states that prevent Germany from being able to impose its will (and also German domestic politics).¹⁷ Importantly, Bulmer, looking at Germany in terms of hegemonic stability theory, also argues that Germany can not be viewed as a “stabilizer”, citing German economic policies which gives it a “hyper” export role, and strong competitiveness.¹⁸ And similarly, citing defense reasons and specifically the non-intervention of Germany in Libya are cited as showing German lack of wish to be a hegemon.¹⁹

Yet John J. Mearsheimer in defining “hegemons and hegemony”, makes note that a hegemon is a state that dominates others in its region thus being a regional hegemon (as opposed to a global hegemon which he deems as not very possible), yet military domination is not specifically noted here, a hegemon is cited as one who dominates the system in a region.²⁰ This then leads to another question, does Germany even need a military to get what

¹⁴ Barbara Kunz. “Germany’s Unnecessary Hegemony: Berlin’s Seeking of ‘Tranquility, Profit and Power’ in the Absence of Systemic Constraints.” *Politics* 35, no. 2 (June 2015) doi:[10.1111/1467-9256.12066](https://doi.org/10.1111/1467-9256.12066). p. 172-73.

¹⁵ *Ibid*, p. 179-80.

¹⁶ Simon Bulmer and William E. Paterson. “Germany as the EU’s reluctant hegemon? Of economic strength and political constraints.” *Journal of European Public Policy* 20 no. 10 (2013) <http://dx.doi.org/10.1080/13501763.2013.822824>. p. 1388 and 1400.

¹⁷ *Ibid*, p. 1396-400.

¹⁸ *Ibid*, p. 1401.

¹⁹ *Ibid*, p. 1400.

²⁰ John J. Mearsheimer. *The Tragedy of Great Power Politics*. (New York: W.W. Norton Company, 2014) p. 40-41.

it wants? Or to look out for its interests? While this thesis will elaborate further, European matters such as the sovereign debt crisis (where Germany more or less imposed austerity on the GIPS), the migrant crisis (where Germany was opposed by Eastern and Southern partners), and the NordStream project (amongst others) have gone Germany's way. While especially the governing economic rules of European Union, the European Monetary Union (EMU), again went the way of Germany. Similarly, a banking union was also opposed by the "responsible Northern states", of which Germany is most significant. While Germany does rely on NATO for defense, it is not as if Germany can not at will increase military spending and "revive" its military, which, due to the strong German economy, industries, and technology would still be significant. Germany thus does not need military spending because Germany can get what it wants without a military, and as Bulmer notes, an assertive German military would erode German legitimacy and cause fear towards Germany.²¹ As such, these perspectives do not provide satisfactory answers to question of German leadership (and its nature), as Germany (as this thesis will further elaborate), was and is dominant in the decisions made in the European Union (through economic strength and sheer size).

Further, Howard Lentner, on looking at Ancient Greek views on hegemony notes that for Ancient Greeks, hegemony was the "leadership of an alliance, not domination by coercion", and that the leader (hegemon) of the alliance, would have to pay heed to the autonomy of its allies, and must be a virtuous leader to keep the alliance intact.²² Thus, it is needed to look at German leadership, its nature and its contradictions, as the leader (willing or not) of an alliance (that is beneficial for Germany). The "virtues" and the contradictions of Germany must be scrutinized to understand the nature of German leadership, whether Germany is (or will be) a benevolent leader for Europe, or one that is primarily concerned with getting what it wants over the wants (autonomy) of its alliance partners.

²¹ Bulmer, p. 1397-398.

²² Howard H. Lentner, "Hegemony and Autonomy." *Political Studies* 53, no. 4 (December 2005) p. 740 and 749-750.

Discussion of hegemony of course leads one to the neo-Gramscian views on hegemony. Leila Simona Talani's text on neo-Gramscian views on International Political Economy (IPE) shows the neo-Gramscian perspective clearly, mainly focusing on socio-economic actors (groups), classes, and analyzing how these classes form their hegemony.²³ Looking at Gramsci's Prison Notebooks, one sees his analysis is mainly on Italian social and political groups, he argues that the "supremacy of a social group manifests itself in two ways, as "domination" and as "intellectual and moral leadership".²⁴ Thus the neo-Gramscian approach is focused on mainly social/political groups and their hegemony, while this thesis is mainly concerned with the German state, and its status as the eminent member of the European Union. Talani puts neo-Gramscian analysis to work by analyzing the journey of neoliberalism as the hegemonic ideology in Europe.²⁵ While this thesis is similarly concerned with neoliberalism (the German form, ordoliberalism), this thesis looks at the contradictory manifestation of ordoliberalism in practice.

In that aspect, this thesis also looks at Germany as a mercantilist country. While Stephen F. Szabo argues that Germany is not a "classic" mercantilist country in the sense that they do pursue "win-win" situations (instead of the classic zero-sum approach of mercantilism) and that its pursuit of economic goals are not with the purpose of advancing state interests, and that there is no aim to fill a "war chest".²⁶ Yet looking at Drezner's analysis of realist/mercantilist approaches to political economy, and Balaam's textbook on international political economy, and especially of course with the evolution of mercantilist views, it can be seen that the presence of a "war chest" is not inherently necessary for a country to be labeled as "mercantilist", more importantly, even the use of "force" is not necessary for the implementation of protectionist and mercantilist policies in contemporary times.²⁷ This thesis will also elaborate further on this point, indeed, looking back at Lentner's view of hegemony as leadership of an alliance, not by either coercion and domination,

²³ Leila Simona Talani, "Neo-Gramscians and IPE: A Socio-Economic Understanding of Transnationalism, Hegemony and Civil Society." in *The Palgrave Handbook of Critical International Political Economy* edited by, Alan Cafruny, Leila Simona Talani and Gonzalo Pozo Martin (Palgrave MacMillan, 2016) p. 75-77.

²⁴ Antonio Gramsci. *Selections from the Prison Notebooks of Antonio Gramsci*, edited and translated by Quintin Hoare and Geoffrey Nowell Smith. (New York: International Publishers, 1971) p. 57.

²⁵ Talani, p. 79-80.

²⁶ Stephen F. Szabo. "The reinvention of German power" in *Connectivity Wars: Why migration, finance and trade are the geo-economic battlegrounds of the future*, edited by Mark Leonard (European Council on Foreign Relations, 2016) p. 142 and 147-148.

²⁷ David N. Balaam and Bradford Dillman. *Introduction to International Political Economy*. (New York: Routledge, 2015) p. 50.

German mercantilism would shed light on to Germany's nature as the leader of the European Union. As while the presence of a "war chest" is not necessary, realist/mercantilist view on political economy is that a country uses economy to bolster state power, and that the economy is subservient to the state.²⁸ This is important as Germany protecting its economy, its currency, its competitiveness may not be in the interests of its other alliance partners. Contradictions of German economic practice and economic thought of ordoliberalism shows us the arbitrary practices and in a sense, the mercantilist nature of Germany, as Germany does not itself follow what it prescribes to its alliance partners as the solution to their economic problems (ordoliberalism and fiscal responsibility), it means that Germany has to break with ordoliberalism to keep its economy healthy, which thus means that ordoliberalism or fiscal responsibility that Germany prescribed are not solutions anyway.

Also important in discussions of mercantilism would be "accumulation", classical mercantilism had a focus in accumulation of "specie" or "bullion", precious metals and such by way of trade surpluses.²⁹ In the 21st century of course, this focus on specie and bullion was obsolete, yet trade surpluses, protectionist policies still exist as mercantilist practices.³⁰ Szabo does indeed note this, yet he argues that Germany's ends are not that of a "classical mercantilist", in that its foreign policy "has been driven by economic goals and economic actors" and not driven by the need to fill a war chest.³¹ Talani and Cafruny on the other hand consider Germany export-mercantilist, and label German policy as "selective-opportunist", and note that German surpluses drain the net savings of trading partners (most of which are European Union members).³² They also touch upon ordoliberalism, while they consider the ideology to not be the "primary" reason for German policies, the primary reasons for German policies for Cafruny and Talani are "the requirements of the German neo-mercantilist export model and the needs of its most powerful socio-economic actors".³³ While they discuss ordoliberalism and think that "ideas matter", and that ordoliberalism has played a significant part in not just the response to the Eurozone debt crisis, but also the creation of the European

²⁸ Balaam, p. 51-52; Daniel W. Drezner. "Mercantilist and Realist Perspectives in International Political Economy". *Oxford Research Encyclopedia, International Studies*. Oxford University Press, 2019. DOI:10.1093/acrefore/9780190846626.013.260 p. 8.

²⁹ Balaam, p. 50; Drezner, p. 3.

³⁰ Balaam, p. 56-59.

³¹ Szabo, p. 147-48.

³² Cafruny and Talani, p. 1018-1019.

³³ Ibid, p. 1011.

Monetary Union (EMU), and yet, they argue it is not the ideologies of state managers, but more the requirements of the German export model and its accordance with ordoliberalism.³⁴ Significant in this paper are the few contradictions noted in how Germany practices ordoliberalism.³⁵

This thesis in a way will look at ordoliberalism as neoliberalism with German characteristics, in the spirit of David Harvey's "A Brief History of Neoliberalism". Harvey here notes the various manifestations of neoliberalism across different countries, in that they all have certain differences, yet he notes that they are all neoliberalism in itself.³⁶ He argues that neoliberalism's primary purpose is to return economic power (restoration of class power) to the elite, the ruling class.³⁷ Cafruny and Talani's views seem to be in accordance with Harvey's, in that they consider the German insistence on ordoliberalism is a result of the wishes of certain German socio-economic actors, whose "happiness" or "well-being", is in turn beneficial for Germany, as these actors create wealth through strong exports for Germany as a whole, and increase state power (especially internationally) by way of economic power. Harvey considers that, with the theoretical texts of neoliberalism aside, neoliberalism in the way it is put to practice is primarily a change from "embedded liberalism" with the purpose of increasing elite and ruling class accumulation.³⁸ And to that degree, when a neoliberal has to make a choice between more accumulation and upholding the theories of neoliberalism, they choose accumulation.³⁹ Harvey specifically notes that the tension between neoliberal theory and the pragmatics of neoliberalization must be considered.⁴⁰

This thesis has a similar purpose, to show that ordoliberalism is contradictory and ordoliberal Germany similarly chooses policies which uphold its accumulation over policies that are in-line with ordoliberal thought (to show the "tension between theory and pragmatics"). This is significant as Germany touted ordoliberalism as the solution to the woes

³⁴ Ibid, p. 1012.

³⁵ Cafruny and Talani, p. 1012.

³⁶ David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2007) p. 64-69.

³⁷ Ibid, p. 13 and 31.

³⁸ Ibid, p. 11-12.

³⁹ Ibid, p. 70-72.

⁴⁰ Ibid, p. 21.

of its European members, yet apparently, obedience to ordoliberalism is not why German economy is strong, as it does not practice all ordoliberal tenets all the time. This thesis will show how and when Germany broke with certain tenets of ordoliberalism, which shows us that ordoliberalism is not the answer for the economic problems of Europe.

Further on, as an example, German economic practice in terms of state participation and interventions in the economy show who is subservient to whom in the German economy, which in turn would answer the question of German mercantilism. This in turn is yet another contradiction as Germany is considered to be one of the biggest winners of globalization and free trade, with its ever-increasing trade surplus.⁴¹ Does Germany give something back to the system that has brought it such wealth and prosperity? This question is more important at the regional level, at the level of the European Union. The Common Market, and the devaluation that came with the move from the Deutschemark to the euro has helped boost German exports and competitiveness, yet how much does Germany give back to uphold this system, to uphold the interests of its partners in this alliance? Is Germany conforming to Lentner's view of hegemony as the leadership of an alliance? If it does not, then it risks the break-up of the alliance, from which it reaps significant benefits. All of these questions are in a way answer to the nature of German leadership, does Germany view the European Union as a one-time event where Germany should "earn" as much money as possible (surpluses) from before it dissolves? Does Germany truly believe in the European project as a pan-European integration project or does German beliefs in Europe not go much further than a common market to allow German's export mercantilism? This thesis argues, through showing the contradictions between ordoliberal theory and practice that Germany acts arbitrarily, and acts the way it does to mostly to keep its trade surplus up, with not much ponderance on how this affects its European partners.

⁴¹ Szabo, p. 141.

CHAPTER ONE

What is Ordoliberalism?

1.1. A brief introduction to ordoliberalism

Ordoliberalism is the German form of neoliberalism, pioneered by the Freiburg School thinkers such as Walter Eucken and Franz Böhm, through writings presented in the annual journal of *Ordo*.⁴² Ordoliberalism emerged as part of the wider neoliberal network, after the Second World War. As part of the wider neoliberal network (and with roots in classical liberalism), ordoliberals were distrustful of the state, and believed free and competitive markets to be both efficient, and necessary for the preservation of individual freedoms.⁴³ In the way neoliberals “split” between the Austrian and Chicago schools of thought, ordoliberals were also split between the Freiburg school and the “Third Way” thinkers, such as Wilhelm Röpke and Alexander Rüstow.⁴⁴ The Third Way thinkers were comparatively more supportive of social policies, and also influenced what was labeled as the “social market economists”.⁴⁵ Thinkers such as Alfred Müller-Armack and Ludwig Erhard called their version of ordoliberalism the “social market economy” as they envisioned an even more social set of policies, than the modest social provisions of the Third Way.⁴⁶ Importantly, Ludwig Erhard and Alfred Müller-Armack had the chance to put their theories to practice, as Erhard became the Minister of Economic Affairs of West Germany and eventually the

⁴² Henry M. Oliver. “German Neoliberalism”. *The Quarterly Journal of Economics*, vol 74, no. 1. (1960) www.jstor.org/stable/1884137. p. 117; Razeen Sally “The Social Market and Liberal Order: Theory and Policy Implications.” *Government and Opposition* 29, no. 4 (1994): 461-76. Accessed February 10, 2020. www.jstor.org/stable/44483873. p. 462-64.

⁴³ David N. Balaam and Bradford Dilman. *Introduction to International Political Economy*. (New York: Routledge, 2019) p. 44-45.

⁴⁴ Ben, Jackson. “At the Origins of Neo-Liberalism: The Free Economy and the Strong State, 1930-1947.” *The Historical Journal* 53, no. 1 (2010): Accessed March 26, 2020. www.jstor.org/stable/25643886. p. 138; Oliver, p. 119, 133.

⁴⁵ Oliver, p. 119 and 133.

⁴⁶ Oliver, p. 119; Hans Jürgen Rösner, “The Institutional Framework of a Social Market Economy” in *Social Justice in a Market Economy*, edited by Sautter Hermann and Schinke Rolf, 59-74. (Frankfurt am Main: Peter Lang AG, 2001) Accessed January 17, 2020. www.jstor.org/stable/j.ctv9hj7bm.6. p. 59.

Chancellor, and Müller-Armack worked alongside Erhard in the ministry.⁴⁷ Since then, ordoliberalism has influenced the economic policies of Germany and the Eurozone by extension, as a result of German economic supremacy.⁴⁸

These sub-categories of neoliberalisms emerged in criticism to both laissez-faire and Keynesian policies.⁴⁹ But they fractured depending on to which they were more critical and distrustful of. The main distinctions of ordoliberalism from neoliberalism is on the matters of state interventions, and social policies.⁵⁰ Ordoliberals were not as distrustful of the state as neoliberals, they wanted a strong state to bolster a free and competitive market, and a certain set of social welfare policies (although the scope of which changed from ordoliberal to ordoliberal).⁵¹ The degree of the social policies is what separated ordoliberals from the Third Way, and the Third Way from the “social market” proponents.⁵²

While the wider neoliberalism went on to influence the United States and the United Kingdom, ordoliberalism is what shaped German policy making. The tenets, arguments, and economic policy prescriptions of ordoliberal thought will be laid out in the next chapters, it is necessary to know the theoretical economic vision of ordoliberal thought to be able to contrast theory and practice. Finally, the differences (or the lack thereof) between ordoliberalism and the social market economy will be discussed further on.

1.2. The tenets and arguments of ordoliberalism

To begin with, the most central to ordoliberal thought (similar to other forms of Liberalism) is a distrust of the state (in economic matters). This distrust shapes most aspects of ordoliberal thought. The common idea across all Liberalisms that rational, self-serving,

⁴⁷ Oliver, p. 119; Razeen Sally, “The Social Market and the Liberal Order: Theory and Policy Implications” *Government and Opposition* 29, no. 4 (1994) 461-76. Accessed January 15, 2020. www.jstor.org/stable/44483873. p. 461.

⁴⁸ Balaam, p. 44-5; Alan Cafruny and Leila Simona Talani, “German Ordoliberalism and the Future of the EU” *Critical Sociology* 45, no. 7-8 (November 2019) doi:[10.1177/0896920519837334](https://doi.org/10.1177/0896920519837334) p. 1012.

⁴⁹ Jackson, p. 142 and 147-151, Oliver, p. 117-18, and 128-131; Sally, p. 463.

⁵⁰ Oliver, p. 118.

⁵¹ Jackson, p. 150; Oliver, p. 118-19; Razeen Sally, p. 461-64.

⁵² Oliver, p. 129-33.

independent, and enterprising individuals can allocate resources far more efficiently than the state, and thus lead to a better society, leads ordoliberals to reject any type of centrally planned economy.⁵³ But while the state as an economic actor is an enemy of Ordoliberals, they argue that the state is responsible for “ordering” the market, thus explaining the name, *Ordo*.⁵⁴ The role of the state for ordoliberals is that of a “market police”,⁵⁵ writing the rules that ensure and “order” a free and competitive market economy, but not participating in the economy that it creates the governing institutions and frameworks of.⁵⁶ So although ordoliberals distrust the state, the ordoliberal state they argue for is a strong one, that won’t bend to “interest groups”, anything from worker unions to private lobbies and monopolies and cartels.⁵⁷

This distrust of the state’s economic activities also means that ordoliberals distrust any form of intervention by the state in economic policies. This leads them to be critical of counter-cyclical economic policies as well as full-employment programs like the ones envisioned by Keynesian economics.⁵⁸ They consider unemployment to be “natural”, it happens naturally as the economy adjusts and fixes its imbalances, as it is natural there is no need for the government to intervene.⁵⁹ The same stance against state interventions are also extended to the cases of bailouts and liabilities. Ordoliberals argue for “unlimited”, “unrestricted”, or “freedom” of liability, they argue that a lack of full liability leads to irresponsible economic behavior.⁶⁰ Thus making government intervention to save companies “illegal”, be it preferential government contracts, subsidies or straight up bailouts.

⁵³ Oliver 120-23.

⁵⁴ Jackson, p. 138-140; Sally, p. 63; Werner Bonefeld, “Adam Smith and Ordoliberalism: On the Political Form of Market Liberty” *Review of International Studies* 39, no. 2 (2013): 233-250. Accessed January 8, 2020. www.jstor.org/stable/24564657. p. 237-38.

⁵⁵ Bonefeld, p. 236-37.

⁵⁶ Bonefeld, 248-49; Oliver, p. 120 and 133-34; Sally, 465.

⁵⁷ Balaam, p. 45; Jackson, p. 34; Oliver, p. 126; Sally, p. 463 and 475.

⁵⁸ Jackson, p. 149-50; Ludwig H. Mai, “Erhard’s Social Market Economy” *The Southwestern Social Science Quarterly* 44, no. 4 (1964): 329-334. Accessed January 16, 2020. www.jstor.org/stable/42867046 p. 34; Oliver, p. 28.

⁵⁹ Oliver, p. 27-28.

⁶⁰ Oliver, p. 141; Rösner, p. 61; Sally, p. 463.

But there is one matter where government interventions are seen as positive and legitimate by ordoliberals, that is government intervention to break up monopolies, oligopolies, cartels, unions and syndicates to uphold free and fair competition.⁶¹ They argue that the state has to constantly fight back against these special interests, to preserve the competitiveness of the markets.⁶² They are anti-monopolistic for a few reasons, first, monopolies wield significant economic power, which can lead to the “capture” of the state by these interest groups, leading to state interventions to preserve the health of these monopolies (or unions, organized labor).⁶³ Second reason is that competition is regarded as “good” by ordoliberals, it “empowers” the consumer, facilitates progress and innovation, and an economy with monopolies and oligopolies can not function healthily.⁶⁴ As such, strong anti-trust laws and an active government that prevents mergers and breaks up monopolies, and in sectors where “monopolies are unavoidable”, or there are “natural monopolies”, nationalization is deemed necessary.⁶⁵

The states intervention in the economy to ensure the welfare of its people is also a matter of contention among ordoliberals. There is contention among Ordoliberals on the extent of social policies, this matter is the main cause of division of Ordoliberals, the Freiburg school proposing minimal social policies, the Third Way of Röpke and Rüstow similarly propose very little in terms of social policies, although they do support inheritance taxes and progressive taxation.⁶⁶ The term “social market economy” on the other hand, comes from Alfred Müller-Armack, who envisioned the widest set of social policies out of all ordoliberals.⁶⁷ Although Ludwig Erhard, who was influenced by Müller-Armack and liked to use the term “social market economy” himself, for his policies as the finance minister of West Germany, and then the Chancellor, Henry Oliver notes his lack of a strong stance against monopoly and anti-competitive practices, while Sally is critical and notes that he has created an extensive welfare state and corporatism, contrary to common ordoliberal thought.⁶⁸

⁶¹ Bonefeld, p. 246; Jackson, p. 139 and 143; Oliver, p. 132 and 134.

⁶² Bonefeld, p. 237;

⁶³ Bonefeld, p. 237-38; Jackson, p. 142-44; Mai, p. 31-32; Oliver, p. 40-41; Sally, p. 465.

⁶⁴ Oliver, p. 132; Sally, p. 463.

⁶⁵ Jackson, p. 143; Mai, p. 332; Oliver, p. 142-44; Rösner, p. 61; Sally, p. 463.

⁶⁶ Sally, p. 466.

⁶⁷ Rösner, p. 62; Sally, p. 471.

⁶⁸ Oliver, p. 142; Sally, p. 474.

For example, the Freiburg School's social provisions went little further than progressive taxation, with Eucken considering minimum wages acceptable only in times of recession.⁶⁹ They considered social policies to be unnecessary as in their idealized economic system, everyone would be better off.⁷⁰ The Third Way views social measures differently. While in general they propose comparatively more "social measures" than the Freiburg School, such as progressive taxation, inheritance tax, their "social provisions" are of a different sort.⁷¹ The Third Way of Röpke and Rüstow argue for small (and medium) scale enterprises, artisanship's and peasant farming, and state intervention (by subsidies) to support them.⁷² This is due to their problematization of proletarianization and overurbanization, which they consider to be the social problem of our time.⁷³ They support equal opportunity and widespread property ownership.⁷⁴ The Third Way is considered to be a minority among ordoliberals.⁷⁵

Finally, there are the proponents of the "social market economy", widely used to describe German economy nowadays, the founding father is regarded to be Alfred Müller-Armack.⁷⁶ The social market economy is inherently an ordoliberal economy, free and competitive markets must reign, the state should uphold the necessary order so that markets operate properly, but not partake in economic affairs further than writing the rules and laws governing it, thus it is in agreement with other ordoliberals.⁷⁷ As the name implies, Müller-Armack's social market economy entailed far more social protection than the Freiburg School or the Third Way. Müller-Armack contrary to other ordoliberals, supports full-employment, he like other ordoliberals advocate for progressive taxation and furthermore, argues for rent and housing subsidies for the needy, family allowances and minimum pensions.⁷⁸ Ludwig Erhard is noteworthy, he also used the label "social market economy" to

⁶⁹ Rösner, p. 61-2.

⁷⁰ Oliver, p. 148.

⁷¹ Ibid., p. 140 and 143.

⁷² Oliver, p. 49; Sally, p. 66.

⁷³ Oliver, p. 132; Sally, p. 69; Wilhelm Röpke, *The Social Crisis of Our Time*, trans. Annette and Peter Schiffer Jacobsohn (Chicago: University of Chicago Press, 1950) p. 163-65 and 176.

⁷⁴ Sally, p. 66.

⁷⁵ Oliver, p. 119 and 149.

⁷⁶ Rösner, p. 59; Sally, p. 70.

⁷⁷ Sally, p. 461-62 and 473-74.

⁷⁸ Ibid., p. 71.

describe his economic policies during his period as the finance minister of West Germany.⁷⁹ In Erhard's system, "every economic success... will benefit all the people",⁸⁰ although he also believes that the "the push towards a welfare state... will surely kill all human virtues".⁸¹ He also further argues that the collective security a welfare state entails will lead to state intervention.⁸² This creates doubt over the "socialness" of his market economy, and giving his vision of the social state a much smaller scope than that of Müller-Armack's, Erhard's view of the welfare state is thus more similar to those of the Third Way and the Freiburg school ordoliberals. Müller-Armack and especially Ludwig Erhard are further important, as both occupied positions of policy making in West Germany, yet were unable to put their ordoliberal theories fully to practice, Razeem Sally is critical of their bending to popular wishes for further social policies and Henry M. Oliver notes their lack of a staunch stance against monopolies.⁸³ Gillingham on the other hands notes that Erhard practiced the "script" written by Röpke, who was not as "social" in his policy prescriptions as Müller-Armack.⁸⁴ As such, the "social market" label for the German economy seems more of a marketing tactic than an actual belief in, and wish to uphold a Müller-Armack style welfare state.

While one of the reasons why the welfare state was opposed by ordoliberals was that it curbed individual responsibility and lowered incentive to work, another was that the welfare state required significant public spending, which would cause deficits, and that it would inflate the economy.⁸⁵ Indeed, ordoliberals, and the homeland of ordoliberals, Germany, have an obsession with inflation and budget deficits, as such, it affected the convergence criteria of the European union, which impose "fiscal responsibility", and the purpose of the European Central Bank, which has only one mandate; to control inflation.⁸⁶ Although Henry M. Oliver does mention that in theory, ordoliberals are also against the suppression of inflation, if price controls suppress inflation, the market can not function.⁸⁷

⁷⁹ Ludwig Erhard. *Prosperity Through Competition*, translated by Edith Temple Roberts and John B. Wood (New York: Frederick A. Praeger, 1950) p. 3 and 8.

⁸⁰ Erhard, p. 125.

⁸¹ Erhard, p. 187.

⁸² Erhard, p. 188.

⁸³ Sally, p. 72-73.

⁸⁴ John Gillingham, *European Integration, 1950-200: Superstate or New Market Economy*. (Cambridge: Cambridge University Press, 2003). p. 76.

⁸⁵ Oliver, p. 127-29 and 148

⁸⁶ Balaam, p. 322; Stiglitz, p. 374, note 13. For the ECB's mission and tasks from its official website, <https://www.ecb.europa.eu/ecb/html/index.en.html> Accessed May 14, 2020; [For The Federal Reserve and its mission, https://www.federalreserve.gov/faqs/about_12594.htm](https://www.federalreserve.gov/faqs/about_12594.htm) Accessed, May 14, 2020

⁸⁷ Oliver, p. 128.

This anti-inflationary stance does tie in with their “modest” social provisions as well as their criticism of Keynesian full-employment programs, both of which are considered to cause inflation.⁸⁸ Ultimately, price stability is regarded as key to the healthy functioning of the envisioned competitive market of ordoliberals.⁸⁹

To ensure the healthy functioning of the free market and stability of prices, ordoliberals argue for monetary policy, rather than fiscal policies.⁹⁰ It makes sense, as fiscal policies are adopted by governments, which ordoliberals do not trust, to intervene in the economy, boost employment and welfare benefits. Ordoliberals then argue that even with monetary policy practiced by independent central banks, should be stable and have “automatic” mechanisms.⁹¹ Monetary policy according to ordoliberals should be neutral, and automatic, with a stable framework of monetary policy, which will “order” the economy, and they argue against discretionary interventions by central bankers themselves, thus their emphasis on an automatic mechanism that won’t be affected by the judgments of central bank authorities.⁹²

1.3. Ordoliberal influence on the framework of the European Union

The beliefs of these ordoliberals influenced German economic policy making since the end of the Second World War, and it also influenced the economic institutions of the European Union. Neoliberalism, which was gaining momentum throughout the world also influenced the reforms, rules, and the institutions of the European Union as it was being formed.⁹³ But the form of neoliberalism chosen to guide the creation of the economic framework of the European Union was not the Anglo-Saxon model, but a form of neoliberalism that had to articulate ideals of some form of “social democracy”.⁹⁴ Apeldoorn labels the institutions of the European Monetary Union (EMU), the European Central Bank

⁸⁸ Ibid, p. 127-29.

⁸⁹ Mai, p. 330; Oliver, p. 147; Rösner, p. 61.

⁹⁰ Jackson, p. 148; Oliver, p. 144-45.

⁹¹ Oliver, p. 145; Sally, p. 70.

⁹² Oliver, p. 145-46.

⁹³ Balaam, p. 45; Cafruny and Talani, p. 1012; Gillingham, p. 83.

⁹⁴ Bastiaan van Apeldoorn, “The Contradictions of ‘Embedded Neoliberalism’ and Europe’s Multi-level Legitimacy Crisis: The European Project and its Limits” in *Contradictions and Limits of Neoliberal European Governance: From Lisbon to Lisbon*, ed. Bastiaan van Apeldoorn, Jan Drahokoupil, and Laura Horn (Basingstoke: Palgrave MacMillan UK, 2009) p. 24-28.

(ECB), and the Stability and Growth Pact (SGP), which govern the economy of the European Union as “disciplinary neoliberalism”.⁹⁵ One could also say, “ordered” neoliberalism. Gillingham is vocal on the German influences on the creation of the economic institutions that govern the euro, saying that the creation of the ECB was the creation of a Bundesbank for Europe.⁹⁶ And on the matter of the convergence criteria, Gillingham implies that the convergence of the member states was a move not towards a common European convergence point but towards Germany.⁹⁷

Further on, Apeldoorn notes that the European Union cites “increasing competitiveness” as a reason for its economic choices, and further integration, rules, and regulations (or removal of regulations) are justified as it “increases competition”.⁹⁸ He finds concerns of “competitiveness” to be at the core of the Lisbon Treaty of 2009, the latest amendment treaty on the European Union.⁹⁹ The focus on competition is reminiscent of ordoliberal insistence that free but also competitive markets are necessary for economic health. Willem Molle writing on the theoretical foundations of the EU, uses “workable competition” as the EU’s view on competition, a “workable” competition is competition “maintained” by a higher authority (the EU in this case).¹⁰⁰ This led to the adoption of EU wide competition policies which at least in theory restrict monopolies and oligopolies, mergers and acquisitions, abuses of dominant positions, market-sharing and price-fixing agreements.¹⁰¹ Thus, the EU is given a mandate of “ordering” competition in the common market, rather than allowing a pure laissez-faire. Although Gillingham points out that this turn towards “competitiveness” across the EU has been mostly translated to labor “flexibility” in practice.¹⁰²

⁹⁵ Apeldoorn, p. 26.

⁹⁶ Gillingham, p. 273.

⁹⁷ Ibid, p. 234-35.

⁹⁸ Apeldoorn, p. 26.

⁹⁹ Ibid, p. 28-29.

¹⁰⁰ Willem Molle. *The Economics of European Integration: Theory, Practice, Policy*. (Gower House: Ashgate, 2006) p. 240.

¹⁰¹ Molle, p. 244-46; John Pinder and Simon Usherwood. *The European Union: A Very Short Introduction*. (Oxford: Oxford University Press, 2013). p. 57-58.

¹⁰² Gillingham, p. 238

The ordoliberal belief in “fiscal responsibility” and budgetary discipline is represented at the EU level by the convergence criteria. As per the convergence criteria, member states can not have an inflation rate %1.5 above the average of three states with the lowest inflation rates, budget deficits more than %3 of GDP, government debt more than %60 of GDP (private debt is not constricted), and long-term interest rate of member states can not be above %2 of the member states with the lowest interest rates.¹⁰³ According to Molle, the reason for budgetary and debt restraint for governments (and not private entities) is that participating countries must convince the markets of their commitment to “sound principles of public finance”.¹⁰⁴ Ultimately, most important reason for these restraints is to keep inflation low and ensure price stability across the Eurozone. As Molle notes, the EU has gone for “nominal convergence”, a convergence of macroeconomic indicators (such as inflation), rather than real convergence, where wealth levels between countries converge.¹⁰⁵ This is reflected in contemporary times, the gist of Stiglitz’ book *The Euro*, is the actual divergence in wealth levels across Eurozone members, even though inflation rates, budget measures, and interest rates have been converging to an extent.¹⁰⁶

Similar to German and ordoliberal concerns over inflation, the inflationary concerns of the EU are represented by the singular mandate of the European Central Bank, which is only mandated to keep inflation, or to ensure price stability, it has no mandate to ensure employment.¹⁰⁷ The inflation concern of the ECB, as Gillingham put it, makes it a “Bundesbank for Europe”, Stiglitz too notes that this anti-inflationary stance was primarily influenced by German economic thinking, who believed that joining with other countries who did not share their fiscal and budgetary “discipline” would lead to inflation within Germany.¹⁰⁸

¹⁰³ Molle, p .274; Pinder, p. 63.

¹⁰⁴ Ibid., p. 277.

¹⁰⁵ Ibid., p. 274 and 287.

¹⁰⁶ Stiglitz, p. 112

¹⁰⁷ Molle, p. 280; Stiglitz, p. 97.

¹⁰⁸ Gillingham, p. 235 and 273; Stiglitz, p. 42-43.

These strict views on budgetary discipline were combined with the “no-bailout clause”. The purpose of which is to prevent “moral hazard”, to prevent a nation borrowing excessively and asking to be helped in the case of a downturn.¹⁰⁹ According to article 125, no member state is liable for another member states financial commitments, although Greece, Ireland, Portugal, Spain and Cyprus were bailed out due to the Eurozone sovereign debt crisis, the article still remains “in force”.¹¹⁰ And although broken, this clause itself represents the ordoliberal arguments of full liability and fiscal “discipline”.

Thus, the ECB, which governs the monetary policy of the Eurozone, and also the convergence criteria, which at first decides who will be allowed in to the Economic and Monetary Union (EMU) and then limits the economic autonomy of member states, were both influenced in their making by German economic thought. Increasing and ensuring both internal competition and global competitiveness became a priority for the European Union as a result of the ordoliberal and neoliberal influences.

1.4. Concluding remarks

While one could for example, argue that there is the dilemma of whether an ordoliberal state resisting the popular wishes, the wishes of the electorate to say, increase social spending and implement more social safety nets can be democratic, this thesis does not aim to argue the contradictions ordoliberalism may have. The purpose of this thesis is to show the thoughts of ordoliberals, some of whom were policy makers in Germany, and to show German economic practices and show the contradictions. As such, the next chapters will show how Germany has been putting ordoliberalism (or the social market economy) to practice.

¹⁰⁹ Gillingham, p. 274.

¹¹⁰ The “no-bailout clause”, Article 125. https://eur-lex.europa.eu/eli/treaty/tfeu_2012/art_125/oj

In the next chapter, German accordance with the tenets of ordoliberalism will be shown. For example, whether Germany, as per ordoliberal prescriptions breaks up monopolies and oligopolies or not, or specifically wishes for strong national champions will be shown. The wish for the state to not partake in the economy itself (aside from upholding the laws that “govern” it) is a general liberal wish, not just ordoliberal, and yet German participation in the economy will also be looked at. Also of import is the social state, as certain ordoliberals (Müller-Armack and Erhard) have labeled their views as the “social market economy”, as such, sizing-down the welfare state would make the “social” part of the market economy dubious.



CHAPTER TWO

Contradictions of German Economic Practice

In this chapter, German breaks with its economic thinking will be laid out. The contradictions between German economic theory and how it is practiced in reality is important as Germany has touted the “social market economy” and ordoliberalism as the remedy to the economic woes of all, not just the crisis countries of Greece, Ireland, Portugal, and Spain but all of the world. By looking at the contradictions, one can gauge whether Germany stands by its model “social market economy” fully in practice, or acts arbitrarily in whichever way benefits its economy. If Germany breaks with its economic thinking, it first of all can mean that Germany does not believe one should follow all ordoliberal tenets all the time, making the theoretical “social market economy” of Germany not the eminent economic thinking it advertises it as. But it can also mean that Germany, in search of its national economic interest, does not adhere to the rules it placed upon itself, and arbitrarily breaks with the economic “rules of governance” it put to practice as it feels necessary. In the first chapter, the ordoliberal views on how the economy should be was laid out, in this chapter practice and theory will be contrasted.

2.1. State participation and intervention in the German economy

Ordoliberals want a strong state that upholds the order that governs the economy, not a strong state that participates and intervenes in the economy itself. Yet, there are a fair amount of state-owned enterprises and public-private partnerships in Germany. And as per the 2018 OECD Product Market Regulation Country Note on Germany, public ownership of firms in Germany is more extensive than other countries in the OECD.¹¹¹

¹¹¹ 2018 OECD Product Market Regulation Country Note.
https://issuu.com/oecd.publishing/docs/ger_country_note_-_final?fr=sMzM1NTkzNTk1MQ, Accessed April 29, 2020.

State ownership especially in the financial system is very visible in Germany. Some banks are partially or wholly owned by the federal republic, one example is the Commerzbank, the Federal German Republic owns 15% of shares in Commerzbank.¹¹² The KfW Group investment banks on the other hand is wholly state owned, with 80% of shares owned by the Federal Republic, and the remaining 20% owned by Federal States.¹¹³ More importantly, Germany has a three-pillar banking system comprised of private banks, savings banks, and cooperative banks.¹¹⁴ Private banks are obviously supposed to be privately owned, except for Commerzbank, which is partly publicly owned. The savings banks, which include the Landesbanken and Sparkasse systems, are owned by local administrations (be it cities or federal states).¹¹⁵ According to Felix Hüfner, the share of public banking in the German banking system at 40%,¹¹⁶ a 2020 report by DZ Bank, cites the share of public banks in the banking sector to be at 36%.¹¹⁷ Showing a significant share of state involvement in the financial sector.

There are other areas in which the German state participates. Very significant is the state of Lower Saxony's ownership of 11.8% of Volkswagen shares and holding 20% voting rights.¹¹⁸ Deutsche Telekom, which is a near monopoly of telecommunications in Germany, is 31.9% owned by the German state, making it the largest single shareholder.¹¹⁹ The KfW Group is the largest single shareholder in Deutsche Post, the parent company of DHL, a logistics company, with 20.5% of shares.¹²⁰ Another public corporation of note is the RAG

¹¹² Commerzbank Shareholder Structure, <https://www.commerzbank.de/en/hauptnavigation/aktionaere/aktie/aktionaersstruktur/aktionaere.html> Accessed April 29, 2020.

¹¹³ KfW Group Overview, <https://www.kfw.de/KfW-Group/About-KfW/Zahlen-und-Fakten/KfW-auf-einen-Blick/> Accessed April 29, 2020.

¹¹⁴ Daniel Detzer, J, Creel, F, Labondance, *et al.* "Financial Systems in Financial Crisis – An Analysis of Banking Systems in the EU". *Intereconomics* vol. 49, 56-87 (2014). <https://doi.org/10.1007/s10272-014-0489-8>. p. 57

¹¹⁵ *Ibid*, p. 58.

¹¹⁶ Felix Hüfner. "The German Banking System: Lessons from the Financial Crisis." OECD Economics Department Working Papers No. 788, OECD Publishing, Paris, July 2010. <https://doi.org/10.1787/5kmbm80pjkd6-en>. p.7

¹¹⁷ DZ Bank Corporate Presentation 2020, https://www.dzbank.de/content/dzbank_com/en/home/DZ_BANK/investor_relations.html, Accessed 29 April 2020.

¹¹⁸ Volkswagen AG Shareholder Structure, <https://www.volkswagenag.com/en/InvestorRelations/shares/shareholder-structure.html> Accessed April 29, 2020.

¹¹⁹ Deutsche Telekom Shareholder Structure, <https://www.telekom.com/en/investor-relations/company/shareholder-structure> Accessed April 29, 2020.

¹²⁰ Deutsche Post Shareholder Structure, <https://www.dpdhl.com/en/investors/shares/shareholder-structure.html> Accessed 30 April 2020.

Foundation, whose primary purpose is to fund the transition from coal mining, who also owns 58.9% of the shares of Evonik, a large chemical company.¹²¹ In the energy sector, RWE has minority shares owned by the City of Essen and the City of Dortmund,¹²² while EnBW is owned by the state of Baden-Württemberg, these two companies are part of the big four energy companies in Germany.¹²³

Further on, as per a working paper by Christina Schaeffer and Stephanie Warm, public sector turnover has been steadily increasing since 2003.¹²⁴ According to the same paper, similarly rising was the number of public funds, utilities, and enterprises through 1999 to 2011.¹²⁵ The rise is further interesting as the authors too note the privatizations that took place in Germany, specifically the full privatization of Lufthansa, public offering of limited shares of Deutsche Telekom and Deutsche Post.¹²⁶ Although these privatizations appear to not have put a dent to the rise in the number of public entities and their turnovers.

State participation in this way obviously goes against ordoliberal views on how the economy should be. State owned firms and banks exert pressure on private firms, a state backed corporation can afford losses that private firms can not. This results in the state affecting free competition and market forces, and “damaging efficiency”, this of course is incompatible with ordoliberal ideology. But there are other forms of state participation in the economy besides publicly owned firms, such as subsidies, guarantees, and recently more importantly, the bank bailouts as a result of the 2008 Financial Crisis.

¹²¹ “Germany’s RAG Maps Out Steps for Cutting Evonik Stake”, *Reuters*, June 4, 2014.

<https://www.reuters.com/article/rag-evonik-industrie/update-1-germanys-rag-maps-out-steps-for-cutting-evonik-stake-idUSL6N0OL22420140604>; Evonik Shareholder Structure, <https://corporate.evonik.com/en/investor-relations/share/shareholder-structure>,

¹²² RWE Shareholder Structure, <https://www.group.rwe/en/investor-relations/the-rwe-share/shareholder-structure>, Accessed May 10, 2020.

¹²³ EnBW Shareholder Structure, <https://www.enbw.com/company/investors/share/shareholder-structure.html> Accessed May 10, 2020; EnBW, “The federal state of Baden-Württemberg acquires 45.01% of EnBW shares via its wholly owned entity Neckarpri GmbH”. February 18, 2011 <https://www.enbw.com/company/investors/news-and-publications/the-federal-state-of-baden-wuerttemberg-acquires-45-01-of-enbw-sh.html>.

¹²⁴ Christina Schaeffer and Stephanie Warm. “Major Public Enterprises in Germany”, CIRIEC Working Papers No. 1510, CIRIEC, Liege, September 2015. p. 9

¹²⁵ *Ibid.* p. 8-9.

¹²⁶ *Ibid.* p. 11.

As a result of the 2008 Financial Crisis, bailouts were doled out across the western world to save banks. However more virtuous and “ordered” German neoliberalism was from the Anglo-Saxon version, it could not stand idly by as German banks could be creatively destroyed. The bailouts Germany (and other crisis countries) gave to their banks were highly contradictory. First, it was what both neoliberals and ordoliberals, at least in their theoretical writings, were against, government intervention in the economy, and the government intervened to pick winners and losers (especially in the case of the United States) in what should have been a free competition environment through bailouts. Second, it went against the budgetary measures (austerity) that have been defined as necessary, budget deficits were inflationary, as such, they had to be cut, especially government spending on social welfare policies. Yet when bailing banks out, these inflationary concerns were not paid heed to, as many governments (especially the crisis countries of the GIPS, but also Germany) swelled their budgets to pay for these bailouts. Third, is the destruction of the idea of “full liability”, which is an important aspect of ordoliberal (and capitalist) arguments, as one’s financial prosperity is the responsibility of one’s own self. Instead, those who took risks they could not afford were bailed out, inefficiencies and failures were rewarded.

While Germany was punitive towards the crisis countries, its own banks and financial institutions were not punished but helped, such as Commerzbank, a private bank which received an 18 billion euro bailout.¹²⁷ Maria Gerhardt reports that German liability guarantees, and liquidity measures were at the scale of 339 billion euros and asset side interventions totaled 144 billion euros across 2008 and 2014.¹²⁸ In the same report, the three most countries to have bailed out the most banks are reported to be Spain, Great Britain, and Germany.¹²⁹ Stiglitz and Varoufakis on the other hand note that the Greek bailouts were primarily given to prevent the failure of French and German banks who would be exposed to a potential Greek debt default, making the Greek bailouts more of a bailout for French

¹²⁷ Christopher Cermak, “Commerzbank Six Years and 18 Billion Later Scales Back in London”, Handelsblatt, August 22, 2014. <https://www.handelsblatt.com/today/finance/fade-out-commerzbank-six-years-and-18-billion-later-scales-back-in-london/23613596.html?ticket=ST-10213237-Rp3s4yXwJ91717TUklQm-ap5>.

¹²⁸ Maria Gerhardt and Rudi Vander Vannet. “Bank Bailouts in Europe and Bank Performance”, SSRN Scholarly Paper. Rochester, NY; Social Science Research Network, October 20, 2016. <https://doi.org/10.2139/ssrn.2895936>. p. 7.

¹²⁹ Ibid, p. 37. Figure 2.

and German banks than a bailout to save Greece.¹³⁰ In a more recent 2015 article, Reuters reports that the exposure of German banks to Greek debt to be at 23.5 billion euros.¹³¹ While in an earlier 2010 Wall Street Journal article, the French and Greek banking sectors combined exposure to Greek debt is cited to be 119 billion dollars.¹³² In the same report, the nationalization of German Hypo Real Estate is mentioned due to its significant exposure to Greek debt.¹³³ Showing that concern about “moral hazard” which Germany cited as central to its approach to the wider European debt crisis and especially Greece, did not apply to its own banks and financial institutions, where banks received whatever support they needed through two systems put forward by the German state.

According to Hüfner, German bailouts during the Financial Crisis amounted to 24% of German GDP.¹³⁴ One bailout institution was the Financial Market Stabilization Fund (SOFFIN), a 480 billion euro fund that guaranteed banks and facilitated recapitalization, as per Hüfner’s paper, 127.7 billion euros of guarantees and 21.9 billion euros in recapitalization efforts were provided through SOFFIN until October 2009, prior to SOFFIN, four banks received capital injections and guarantees (three Landesbanken, WestLB, SachsenLB, BayernLB, and IKB).¹³⁵ Although the system at least put partial responsibility on banks and their higher ups, through putting limits on the salaries of banks board members.¹³⁶ A second system was to set up “bad banks” to transfer bad assets still held by banks, in this system, the losses of bad banks still have to be paid out by the participating banks, making the system put liability on shareholders, but because the system is voluntary, only two institutions were considering participating in the bad bank system, WestLB and Hypo Real Estate, at the time of Hüfner’s writings.¹³⁷ Hypo Real Estate, as mentioned before

¹³⁰ Yannis Varoufakis, *And the Weak Suffer What They Must? Europe, Austerity and the Threat to Global Stability*. (London: Vintage, 2017) p. 158; Joseph Stiglitz. *The Euro: And its Threat to the Future of Europe*. (London: Penguin Books, 2017) p. 202-203.

¹³¹ “German Bank Exposure to Greece Around 28 Billion: Banks”, January 6, 2015.

<https://www.reuters.com/article/us-eurozone-greece-exposure/german-bank-exposure-to-greece-around-28-billion-banks-idUSKBN0KE16H20150106>.

¹³² Stephen Fidler, “German Exporters Debt to Greece”, *Wall Street Journal*, June 13, 2011.

<https://blogs.wsj.com/brussels/2011/06/13/german-exporters-debt-to-greece/>.

¹³³ Ibid.

¹³⁴ Hüfner, p. 5.

¹³⁵ Ibid. p. 5 and 11.

¹³⁶ Ibid. p. 5.

¹³⁷ Ibid, p. 6-7.

was nationalized, WestLB, the largest Landesbanken at the time, was the only bank to participate in the system, before it was downsized and went through a restructuring.¹³⁸

Due to these responses to the financial crisis, German public debt to GDP rose from around 64% in 2007 to 82% in 2010 (coming back down to convergence criteria compliant levels finally in 2019 at 59%).¹³⁹ While this number is still lower than that of countries such as the GIPS, the UK, France, and Italy, it is still above that of the “fiscal responsibility” limits set by the convergence criteria. And although this increase in borrowing did not lead to high levels of inflation, preventing debt driven government spending is one of ordoliberalisms important points, but bailouts also brought out concerns over full liability, government intervention and nationalizations, and “free, competitive” markets. Whereas bailouts on the international level were accompanied by calling out the “profligacy” of governments and punitive austerity, nationally, Germany was not as punitive of the risky investments of German banks. In this vein, Stiglitz touches on an important subject, irresponsible lending was as much a problem as irresponsible borrowing, yet German populace and German officials saw it better fit to punish the borrowers rather the lenders,¹⁴⁰ although the lenders being German banks is likely to have affected the German approach in this case.

2.2. Monopolies, oligopolies, mergers and acquisitions

Ordoliberals consider monopolies, oligopolies, and cartels to be disruptive to the proper functioning of markets. Here, monopolies and oligopolies that exist in the German economy will be looked at, as the existence of such goes against ordoliberal values of anti-trust behavior. While both Germany and the European Union pride themselves in their competition and anti-trust laws, there have been an increasing number of mergers and acquisitions across Europe, total number of mergers and acquisitions actually surpassing the

¹³⁸ Matthias Inverardi, “Germany Waves Goodbye to WestLB as Bank Broken Up”, 1 July 2012. <https://www.reuters.com/article/westlb-breakup/germany-waves-goodbye-to-westlb-as-bank-broken-up-idUSL6E8I15SR20120701>

¹³⁹ IMF Data Mapper, Gross debt position, % of GDP. https://www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/ADVEC/FM_EMG/FM_LIDC

¹⁴⁰ Stiglitz, p. 112.

United States in 2007.¹⁴¹ Also noteworthy is that Germany, France, and the United Kingdom accounted for 67% of completed deals through 2001 to 2007.¹⁴² German economic strength is also attributed to its strong oligopolistic corporations.¹⁴³ This situation is again questionable by ordoliberal standards, monopolies and oligopolies pose a great danger to the proper functioning of the markets according to ordoliberals, the existence of monopolies and oligopolies in Germany contradict its ordoliberalism.

Noteworthy here is the state-owned railway operator Deutsche Bahn, which is a near monopoly. As per the Bundesnetzagentur (Federal Network Agency) 2019 report, in the rail freight segment, Deutsche Bahn's market share is 49%, which shows competition, yet in the short range passenger segment, Deutsche Bahn's market share rises to 74%, and in the long-range passenger segment, its share of the market is 99%.¹⁴⁴ And while there is competition in the freight segment, the state owned Deutsche Bahn holds the largest share, indeed, it holds the largest share of passengers carried by kilometer, and tons carried by kilometer in Germany.¹⁴⁵

Similar is the partially state-owned Deutsche Telekom, which is the largest telecommunications company in Germany, and also similarly mired in discussions of monopoly.¹⁴⁶ A Moody's report available on Deutsche Telekom's website shows the subscriber market shares of Deutsche Telekom and its competitors.¹⁴⁷ With 40% subscriber share in broadband and 32% in mobile, it holds the largest share, its main competitor is Vodafone, who holds 20% and 21% respectively. A third, competitor in mobile is Telefonica

¹⁴¹ Caterina Moschier and Jose Manuel Campa. "The European M&A Industry: A Market in the Process of Construction", *Academy of Management Perspectives* 23, no. 4 (2009): 71-87. Accessed May 20, 2020. www.jstor.org/stable/27747543. p. 71.

¹⁴² Ibid, p. 76.

¹⁴³ Ricardo Bellofiore, Francesco Garibaldi, and Joseph Halevi. "The Global Crisis and the Crisis of European Neomercantilism", *Socialist Register*, vol. 47 (2011) p. 131 and 136; Bill Lucarelli, "German Neomercantilism and the European Sovereign Debt Crisis", *Journal of Post Keynesian Economics* 34, no. 2 (2011): 205-24. Accessed April 27, 2020. www.jstor.org/stable/23119502. p. 219.

¹⁴⁴ Bundesnetzagentur, Railway Market Analysis, 2019. <https://www.bundesnetzagentur.de/EN/Areas/Rail/Companies/Publications/MarketAnalysis/MarketAnalysis-node.html> Accessed May 4, 2020 p. 24

¹⁴⁵ Ibid., p. 25.

¹⁴⁶ "EU Calls on Deutsche Telekom to Open up Broadband Market" *Deutsche Welles*, August 21, 2006. <https://www.dw.com/en/eu-calls-on-deutsche-telekom-to-open-up-broadband-market/a-2142329>

¹⁴⁷ Moody's Credit Opinion, Deutsche Telekom AG, February 18. <https://www.telekom.com/resource/blob/310518/56b8d598bdc3c4474e3d2b08f61889f9/dl-studiemoody-data.pdf> Accessed, May 5, 2020.

Deutschland (also known as O2), holding 31%, and a minor 6% in the broadband market. Giving these three companies 66% of the broadband market and 84% of the mobile market. Showing significant ownership of the telecommunications market by a few companies.

For the automotive sector, there is the case of Porsche acquisition/take-over of Volkswagen, which shows both a case of state participation and then “market consolidation” (thus “not anti-competitive”), where the German state, which had (and has) a significant share of Volkswagen (20%), had special laws that prevented hostile takeovers of Volkswagen, which the European Commission took Germany to court for its “Volkswagen Law”, which gave the state a right of veto.¹⁴⁸ Ultimately, the case was resolved in the favor of Porsche, the take-over went through and the European Commission found the take-over to not be anti-competitive, yet the German state retained the right to block decisions.¹⁴⁹ Showcasing the worst of two worlds for ordoliberals, the state retained the right to intervene in the economy, and a merger went through which further gave market consolidation to a company.

A 2012 Deloitte report on the German energy sectors shows four main companies with 73% market share in energy generation, these being E.On, RWE, Vattenfall, and EnBW.¹⁵⁰ An occasion showcasing another contradiction happened in 2002, when Ruhrgas and E.On decided to merge. The deal which was blocked by German competition authorities was instead approved by the federal government, with the hope of creating national champions, while it would be expected for the European Union to enforce its anti-trust laws, Jens Südekum notes that the EU also feels it is in their interest to create “European champions”.¹⁵¹

¹⁴⁸ “EU will take Germany to court over ‘Volkswagen Law’.” *Deutsche Welles*, June 5, 2008. <https://p.dw.com/p/EDuD>; “European Commission approves Porsche’s takeover of VW” *Deutsche Welles*, July 23, 2008. <https://p.dw.com/p/EibQ>.

¹⁴⁹ “Mergers: Commission approves proposed acquisition of Volkswagen by Porsche.” European Commission, July 23, 2008. https://ec.europa.eu/commission/presscorner/detail/en/IP_08_1201; Stephanie Bodoni, “Germany Wins EU Court Battle Over VW Law, Escapes Fines.” *Bloomberg*, October 23, 2013. <https://www.bloomberg.com/news/articles/2013-10-22/germany-wins-eu-court-fight-over-vw-law-legality-escapes-fines>.

¹⁵⁰ Deloitte., “European Energy Market Reform, Country Profile: Germany”, 2015. <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/gx-er-market-reform-germany.pdf> Accessed May 10, 2020

¹⁵¹ Jens Südekum, “Cross-Border Mergers and National Champions in an Integrating Economy.” *Journal of Institutional and Theoretical Economics (JITE) / Zeitschrift Für Die Gesamte Staatswissenschaft* 164, no. 3 (2008). Accessed April 8, 2020. www.jstor.org/stable/40752714 p. 477-78; “Path Cleared for E.On, Ruhrgas Merger” *Deutsche Welles*, January 31, 2003. <https://p.dw.com/p/3Dy5>.

While this is an occasion from times past, more recent was the asset swap deal between E.On and RWE, which was also similarly mired in concerns over competition, yet the deal was allowed by both German, and EU authorities.¹⁵² On a final note, is the now abandoned merger talks between Deutsche Bank and Commerzbank, which was in the first place supported and welcomed as to create a national banking champion, and only failed due to reasons of feasibility and not concerns over competition.¹⁵³

German ordoliberal thought, from Erhard to Röpke was adamant that competition was necessary for the proper functioning of the markets, yet in practice, the creation of national champions seem to be preferable to practitioners of German ordoliberalism. As was mentioned in the first chapter, Henry M. Oliver noted Erhard's own lack of a strong stance against monopolies and oligopolies in the time he was the minister of finance.¹⁵⁴ Thus, from Erhard to now, it seems Germany has not been particularly focused on preventing large mergers and acquisitions, and in terms of preventing monopolies, progress has been slow, state participation as well as state owned monopolies and oligopolies exist, which is contrary to the prescriptions of ordoliberals. The creation of national champions has been promoted.

¹⁵² "E.On Set to Win EU Antitrust Permission for Innogy Deal", *Reuters*, July 12, 2019.

<https://www.reuters.com/article/us-innogy-m-a-e-on-eu/e-on-set-to-win-eu-antitrust-permission-for-innogy-deal-sources-idUSKCN1U71EH>

¹⁵³ "German Ambitions Evaporate as Deutsche Bank Merger Talks with Commerzbank Collapse", *Reuters*, April 25, 2019. <https://www.reuters.com/article/us-commerzbank-m-a-deutsche-bank/german-ambitions-evaporate-as-deutsche-bank-merger-talks-with-commerzbank-collapse-idUSKCN1S10ML>; "Deutsche-Commerzbank Talks on the Verge of Collapse", *France24*, April 25, 2019. <https://www.france24.com/en/20190425-deutsche-commerzbank-merger-talks-brink-collapse-reports>.

¹⁵⁴ Henry M. Oliver. "German Neoliberalism". *The Quarterly Journal of Economics*, vol 74. no. 1. (1960) www.jstor.org/stable/1884137. p. 142.

2.3. Current state of the German welfare state

Germans have advertised their ordoliberalism as a social market economy. As such, the situation of German social policies must be looked at, to determine whether the ordoliberal economy is deserving of the title of social market economy. As was mentioned in chapter one, German pursuit of competitiveness has manifested as labor flexibility. The Hartz Reforms especially sought to cut back social spending and to liberalize German labor markets, and the likely influence of ordoliberal thinking guiding these reforms is noted by Paul Teague and Denise Currie.¹⁵⁵ Teague and Currie also consider the liberalization of German labor markets to be an ongoing progress for the last twenty years.¹⁵⁶

Lapavitsas (et al.) and Varoufakis accuses Germany of begging its neighbors and European partners, but most important accusation is that Germany begs its own population to be able to beggar its neighbors.¹⁵⁷ This ties with the view that had Germany stopped its drive for wage moderation nationally, the debt crisis may not have been as severe or even averted.¹⁵⁸ In a 2007 IMF paper, Stephen Danninger and Fred Joutz also note the ongoing process of wage moderation and search for competitive gains through lower costs, they note a decrease in wage costs per unit of output through 1995 to 2000's despite an appreciating currency.¹⁵⁹ The cause of this cost decrease is noted as muted wage growth, and a decline in hourly wage growth through the same period.¹⁶⁰ German unit labor costs are also shown to have been lower than the Euro area average through 2003 to 2005, per OECD data, German unit labor costs started being higher than the Euro area average only after 2012.¹⁶¹

¹⁵⁵ Denise Currie and Paul Teague. "The Eurozone Crisis, German Hegemony and Labour Market Reform in the GIPS Countries", *Industrial Relations Journal*. 48:2. 2017. DOI:10.1111/irj.12173. p. 159-161.

¹⁵⁶ Ibid, p. 161.

¹⁵⁷ Costas Lapavitsas, et al. "Eurozone Crisis, Beggar Thyself and Thy Neighbour" *Journal of Balkan and Near Eastern Studies* 12, no. 4 (December 2010) DOI:10.1080/19448953.2010.510012 p. 342; Varoufakis, p. 5 and 156-57.

¹⁵⁸ Bellofiore, p. 134; Currie and Teague, p. 159; Stiglitz, p. 19.

¹⁵⁹ Stephan Danninger and Fred Joutz, "What Explains Germany's Rebounding Export Share?", IMF Working Paper No. 07/24, IMF February 2007, Accessed May 19, 2020. <https://www.imf.org/external/pubs/ft/wp/2007/wp0724.pdf>.

¹⁶⁰ Ibid, p. 5.

¹⁶¹ Danninger and Joutz, p. 28; OECD Unit Labour Costs Data, <https://data.oecd.org/lprdy/unit-labour-costs.htm> Accessed May 18, 2020.

Stiglitz notes the growing inequality and poverty rates in Germany to argue that Germany is not the success its portrayed as, a 2008 OECD report and OECD data covering the period of 2008 and 2017 prove his point by showing that poverty rates in Germany have been steadily increasing, especially noteworthy is that poverty rates of Germany which were similar to those of France in 2012 is now closer to the poverty rates of Portugal, one of the crisis countries.¹⁶² Another indicator of a retrenchment of the “social” compared to the “market” in Germany is the fall of incomes of the bottom earners, and the rise of low-paying jobs across Germany.¹⁶³ Important in this rise of inequality was the absence of a minimum wage, which put a downward pressure on wages, although Germany introduced minimum wages finally in 2015.¹⁶⁴

Also noteworthy is the decline in labors share of income, which shows a higher rise of labor productivity than labor’s compensation, reports and working papers prepared for G20 and OECD, shows a fall in labors share of income in Germany through 1970 to 2014.¹⁶⁵ Finally, A 2017 Bruegel paper showcases the divergence of unit labor cost based real effective exchange rates between France, Germany, and Italy, where German real exchange rates are considerably lower than those of France and Italy.¹⁶⁶ They also further note the reduction of union power in Germany and the amount of laborers covered by collective bargaining especially compared to France and Italy.¹⁶⁷

¹⁶² Stiglitz, p. 79; OECD Poverty Rate Data on Germany, <https://data.oecd.org/inequality/poverty-rate.htm> Accessed 17 May 2020; “Growing Unequal?: Income Distribution and Poverty in OECD Countries, Country Note: Germany”, 2008, Accessed May 18, 2020. <http://www.oecd.org/germany/41525346.pdf>.

¹⁶³ Stiglitz, p. 254 and 418.

¹⁶⁴ Stiglitz, p. 254; Germany to Raise Minimum Wage to 935 Euros in 2020, *Reuters*, June 26, 2016. <https://www.reuters.com/article/us-germany-economy-wages/germany-to-raise-minimum-wage-to-935-euros-in-2020-idUSKBN1JM1AS>.

¹⁶⁵ “The Labour Share in G20 Economies”, International Labour Organization and Organization for Economic Co-operation and Development, report for G20 Employment Working Group, Antalya, Turkey, 26-27 February 2015, Accessed May 18, 2020. <https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>; Cyrille Schwelnus, et al. “Labour Share Developments Over the Past Two Decades: The Role of Technological Progress, Globalisation, and “Winner Takes Most” Dynamics.” OECD Economics Department Working Papers, No. 1503, OECD Publishing, Paris <https://doi.org/10.1787/3eb9f9ed-en> Accessed May 18, 2020.

¹⁶⁶ Bennet Berger and Guntram Wolff, “The Global Decline in the Labour Income Share: Is Capital the Answer to Germany’s Current Account Surplus?”, Bruegel Policy Contributions, no. 12, (2017). p. 2. Accessed May 17, 2020. <https://www.bruegel.org/wp-content/uploads/2017/04/PC-12-2017-1.pdf>.

¹⁶⁷ Ibid, p. 11-12.

Sabina Stiller also notes that this pursuit of lower labor costs have translated to cost containment measures in healthcare policies, the pensions system, and a cut-back in unemployment benefits.¹⁶⁸ The process is regarded to have been ongoing since the 2000's, starting with aforementioned Hartz reforms.¹⁶⁹ An increase of the retirement age from 65 to 67 is also oncoming.¹⁷⁰ As Germany can not achieve cost competitiveness through currency devaluations due to the euro, it had to lower labor costs to support its export economy, which meant cut backs in social spending.

A reduction of the “social” aspects of Germany’s social market economy is apparent. Due to these developments Lapavitsas’ accusations seem to hold, indeed, Joseph Stiglitz also makes the same accusations, that Germany beggars its own to keep its large trade surplus going, which in turn beggars her neighbors.¹⁷¹ That said, Germany still has comparatively high social spending levels compared with the European Union itself and the OECD, although German social spending is still lower than those of France and Italy, which are countries more to the scale of Germany.¹⁷² While German social spending may be higher than the European Union average, its wage moderation and social spending cutbacks (for the purposes of price competition) are documented. German wage moderation, and social benefit cutbacks are a result of both ordoliberal inflation prescriptions, as well as historic German experiences with inflation. Thus, these “attacks” on the “social” part of the social market economy come from German inflation stance, and the “need” to maintain price stability.

¹⁶⁸ Sabina Stiller, "A Bird's-Eye View of the German Welfare State." In *Ideational Leadership in German Welfare State Reform: How Politicians and Policy Ideas Transform Resilient Institutions*. (Amsterdam: Amsterdam University Press, 2010). Accessed May 12, 2020. doi:10.2307/j.ctt46n2hk.6. p. 70-74.

¹⁶⁹ Stiller, p. 67-9.

¹⁷⁰ “Merkel’s SPD Rivals Make Election Pledge to Keep Pensions Stable.” *Reuters*, June 7, 2017. <https://www.reuters.com/article/us-germany-election-spd/merkels-spd-rivals-make-election-pledge-to-keep-pensions-stable-idUSKBN18Y24T>

¹⁷¹ Lapavitsas, p. 342.

¹⁷² OECD, Social Spending Data % of GDP, Period of 2015-2018. <https://data.oecd.org/social-exp/social-spending.htm> Accessed May 22, 2020.

2.4. Germany and its stance on inflation

Germany, out of all ordoliberal prescriptions, adheres most fully to preventing inflation. German anti-inflation stance is considered to stem from the “Great Inflation” during the Weimar Republic, when Germany faced hyperinflation.¹⁷³ Resultant of the “Great Inflation” was German “fiscal responsibility”, and there on out Germany and its central bank, the Bundesbank sought out price stability.¹⁷⁴ The German Bundesbank itself mentions that they have “learnt from history” (of inflation and hyperinflation) and that the lesson learned is that of maintaining price stability, and that price stability must be maintained through a yearly inflation rate of 2%.¹⁷⁵ This view has also shaped the European Central Bank’s tasks, as it too is tasked with maintaining price stability. Germany (the Bundesbank) has been successful in maintaining price stability, with inflation around barely going above 2% once in the last twenty years.¹⁷⁶

While Germany does fully adhere to the ordoliberal prescriptions of price stability, adherence to this price stability itself creates contradictions with the German “social” market economy. Adherence to price stability has meant that Germany and its central bank are not occupied with ensuring full employment, which has resulted in an above OECD average unemployment through the years of 2000-2008, and German unemployment reached 5% only in 2014.¹⁷⁷ Although admittedly, unemployment has been on a downward trend since 2005, going down from a high of 11.3%.

¹⁷³ Richard Tilly. “German Economic History and Cliometrics: A Selective Survey of Recent Tendencies.” *European Review of Economic History* 5, no. 2 (2001), www.jstor.org/stable/41377894. p. 169.

¹⁷⁴ Tilly, p. 169-70; Ludwig Erhard. *Prosperity Through Competition*, translated by Edith Temple Roberts and John B. Wood (New York: Frederick A. Praeger, 1950) p. XI.

¹⁷⁵ Bundesbank. “Inflation - lessons learnt from history”. Accessed July 30, 2020. <https://www.bundesbank.de/en/tasks/topics/inflation-lessons-learnt-from-history-666006>

¹⁷⁶ OECD Data on Inflation, Accessed July 30, 2020. <https://data.oecd.org/price/inflation-cpi.htm>

¹⁷⁷ OECD, Unemployment rate, years 2000-2019. Accessed July 30, 2020. <https://data.oecd.org/unemp/unemployment-rate.htm>

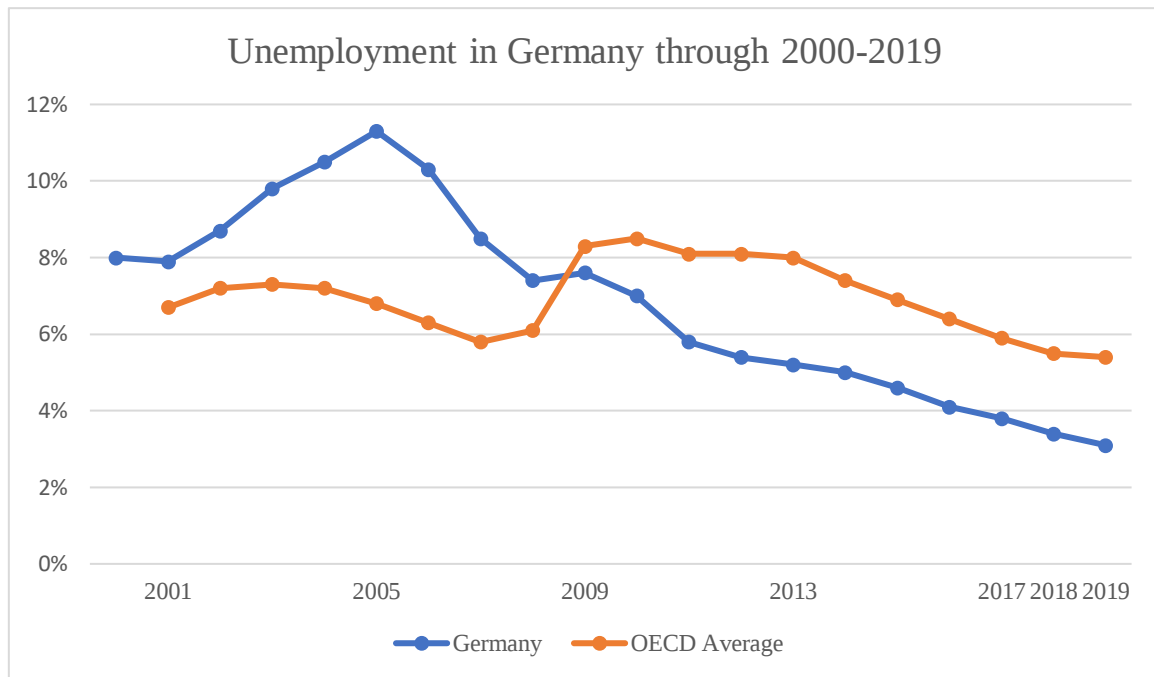


Figure 1: Unemployment in Germany and OECD Average. Accessed August 30, 2020. <https://data.oecd.org/unemp/unemployment-rate.htm>

Although the downward trend itself can similarly be explained by measures that contradict the social market economy, such as the labor market reforms that came in the 1990's and further, with the Hartz reforms between 2003 and 2005.¹⁷⁸ The Hartz reforms intended to “incentivize people to work” through cutting social benefits.¹⁷⁹ Cutbacks in social benefits does of course, as was mentioned, put a dent into the “social” of the German social market economy. The reforms targeted unemployment benefits but also to some extent worked to facilitate “labor flexibility”.¹⁸⁰ Such as the “marginal employment” or the “mini-jobs” that was created, which pays less than 450€ a month (employers do not pay taxes on salaries below 450€), as per Deutsche Welles, in 2018, one in five (20%) Germans worked in such “mini-jobs”.¹⁸¹ The Hartz reforms came in different stages, and they also targeted

¹⁷⁸ Ulf Rinne and Klaus F. Zimmermann. “Is Germany the North Star of Labor Market Policy?.” *IMF Economic Review* 61, no. 4. (2013). <https://doi.org/10.1057/imfer.2013.21> p. 6.

¹⁷⁹ Ibid, p. 706.

¹⁸⁰ Ibid, p. 706-07.

¹⁸¹ Tom Krebs and Martin Scheffel. “Macroeconomic Evaluation of Labor Market Reform in Germany.” *IMF Economic Review* 61, no. 4 (2013). Accessed July 31, 2020. www.jstor.org/stable/43297807. p. 672; Rinne, p. 710; Elizabeth Schumacher. “One in five working Germans is marginally employed.” *Deutsche Welles*, November 3, 2018. <https://p.dw.com/p/37cKH>.

(on top of the benefit cutbacks) employment protection, by relaxing regulations on temporary work agencies, and fixed-term contracts as well as simplifying job dismissals.¹⁸² Further noted is that these reforms have resulted in a widening wage inequality.¹⁸³ The aforementioned lack of a minimum wage in Germany until 2015 is also a part of such measures.

German inflationary stance thus, while it adheres to ordoliberal prescriptions of price stability and comforts the German fears of hyperinflation, it in turn contradicts with the labels of social market economy. The measures of lower labor costs, lower spending on benefits, social safety nets, and the welfare state itself are all in pursuit of price stability, lower inflation means German goods have stable prices, and in turn the aim here is to boost German exports. Germany in pursuit of its export performance thus is likely to do away with the “social” of its social market economy. As such, next will be a discussion on Germany as an export-mercantilist country.

2.5. Germany as an export-mercantilist country

Liberalism was born in opposition to mercantilism, they are polar opposites. Yet Germany, some of its European partners, and the European Union itself has been labeled as export-mercantilist.¹⁸⁴ As was shown in previous chapters, Germany deems itself an ordoliberal economy, liberalizes its labor markets, and looks to compete globally, partakes in global markets and finance and would generally be regarded as a liberal economy. Germany also wants other countries to liberalize, as was apparent in the clauses of the bailouts “offered” to the crisis countries. Germany is also an ardent defender of policies of austerity, which cuts government spending and the governments participation in the economy. So how can the export-mercantilist label stick? First and foremost is of course the classical mercantilist want for a favorable balance of trade, meaning a trade surplus.¹⁸⁵

¹⁸² Krebs, p. 671-73; Rinne, p. 703 and 707.

¹⁸³ Rinne, p. 711.

¹⁸⁴ Bellofiore, p. 120-22; Lucarelli, p. 217-18.

¹⁸⁵ David N. Balaam and Bradford Dillman. *Introduction to International Political Economy*. (New York: Routledge, 2015) p. 50; Daniel W. Drezner. “Mercantilist and Realist Perspectives in International Political

Germany has been chasing trade surpluses for some time, and has been running a constant trade surplus since 2002, running a surplus above 200 billion dollars nearly every year since 2007 (except for two years, 2009 and 2010 where they were just below 200 billion dollars), the zenith (so far) was in 2016, where Germany achieved a surplus of 295 billion dollars.¹⁸⁶ German pursuit of trade surpluses is reminiscent of classical mercantilist thinking where states were advised to protect national industries, lower imports, and to increase exports to accumulate bullion.¹⁸⁷

Mercantilism though is not just the pursuit of exports; mercantilism pursues wealth to augment the power of the state. A mercantilist state wants a favorable balance of trade, and to achieve that intervenes in the economy, especially preferred are interventions that boost the states standing in international trade.¹⁸⁸ It would aim to create national champions capable of competing in international markets and then protect them. A mercantilist state would also enact policies that lower imports and increases exports, such as duties and tariffs, and more commonly these days, non-tariff barriers.¹⁸⁹ As such, a liberal mercantilist would be an oxymoron, liberals want less state in the economy, mercantilists want more. In this chapter, ordoliberal Germany's mercantilism will be shown.

First of all, it must be reminded that some of the occasions priorly mentioned in this thesis also qualify as mercantilist actions. An important case that supports the argument of Germany as a mercantilist country is its internal devaluations. The cutbacks in social spending, the lack of a minimum wage (until 2015), and reduction in unemployment benefits have been implemented to stem the growth of wages, more importantly, wages in Germany has not increased as much as productivity did, these choices came as a result of German desire to boost exports.¹⁹⁰ Bill Lucarelli, like others, points out that the persistency of German exports is based on persistent German success in “moderating” wage growth.¹⁹¹ Not

Economy”. *Oxford Research Encyclopedia, International Studies*. Oxford University Press, 2019. DOI:10.1093/acrefore/9780190846626.013.260 p. 3.

¹⁸⁶ Germany, Current Account Balance, period of 1992-2018, Data from OECD. <https://data.oecd.org/trade/current-account-balance.htm> Accessed 17 May 2020.

¹⁸⁷ Drezner, p. 3.

¹⁸⁸ Balaam, p. 50-51; Drezner, p. 4

¹⁸⁹ Balaam, p. 56-60; Drezner, p. 6-8.

¹⁹⁰ Lapavistas, p. 322 and 339-40.

¹⁹¹ Bellofiore, p. 134; Lapavistas, p. 333; Lucarelli, p. 219, Stiglitz, p. 19.

minding the direct imposition of austerity on the periphery during the bailouts process, this moderation of wage growth itself results in a downward pressure on wages across the countries of Europe, to be able to compete with Germany, hence Lapavitsas' accusation that Germany beggars its neighbors (and its own).¹⁹² Stiglitz and Lucarelli in a similar vein, accuses Germany of having started a race to the bottom across the European Union.¹⁹³ Further on, if a nation has a surplus, another has to have a deficit, and considering that the largest trading partner of Germany is the European Union itself, Germany is deemed to have played a role in the persistent deficits of the periphery countries such as Greece, Portugal, Spain.¹⁹⁴ It is not only the crisis countries that are running deficits, France has been running a deficit since 2007, with Belgium also intermittently running a deficit. Italy also had been running a deficit from the adoption of the euro until 2012, after which it started running a surplus.¹⁹⁵ Important to note that this minor Italian surplus of 1-3% between the years of 2013 and 2019 does not imply a recovered and healthy economy.

It is not Germany's fault that its products are in-demand, but Germany is at fault for its pursuit of wage moderation. This moderation combined with the monetary union, has lessened export competition from other European nations and finally to deficits for some countries (the crisis countries as well as France and Italy at times).¹⁹⁶ Germany also has more room to maneuver, as it is at the moment running both a budget and trade surplus, thus it can afford to spend. Similarly, Germany, as it already is far more prosperous than the periphery, can afford cutbacks in social spending that the periphery cannot. Again, a common thought was that had Germany stopped its wage moderation policies, the European debt crisis could have been averted or its extent made smaller.¹⁹⁷ As it stands, German surpluses are used to distribute credit and foreign direct investment to the periphery, serving to further augment the German states power, as it cements Germany as a creditor and the periphery as debtors, increasing dependence on German capital and goods.¹⁹⁸

¹⁹² Lapavitsas, p. 342.

¹⁹³ Stiglitz, p. 260-61; Lucarelli, p. 221.

¹⁹⁴ Stiglitz, p. 118-19.

¹⁹⁵ IMF World Economic Outlook, Current Account Balance as % of GDP, Data Mapper, April 2020. https://www.imf.org/external/datamapper/BCA_NGDPD@WEO/OEMDC/ADVEC/WEOWORLD

Accessed May 20, 2020.

¹⁹⁶ Bellofiore, p. 137-39.

¹⁹⁷ Stiglitz, p. 19.

¹⁹⁸ Lapavitsas, p. 342-45.

While this thesis is mostly concerned with the near past and especially German situation just prior to and after the European debt crisis, Bellofiore rightly mentions that the trend of German mercantilism is not recent, it has been ongoing since the end of the Second World War, and the monetary developments concerning Europe have mostly served German mercantilism, one development was the European Monetary System (EMS) established in 1979, which put forth an exchange rate mechanism (ERM, it created a “limiting band” for the currencies of the European Economic Community, more or less pegging them with each other), preventing some degree of competitive devaluations to which German exports were at risk to, as the Deutsche Mark was valued highly.¹⁹⁹ Although member states did accede to the setting up of these systems, it should be noted that it was primarily Germans pushing for this system, with support from the Netherlands, Belgium, and France.²⁰⁰ That still does not change the fact that this system led to Italy’s reduced and Germany’s increased export competitiveness, and what is most noteworthy is that when the German economy went through a crisis after the German reunification, the Deutsche Bundesbank moved away from the EMS to protect the German economy, and a wave of European devaluations and revaluations of currencies followed.²⁰¹

While Greece was chastised for “cooking the books” and not obeying the rules of European economic governance, Germany has not complied with the debt to GDP criteria set by the European Monetary Union either, with German debt to GDP higher than %60 through 1999 to 2018, complying with the criteria finally in 2019 at 59.8%.²⁰² Bellofiore also notes German break from the fiscal responsibility clause of the Stability and Growth Pact by running a budget deficit above 3% after 2001.²⁰³ Germany ran on a budget deficit above 3% until 2006, and then twice during 2009 and 2010.²⁰⁴ Showing that Germany does not shy from breaking the rules of governance it took part in setting. The overarching aim of

¹⁹⁹ Bellofiore, p. 127-29.

²⁰⁰ Bellofiore, p. 128; John Gillingham, *European Integration, 1950-200: Superstate or New Market Economy*. (Cambridge: Cambridge University Press, 2003). p. 142.

²⁰¹ Bellofiore, p. 129; Gillingham, p. 290-92.

²⁰² OECD, Debt to GDP. <https://data.oecd.org/gga/general-government-debt.htm> Accessed May 20, 2020.

²⁰³ Bellofiore, p. 139.

²⁰⁴ OECD, General Government Deficit, Data of 1995-2019. <https://data.oecd.org/gga/general-government-deficit.htm> Accessed May 22, 2020.

Germany is to preserve its trade surplus, and its economic practice follows that aim primarily.

Another priorly mentioned neo-mercantilist tendency of Germany is the creation and support of national champions, so that they may compete internationally. As was mentioned, Germany specifically sought out the mergers of E.On and Ruhrgas, Commerzbank and Deutsche Bank, and the swap deal between E.On and RWE, in the hopes of creating national champions. Deutsche Telekom, and Deutsche Post, are two federally owned national champions, which operate and compete internationally, and Deutsche Bahn, which does operate rail transport across Europe. Volkswagen also has done a great job in “consolidating” themselves in the automotive industry, acquiring the German commercial vehicle producer MAN, and German luxury vehicle makes Porsche (the deal between Porsche and Volkswagen is far more detailed), and Audi, Spanish and Czech “value” makes Seat and Skoda, British, French, and Italian luxury vehicle makes of Bentley, Bugatti, and Lamborghini, Swedish commercial vehicle producer Scania, and finally the Italian motorcycle producer Ducati.²⁰⁵ Volkswagen as a result has become the largest automaker in Europe.²⁰⁶ Data from the European Automobile Manufacturers Association (ACEA) showcase that Germany is by far the largest automotive producer in Europe.²⁰⁷ While it is also important to note that the car production in periphery countries mostly serve German, French, and Italian makes.²⁰⁸

One recent and controversial development was the emissions scandal involving Volkswagen, or, “Dieselgate”, named so by the media and the public, the controversy arose as it became known that the German national champion Volkswagen was found out to have

²⁰⁵ Volkswagen AG Brands, Accessed May 22, 2020. <https://www.volkswagenag.com/en/brands-and-models.html>

²⁰⁶ European Automobile Manufacturers Association (ACEA), Passenger Car Registrations Data, January 16, 2020. Accessed May 23, 2020. https://www.acea.be/uploads/press_releases_files/20200116_PRPC_1912_FINAL.pdf.

²⁰⁷ European Automobile Manufacturers Association (ACEA), EU Production Data, 2018. Accessed May 23, 2020. <https://www.acea.be/statistics/tag/category/eu-production>.

²⁰⁸ European Automobile Manufacturers Association (ACEA), Interactive Automotive Plant and Production Map, May 6, 2020. Accessed May 23, 2020. <https://www.acea.be/statistics/article/automobile-assembly-engine-production-plants-in-europe>

cheated on its emissions tests for its diesel engines.²⁰⁹ The most important thing to note in this controversy is the German (and European) response to the cheating of Volkswagen, whose main markets lie in Germany and Europe, which was nothing more than a slap on the wrist.²¹⁰ The main punishment for the anti-competitive and anti-consumer behavior of Volkswagen came from the United States, which is a comparatively smaller market for the automaker.²¹¹ Even though Volkswagen mostly fooled German and European consumers (and authorities), both the ordoliberal Germany with its strong state upholding fair competition and the European Union was not as punitive of the cheating of its regulations as the United States (although it is also debatable if the United States would've been as punitive had it been one of its own national makes, such as General Motors). Ultimately, the fines Volkswagen had to pay in the United States amounted to 26 billion dollars, compared to just a billion euro it had to pay in Germany.²¹² Similarly accused Daimler, maker of Mercedes-Benz cars, had to pay a minor fine of 870 million euros for cheating in emission tests.²¹³ Aside from the leniency Germany has shown towards its national champions Volkswagen and Daimler for breaking rules and regulations and fooling consumers, a further contradiction is found when you consider the German push towards green and renewable energy, and the miniscule fine Volkswagen and Daimler received for polluting Germany.

German protectionism was reaffirmed again when the Minister of Economic Affairs Peter Altmaier put forth the National Industry Strategy 2030 in February 2019, where it was reiterated that Germany follows the principles of a social market economy, and that the

²⁰⁹ Lukas Bay, "VW's Dieselgate Sparks Testing Debate", *Handelsblatt*, November 24, 2015.

<https://www.handelsblatt.com/today/companies/pollution-controls-vws-dieselgate-sparks-testing-debate/23507714.html>.

²¹⁰ "Dieselgate: Volkswagen in Talks for Financial Settlement with German Customers." *Deutsche Welles*, February 1, 2020. <https://www.dw.com/en/dieselgate-volkswagen-in-talks-for-financial-settlement-with-german-customers/a-51859415>.

²¹¹ "Volkswagen Passenger Cars Bring 2019 to a Successful Close", News on Volkswagen AG Website, January 13, 2020. <https://www.volkswagen-newsroom.com/en/press-releases/volkswagen-passenger-cars-brings-2019-to-a-successful-close-5720>; "Volkswagen AG Wins Further Market Shares", Article on Volkswagen AG Website, April 12, 2019. https://www.volkswagenag.com/en/news/2019/04/VW_Group_deliveries_Mar_19.html#.

²¹² Darrell Delamaide, "VW Gets 1 Billion Fine in Germany for Diesel Fraud", *Handelsblatt*, June 14, 2018. <https://www.handelsblatt.com/today/companies/dieselgate-vw-gets-1-billion-fine-in-germany-for-diesel-fraud/23582430.html>.

²¹³ "German Prosecutors Fine Daimler almost \$1 Billion for Breaking Diesel Rules", *Reuters*, September 24, 2019. <https://www.reuters.com/article/us-daimler-emissions-fine/german-prosecutors-fine-daimler-almost-1-billion-for-breaking-diesel-rules-idUSKBN1W91KW>.

German social market economy is the best economic model for all the world.²¹⁴ Although ordoliberals and Ludwig Erhard himself declared in their works that they were against a planned economy, state interventions, and also monopolies and cartels, the program notes that in “exceptional cases”, “activating, promoting, and protective” economic and industrial policies are justified.²¹⁵ The declared objectives of this strategy are to preserve and expand German economic strength. To achieve this, first and foremost the minister advises protection against foreign take-overs of German companies, and if necessary, the state buying out a stake in certain companies.²¹⁶ Further prescriptions are to revise German (and European) competition laws, so as to allow (or help) the creation of national champions.²¹⁷ Although the adherence to a market economy was repeatedly underlined in the strategy paper, the policy prescriptions imply that the state reserves the right to intervene in the economy if it determines its export performance will be damaged. Thus, the labels of export-mercantilism stick for Germany.

2.6. Concluding remarks

This chapter sought to show the divergence of Germany from ordoliberal theory in practice. Based on analysis of literature on ordoliberalism in the first chapter, German economic practice was looked at in the topics of state interventions (and participations), monopolies (cartels and other anti-competitive practices), the welfare state, German stance on inflation, and finally Germany as an export-mercantilist country.

On the topics of state participation interventions, we saw the Federal German state, as well as other German states participation in the economy, German state participation in the banking sector is significant, while the state participates and holds monopolies in for example the railway sector through Deutsche Bahn, and near monopolies in the delivery/logistics sector and in telecommunication sector through Deutsche Post (DHL) and

²¹⁴ Federal Ministry of Economic Affairs, “National Industry Strategy 2030.” Accessed May 26, 2020. https://www.bmwi.de/Redaktion/EN/Publikationen/Industry/national-industry-strategy-2030.pdf?__blob=publicationFile&v=9 p. 1.

²¹⁵ Ibid, p. 1-2.

²¹⁶ Ibid, p. 12.

²¹⁷ Ibid, p. 11-12 and 14.

(Deutsche) Telekom.²¹⁸ Also the federal state (and the German states) holds shares in large companies such as Volkswagen, and in the energy sector in companies such as EnBW, RWE, and the RAG Foundation, and Evonik, a chemicals company. Showing significant state participation in the economy. Interventions too took place in Germany, such as the wish for creating national champions that led to the merger of Ruhrgas and E.On. The nationalization of Hypo Real Estate and the bailout of WestLB also show German states intervention.

In terms of monopolies, and mergers and acquisitions the aforementioned Ruhrgas and E.On merger is one example of a merger sanctioned by the German state (while deemed anti-competitive by authorities), Volkswagen also “consolidated” through acquisitions of German Audi and Porsche. Monopolies and oligopolies in the railway and delivery sectors as well as the telecommunications were also noted. Creation of national champions was deemed to be important for international competitiveness of German exports. To preserve economic strength, German ordoliberalism thus sought strong corporations.

Also shown were the cutbacks in the German welfare state, and increasing labor market flexibility and liberalization. These mostly stemmed from the inflation fears of Germany (and ordoliberalism), for ordoliberals, price stability must be maintained for the healthy functioning of the markets and the economy. While Germany adheres to the price stability tenet of ordoliberalism, this in turn means Germany breaks from the “social” of its social market economy. High unemployment rates were “fixed” with “mini-jobs”, where employer does not pay for social protection, thus creating inequality, which combined with the cutbacks in social spending also resulted in increasing poverty rates in Germany. The Hartz reforms targeted both employment protection, social benefits, and aimed at labor flexibility. As such, the “socialness” of the German market economy is dubious, as the “social” part of the market economy was cut to allow for wage moderation and internal devaluation, which led to a further competitive German export market. German austerity, “fiscal responsibility”, and wage moderation in search of competitiveness and increasing exports has led to Germany being labeled an export-mercantilist country.

²¹⁸ Deutsche Post DHL Group, Corporate Divisions, Post & Parcel Germany. Accessed July 28, 2020. <https://www.dpdhl.com/en/about-us/corporate-divisions/post-parcel-germany.html>. (Market share data for DHL Group)

This too shows the contradictions of German economic practices, Germany, is an export-mercantilist country that labels its economic model as the “social market economy”, a label coming from ordoliberal thought (which is also a form neoliberalism). Thus the contradictions are visible, a social market economy where the social is cut in pursuit of surpluses and competitiveness, a market economy in which the state has a substantial role, an adherent of (ordo)liberalism, which is a part of wider neoliberalism, yet at the same time practices anti-competitive policies, participates in the economy far more than just setting the rules of governance, and promotes policies that would boost surpluses.

The next and final chapter looks at the appearance of these same contradictions at the EU level, as Germany has established itself as a leader of Europe by way of its economic strength. Looking at both German practice and the way EU policy has been shaped during German leadership of the EU (especially through the 2008 Financial Crisis), will help answer the question of whether Germany is a benevolent leader for Europe that does consider the needs of its European partners, or a leader that uses its position of strength to further its economic aims. Indeed, Alan Cafruny and Leila Simona Talani touch on this, they, similarly looking at Germany, its austerity imposing ordoliberalism and its effects on the EU and European partners, come to the conclusion that German leadership has been “selective opportunist”.²¹⁹ The next chapter will look at the EU through especially the 2008 Financial/Eurozone debt crisis and the general influence of ordoliberalism on the EU, and contradictions will be shown in European governance.

²¹⁹ Alan Cafruny and Leila Simona Talani, “German Ordoliberalism and the Future of the EU” *Critical Sociology* 45, no. 7-8 (November 2019) doi:[10.1177/0896920519837334](https://doi.org/10.1177/0896920519837334) p. 1012.

CHAPTER THREE

Germany and Ordoliberalism in Europe

As was discussed in the first chapter, ordoliberalism influenced the economic foundations of the Eurozone.²²⁰ As Germany became the de-facto leader of the European Union by way of its economic strength, its view on economy also came to be the view of the Union.²²¹ Ordoliberalism thus came to influence the rules of the European Union. While ordoliberal influence on the workings of the European Union have been detailed in the first chapter, it should be reiterated that European Union institutions and criteria have been influenced by ordoliberalism. The ideal of fiscal responsibility is represented by the convergence criteria and the Stability and Growth Pact. The belief in full liability has taken shape in the form of the no-bailout clause. The inflationary concerns are addressed by the ECB which, while governing over the “largest economy in the world”, the European Union, has only a mandate to keep inflation in check (although Erhard and Röpke both voice concern over the evils of suppressed inflation), unlike for example, the American Federal Reserve System, which is also concerned with unemployment and maintaining and regulating the financial system.²²² The anti-cartel, anti-monopoly, and anti-oligopoly goals of the European Union are followed by the European Commission and its department on competition (although they do not mind the creation of European champions).²²³ Mergers that create such champions are given the label “smart industry consolidation”.²²⁴ Whereas

²²⁰ David N. Balaam and Bradford Dillman. *Introduction to International Political Economy*. (New York: Routledge, 2015) p. 45; Bastiaan van Apeldoorn, “The Contradictions of ‘Embedded Neoliberalism’ and Europe’s Multi-level Legitimacy Crisis: The European Project and its Limits” in *Contradictions and Limits of Neoliberal European Governance*, ed. Bastiaan van Apeldoorn, Jan Drahokoupil, and Laura Horn (Basingstoke: Palgrave MacMillan UK, 2009) 21-43. p. 26

²²¹ Alan Cafruny and Leila Simona Talani, “German Ordoliberalism and the Future of the EU” *Critical Sociology* 45, no. 7-8 (November 2019) doi:[10.1177/0896920519837334](https://doi.org/10.1177/0896920519837334) p. 1011.

²²² Balaam, p. 322; For the ECB’s mission and tasks from its official website, <https://www.ecb.europa.eu/ecb/html/index.en.html> Accessed May 14, 2020; For The Federal Reserve and its mission, https://www.federalreserve.gov/faqs/about_12594.htm May 14, 2020

²²³ The European Commission on Competition. https://ec.europa.eu/info/departments/competition_en Accessed June 5, 2020.

²²⁴ Sarwant Singh, “PSA-FCA Merger: A Mega Industry Player in the Making”, *Forbes*, March 16, 2020, <https://www.forbes.com/sites/sarwantsingh/2020/03/16/psa-fca-merger-a-mega-industry-player-in-the-making/#281eb611207b> Accessed May 14, 2020.

the focus on increasing competition and competitiveness have been reiterated on the latest treaty on the European Union, the Lisbon Treaty of 2009.²²⁵

However, the neo-mercantilism attributed to Germany is also considered to be a Europe wide phenomena, Bellofiore considers France, Germany, and Italy to be the main part of the “mercantilist club” of Europe, with smaller partners in the Netherlands, Belgium, Austria, and the Scandinavian countries.²²⁶ Thus showing that the conflict with practical neo-mercantilist attitudes and allusions to free markets and liberalism generally exists in Europe, economic interests trump any ideological or theoretical framework. As such, similar contradictions to those of Germany are seen at the EU-level.

3.1. Contradictions of ordoliberalism in the European Union

Similar to Germany, contradictions of ordoliberalism can be found in the European Union. The European Union, as was argued in the first chapter, has gone the route of neoliberalization, but the form of neoliberalism chosen by Europe was that of a “continental” variant, Apeldoorn calls it “disciplinary neoliberalism” eliciting hints of an “ordered” liberalism.²²⁷ Although others, like Alan Cafruny and Leila Simona Talani are more direct in calling the European Union ordoliberal.²²⁸ Thus the same criteria applies to Europe, but do they follow the tenets of ordoliberalism? Ordoliberalism which entails a rigid stance against private interests looking to monopolize and, which argues that full liability is a must for the proper functioning of the markets and, an economic thought that believes in fiscal responsibility and the non-participation of the “state” or bureaucrats in the economy. This chapter will show the contradictory practices inside Europe and whether the European Union complies with this economic thought.

²²⁵ Balaam, p. 324.

²²⁶ Ricardo Bellofiore, Francesco Garibaldo, and Joseph Halevi. “The Global Crisis and the Crisis of European Neomercantilism”, *Socialist Register*, vol. 47 (2011) p. 120-21.

²²⁷ Apeldoorn, p. 26-27.

²²⁸ Cafruny and Talani, p. 1011-1012.

Although Greece has been accused of “cooking the books” to enter the Eurozone,²²⁹ German and French violation of the Stability and Growth Pact with a debt to GDP ratio higher than 60% has not been problematic for the European Union.²³⁰ Indeed, the number of countries non-compliant with this criteria is high, as per the 2018 debt to GDP data available on OECD databases, in the Eurozone only Estonia and Luxembourg have been compliant with the criteria.²³¹ Although countries (barring Greece) have been compliant with government spending criteria with deficits (or surpluses) not higher than 3%.²³² Exception to this of course was the crisis period, where Ireland and Spain as an example had to bail their banks out and both government deficit and debt to GDP rose astronomically (although other nations too broke with the criteria, such as Germany and Netherlands, but also France, Italy, Slovenia, and Slovakia around the years of the crisis).²³³ It thus seems that certain criteria of the Stability and Growth Pact do not have to be adhered to, and certainly not all the time.

The anti-trust beliefs of ordoliberal Europe can also be put on hold when the occasion demands it, similar to German ordoliberalism. One such circumstance was detailed in the second chapter, with the E.ON and Ruhrgas merger, in which both Europe and Germany supported a merger that was deemed to be “anti-competitive” by German competition authorities.²³⁴ The Volkswagen case is also interesting on the EU-level, whereas Audi and Porsche as premium and luxury brands respectively were not in direct competition with Volkswagen, but on the EU-level the acquisitions of Volkswagen compete in the same segments, consolidating Volkswagen’s market share further. Seat, Skoda, and Volkswagen compete in the more “value” segments, whereas Scania and MAN are “competitors” (or used to be) in commercial vehicle production. Also interesting in the case of Volkswagen is the Porsche acquisition debacle, where the Commission fought on the side of Porsche against

²²⁹ Alan Little, “How ‘magic’ made Greek debt disappear before it joined the Euro”. *BBC*, February 3, 2012. <https://www.bbc.com/news/world-europe-16834815> Accessed June 15, 2020; “Interview: Europe’s Debt Problems and the Greek Crisis”, with Josef Joffe. *Radio Free Europe/Radio Liberty*, April 30, 2010. https://www.rferl.org/a/Interview_Europes_Debt_Problems_And_The_Greek_Crisis/2029015.html Accessed June 15, 2020.

²³⁰ Balaam, p. 325; Bellofiore, p. 139.

²³¹ OECD General Government Debt, Euro Area. <https://data.oecd.org/gga/general-government-debt.htm> Accessed June 8, 2020.

²³² OECD Government Deficit Data, Euro Area Highlighted, Dates of 2007-2015. <https://data.oecd.org/gga/general-government-deficit.htm> Accessed June 8, 2020.

²³³ *Ibid.*

²³⁴ Chapter two of this thesis, under “Monopolies, Oligopolies, Mergers and Acquisitions” p. 25.

the German state (where the Commission found no anti-competitive aspects of such a take-over/merger), which was mentioned in chapter two.²³⁵ Another such automotive merger between two competitors is oncoming with the PSA-Fiat Chrysler merger, which has been deemed to be “smart industry consolidation”.²³⁶ It could then be assumed that Volkswagen’s acquisitions have also been deemed to be smart consolidation, and put on the road to become a European national champion. Indeed, Volkswagen is the champion of Europe in terms of car sales, but sells even more to Asia-Pacific.²³⁷

A 2006 speech by Neelie Kroes, a member of the competition committee of European Commission is available on the EU Commissions website, there she is quoted as saying, “I’m all for champions - European champions who can go out and win on global markets.”, and she further notes “But let’s be under no illusion: it is markets and not politicians that pick the winners, and artificially-created national champions may have short-term appeal but this is often to the long-term detriment of European competitiveness and European consumers”.²³⁸ Noting that the creation of European champions is the primary want of the European Union. It is also debatable if market made monopolies are more beneficial for European consumers than politician made monopolies. Indeed, it seems the concern is more over having strong European companies that compete globally than having internal competition. As the bank bailouts that came as a result of the 2008 Financial Crisis has shown, and as Stiglitz notes, the urging of countries such as Ireland to bail their banks out by the European Commission, show that the “disciplinary neoliberals” of Europe preferred to pick European champions over upholding their ideological views that politician chosen winners are “inefficient and bad for the consumer”.²³⁹ And further, a more recent 2017 speech by commissioner

²³⁵ Chapter two of this thesis, under “Monopolies, Oligopolies, Mergers and acquisitions” p. 25-26.

²³⁶ Ed Garsten, “Fiat Chrysler and Group PSA Unveil Massive Merger Deal” *Forbes*, December 18, 2019. <https://www.forbes.com/sites/edgarsten/2019/12/18/fiat-chrysler-and-group-psa-announce-merger-agreement/#6db03aed2239> Accessed June 5, 2020.

²³⁷ “Volkswagen Group records higher deliveries in 2019” Volkswagen AG, January 14, 2020. <https://www.volkswagenag.com/en/news/2020/01/volkswagen-group-records-higher-deliveries-in-2019.html>

²³⁸ Speech by Neelie Kroes, Member of the European Commission in charge of Competition Policy Cross-border mergers and energy markets, Villa d’Este Forum on “Intelligence 2006 on the World, Europe and Italy”, Cernobbia Italy, September 2, 2006. From the European Commission web page. https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_06_480 Accessed June 10, 2020.

²³⁹ Ibid.; Stiglitz, p. 134.

Moscovici also shows the EU wish for European Champions, ten years and the financial crisis seem to not have changed that view.²⁴⁰

The bank bailouts doled out as response to the 2008 Financial Crisis resulted in government deficits and debt crises in countries such as Ireland and Spain (a downgrading of Greek credit rating and speculation about Portuguese economy led to Greek and Portuguese crises) to increase astronomically, Spanish debt rose from 42% in 2007 to 119% in 2014, whereas the Irish debt rose from 27% in 2007 to 122% in 2014.²⁴¹ The bank bailouts thus led to the European debt crisis, which then led to sovereign bailouts by the Troika, made up of the European Commission, the European Central Bank, and International Monetary Fund. The sovereign bailouts broke the “no-bailout clause” (which is, as mentioned in chapter one, still “in effect”),²⁴² the bank bailouts themselves conflict with the “state aid that distorts competition” laws of the Commission (or bailing banks whose risks didn’t pay off somehow does not distort competition),²⁴³ it also shows a trampling of the ideals of “full liability”, which both puts a dent into competition -as startups face full liability for risks yet banks (or companies) too big to fail face none-, and poses a threat of the oft repeated “moral hazard”.²⁴⁴ Yet, the bailouts were given, both to banks and companies, and to European Union partners, although the bailouts given to member states came with far harsher impositions than the ones to private entities. Calls for a “punishment” of the “profligacy” of the crisis countries were asked for, by both state officials and populations of some countries.²⁴⁵

²⁴⁰ Speech by Commissioner Pierre Moscovici at the National Kapodistrian University of Athens, February 15, 2017. From the European Commission web page.

https://ec.europa.eu/commission/presscorner/detail/en/speech_17_286 Accessed June 10, 2020.

²⁴¹ OECD (2020), General government debt (indicator). doi: 10.1787/a0528cc2-en; Stiglitz, p. 196.

²⁴² Denise Currie and Paul Teague. “The Eurozone Crisis, German Hegemony and Labour Market Reform in the GIPS Countries”, *Industrial Relations Journal*. 48:2. DOI:10.1111/irj.12173. p. 160-61; Balaam, p. 45.

²⁴³ European Union page on state aid, https://ec.europa.eu/competition/state_aid/overview/index_en.html Accessed June 20, 2020.

²⁴⁴ European Court of Auditors, Audit Preview, “Control of State Aid to banks” March 2019. https://www.eca.europa.eu/lists/ecadocuments/ap19_05/ap_state_aid_en.pdf Accessed June 20, 2020.

²⁴⁵ Balaam, p. 328; Stiglitz, p. 81.

Further on, and still contradictory have been the government bond buying measures of the European Central Bank, further conflicting with the ideals of “full liability” and further breaking the no-bailout clause, while also being mired in legal discussions.²⁴⁶ These measures have been in effect since the European debt crisis, and will possibly will be ongoing with the current coronavirus pandemic.²⁴⁷

One of the most important contradiction probably is that political integration has stagnated, when European policymakers decided to take the step towards further economic integration with first the Common Market and then the Eurozone, the policymakers and leaders of Europe had hoped that it would lead to further political integration, and maybe to a “United States of Europe of sorts”.²⁴⁸ The latest treaty on the European Union that “furthered” (to whatever degree) political integration was the 2007 Lisbon Treaty (ratified in 2009).²⁴⁹ In the thirteen years since, there has not been any move towards further political integration, and even topics on further economic integration, such as a banking union are being debated with certain partners strongly opposing such moves.²⁵⁰ Next, the bailouts given to the crisis countries will be discussed, the impositions that came along with them and whether they managed to bring economic recovery to the crisis countries.

3.2. Sovereign bailouts and the crisis countries

The bailouts, both sovereign and those given to banks, conflicted with the ordoliberal points on full liability, and state intervention in the economy, it also broke the no-bailout clause of the European Union. But the impositions that came with the bailouts conflicted with how Europeans viewed their economy vis-à-vis the Anglo-Saxon model, the European

²⁴⁶ “Don’t blame others for your problems, Germany’s Schaeuble tells Greece” *Reuters*, October 2015, 2017. <https://www.reuters.com/article/us-eurozone-greece-schaeuble/dont-blame-others-for-your-problems-germanys-schaeuble-tells-greece-idUSKBN1CT2YX> Accessed July 3, 2020.

²⁴⁷ Piotr Skolimowski and Carolynn Look, “ECB Steps Up ‘Whatever It Takes’ To Fight to Save Euro Area” *Bloomberg*, March 26, 2020. <https://www.bloomberg.com/news/articles/2020-03-26/ecb-will-scrap-bond-limits-for-its-pandemic-purchases-program> Accessed June 22, 2020; “ECB has one year of German debt to buy before limits, sources say” *Reuters*, October 11, 2019. <https://www.reuters.com/article/us-ecb-policy-bonds/ecb-has-one-year-of-german-debt-to-buy-before-limits-sources-say-idUSKBN1WQ1IR> Accessed June 22, 2020.

²⁴⁸ Balaam, p. 314.

²⁴⁹ *Ibid.*, p. 324.

²⁵⁰ Stiglitz, p. 129-30.

model of capitalism was supposed to show social solidarity, with strong welfare states, strong labor laws, and shared prosperity, the prescriptions of the bailout packages instead sought to unravel this social solidarity.²⁵¹ As was the case in the German social market, the European social solidarity was pushed away, the focus of the bailouts were to help the crisis countries just enough for them to be able to pay their debt, and nothing more.²⁵²

When the crisis hit, the GIPS-I (or PIIGS), or individually, Greece, Ireland, Portugal, Spain, and Italy, were blamed for profligacy, their high levels of debt were given as the cause of the crisis in these countries.²⁵³ Although in the year of 2007 Spain and Ireland were compliant with the debt to GDP rules of the Eurozone, Germany, France, and Austria were not, even though they were the “fiscally responsible countries”, French debt to GDP at 76% was very close to the profligate Portuguese debt to GDP at 81% in 2007.²⁵⁴ As was mentioned above, France and Germany as per 2018 data still have not been complying with the debt to GDP rules, and again, while the debts of Portugal, Greece, and Italy were high before the crisis itself, Irish and Spanish debts rose as a result of their bank bailouts, which according to Stiglitz, were demanded by the European Commission itself.²⁵⁵

While one might view the bailouts as “helping a partner in need”, they were anything but. First of all, the bailouts were simply disallowed by EU law, and went against the economic ideological foundations of the Union, and if the reason for the bailouts were to showcase European solidarity among members, the impositions that came with the bailout packages do not coincide with such solidarity. The bailouts to the crisis countries came with measures of fiscal responsibility, meaning cutbacks in government spending in a time of crisis when the need for government spending (on welfare, on stimulus) is higher, and imposed labor flexibility programs.²⁵⁶ Denise Currie and Paul Teague explain the labor

²⁵¹ Apeldoorn, p. 24.

²⁵² Stiglitz, p. 201-03.

²⁵³ John Pinder and Simon Usherwood. *The European Union: A Very Short Introduction*. (Oxford: Oxford University Press, 2013). p. 66; Balaam, p. 324.

²⁵⁴ OECD (2020), General government debt (indicator). doi: 10.1787/a0528cc2-en (Accessed on 10 July 2020)

²⁵⁵ William K. Roche, Philip J. O’Connell and Andrea Prothero, “Introduction ‘Poster Child’ or ‘Beautiful Freak’? Austerity and Recovery in Ireland” in *Austerity & Recovery in Ireland: Europe’s Poster Child and the Great Recession*, ed. William K. Roche, Philip J. O’Connell and Andrea Prothero (New York: Oxford University Press, 2017) p. 8-9; Stiglitz, p. 398, note 28, and 399, note 30.

²⁵⁶ Currie and Teague, p. 161; Stiglitz, Varoufakis,

flexibility programs and their effects, they note that collective bargaining systems have been weakened in the crisis countries.²⁵⁷ Added on to bargaining reforms, were the relaxation of employment protection.²⁵⁸ An example is the case of Greece, the impositions expected Greece to cutback public employment by 150.000 between 2010 and 2015.²⁵⁹ The increase in unemployment, as a result of the crisis or as a result of the government spending cutbacks that the Troika demanded, meant that the brunt of the pain of adjustment would be on the shoulders of ordinary Europeans.²⁶⁰ Especially in the cases of Ireland and Spain, where the governments bailed out or guaranteed the risk of the banks, means that not only did ordinary Europeans took on the liability of banks, but then were also hit by widespread unemployment.²⁶¹

These austerity measures could be more tolerable if it were certain they would bring recovery. While Balaam calls out a “Long Greek Crisis”, Stiglitz considers it to be a “Long European Crisis”.²⁶² In the year 2020, it is not easy to say that the crisis countries have actually recovered. Stiglitz, Cafruny, and Talani argue that for example, except for Ireland, there has not been a recovery.²⁶³ And in the case of Ireland, the recovery is mostly attributed to massive Foreign Direct Investment (FDI) the country receives due to its status as a tax haven, especially large multinationals like Apple and Google have chosen Ireland for their headquarters to have a favorable tax situation while having access to Europe.²⁶⁴ Figures 1, 2, and 3, will show some indicators for the GIPS-I countries to show their situation prior to the 2008 Financial Crisis and now (when this thesis was being written, most recent data available for GDP and debt to GDP was for 2018)

²⁵⁷ Currie and Teague, p. 164-65.

²⁵⁸ Ibid, p. 166.

²⁵⁹ Ibid, p. 161.

²⁶⁰ Balaam, p. 326 and 340; Stiglitz, p. 112-13.

²⁶¹ Balaam, p. 325-26; Kathleen Lynch, Sara Cantillon, and Margaret Crean, “Inequality” in *Austerity & Recovery in Ireland: Europe’s Poster Child and the Great Recession*, ed. William K. Roche, Philip J. O’Connell and Andrea Prothero (New York: Oxford University Press, 2017) p. 252.

²⁶² Balaam, p. 328.

²⁶³ Alan Cafruny and Leila Simona Talani, “German Ordoliberalism and the Future of the EU” *Critical Sociology* 45, no. 7-8 (November 2019) doi:[10.1177/0896920519837334](https://doi.org/10.1177/0896920519837334) p. 1013-1014; Stiglitz, p. 63-7.

²⁶⁴ Stiglitz, p. 142-43 and 412, note 29; According to data from the World Bank, Ireland has received FDI between 10% and 20% of its GDP through to 2018, with an 80% in 2015.

https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=IE&most_recent_value_desc=false Accessed July 7, 2020.

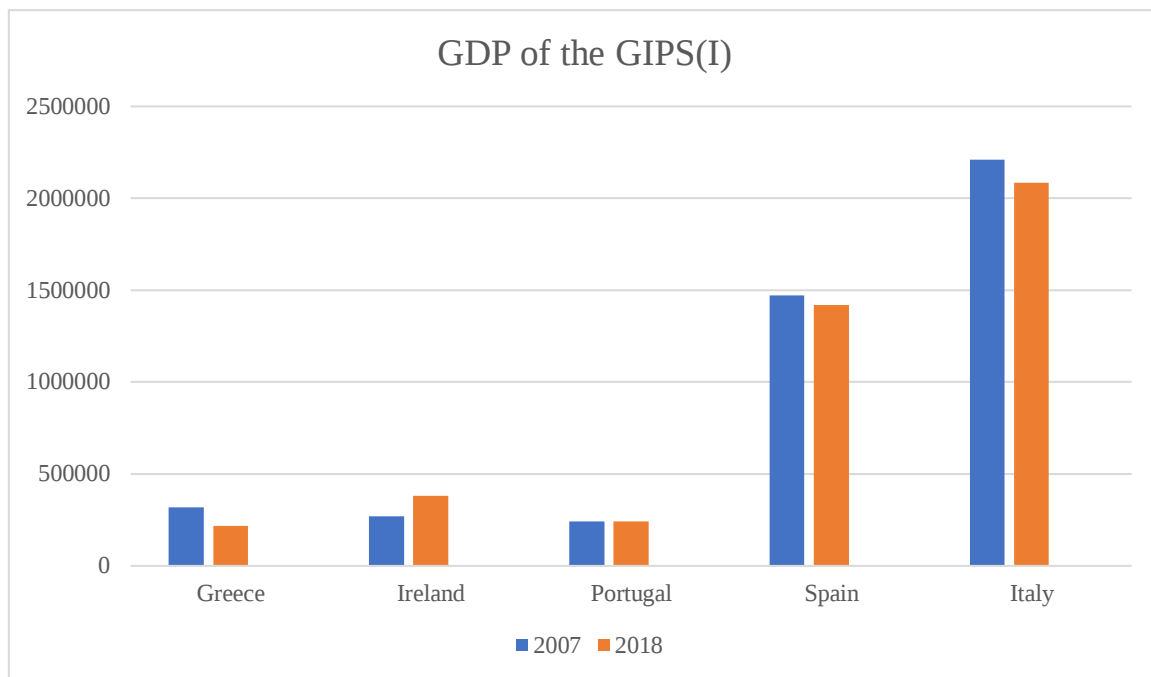


Figure 2: GDP of the GIPS-I, in billion dollars. Data from the World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2018&locations=GR-IT-ES-IE-PT&start=2007> Accessed June 12, 2020.

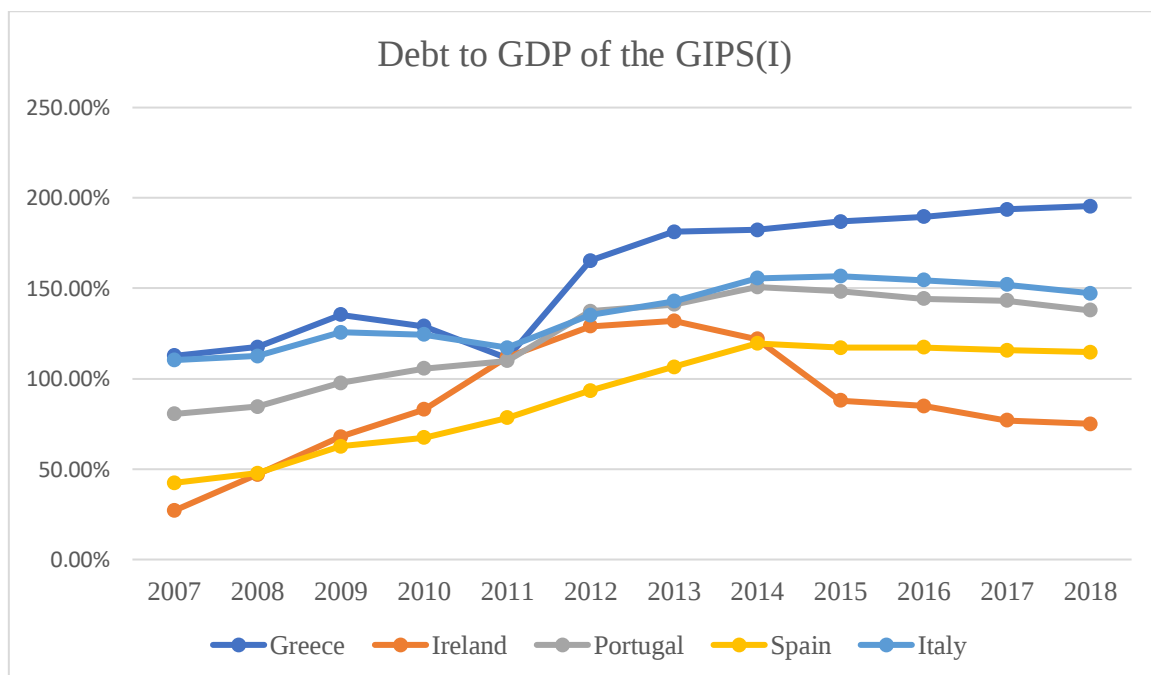


Figure 3: Debt to GDP Ratio of the GIPS-I, Data from OECD.
<https://data.oecd.org/gga/general-government-debt.htm> Accessed June 12, 2020.

As can be seen in these charts, excepting Ireland, the economies of the crisis countries are yet smaller than they used to be in 2007, furthermore, the debt problems have not gone away in any of countries. If excessive debt was what caused the crisis in Europe, the risk for another debt crisis is still there, if not greater. The debt to GDP ratio of all countries have increased, in the case of the Greece, Portugal, Spain, and Italy, the economy has shrunk. Unemployment also has not returned to pre-crisis levels, except for Ireland and Portugal. The rise in youth unemployment in the crisis countries has been called out as a generations aspirations were cut in short.²⁶⁵ And as per OECD data from 2019, while youth unemployment has been declining among the crisis countries since the peak of the debt crisis, it still remains high (only Ireland is close to the OECD average in the year of 2019).²⁶⁶

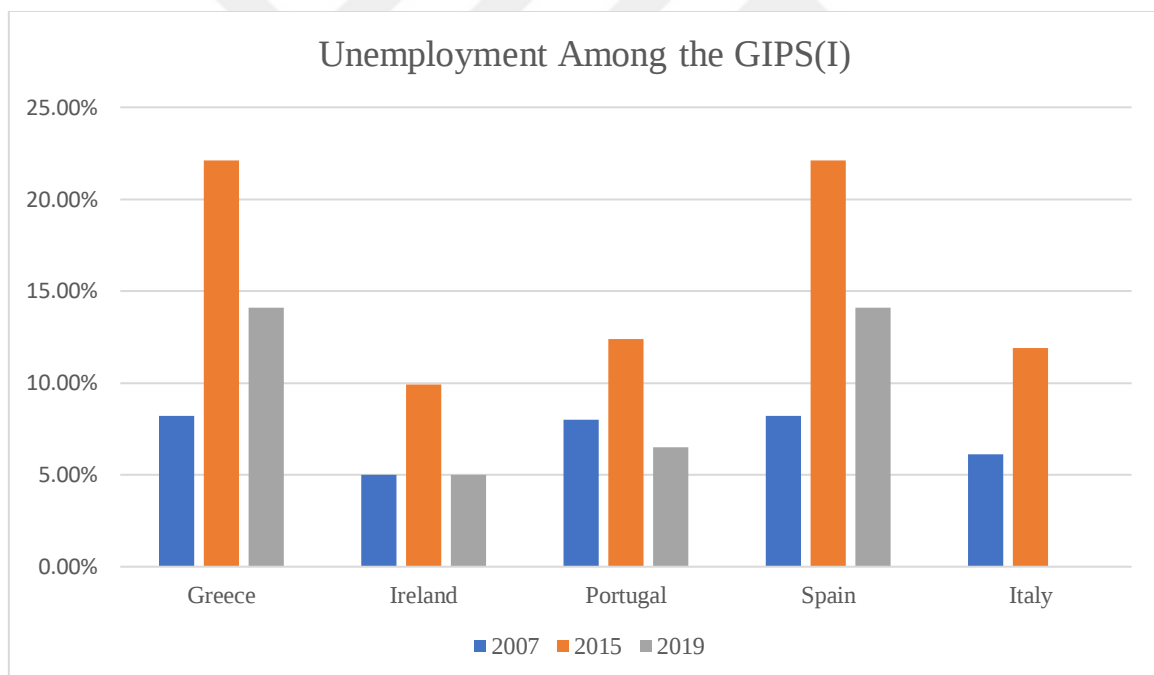


Figure 4: Unemployment in the GIPS-I in the years of 2007, 2015, and 2019, data from OECD, <https://data.oecd.org/unemp/unemployment-rate.htm> Accessed June 12, 2020.

²⁶⁵ Stiglitz, p. 3-4.

²⁶⁶ OECD (2020), Youth unemployment rate (indicator). doi: 10.1787/c3634df7-en (Accessed on July 1, 2020)

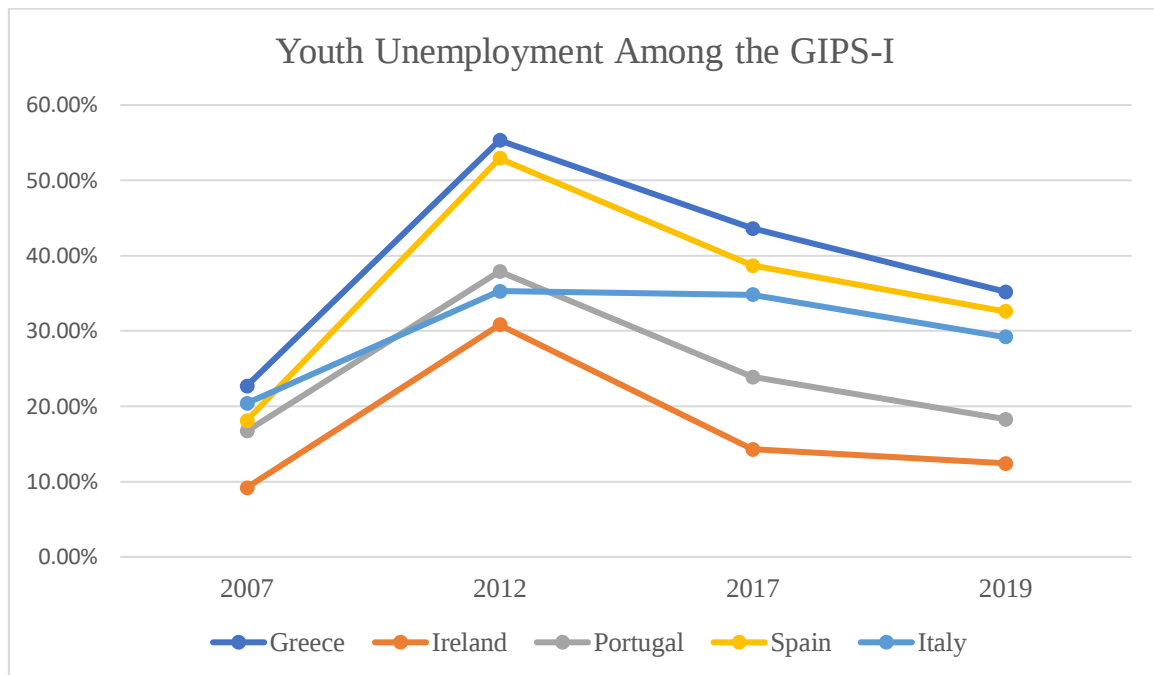


Figure 5: Youth Unemployment among the GIPS-I. 5 Year interval for reasons of space, and current situation. Data from OECD. <https://data.oecd.org/unemp/youth-unemployment-rate.htm> Accessed June 13, 2020.

Out of the crisis countries, Ireland seems to be the only one to have had a proper recovery, it has returned to growth and managed to curtail unemployment. A significant reason for the Irish recovery is of course its status as a tax haven, foreign direct investment inflows are 16.9% of Irish GDP, making them among the largest recipients of FDI as a percentage of GDP in Europe (amongst countries such as Malta and Cyprus, with Lichtenstein on an another league).²⁶⁷ The presence of U.S. tech giants such as Google and Apple in Ireland has been hugely beneficial. While Ireland had a recovery, rising inequality in especially Greece, Spain, and, Portugal has been noted as well as migration away from

²⁶⁷ World Bank, Foreign Direct Investment , net inflows (% of GDP). https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?most_recent_value_desc=true Accessed June 28, 2020.

them towards more prosperous countries of Europe.²⁶⁸ Christoph Hermann notes on the other hand the increase in inequality especially in Ireland, Spain, and Italy.²⁶⁹

More importantly, two reasons have been given for the crisis, one was the excessive debt of the crisis countries, and the other was their current account deficits. As was shown in the first figure, the debts have gone up even further, meaning the risk of debt still exists. In terms of deficits, there have been progress, Lapavitsas does note the lower unit labor costs in the crisis countries, meaning the internal devaluation, and austerity has worked to make the crisis countries more competitive.²⁷⁰ Yet, however competitive Greece may have gotten, twelve years after the crisis it still runs a deficit, while not comparable to the 2008 deficit of 15% of GDP, Greece has not managed a surplus in the years since.²⁷¹ Irish deficits have been more shaky, intermittently going between a surplus and a deficit, it ran a deficit of 4.2% in 2016 and a 9.5% in 2019, but with a surplus of 0.5% in 2017 and 8.9% in 2018.²⁷² Portuguese surplus was miniscule, running between zero point decimals and two.²⁷³ Spain and Italy on the other hand have ran a surplus since 2012 and 2013 respectively although the surplus is far smaller than Germany's.²⁷⁴

It is important to note however that for one nation to run a surplus another has to run a deficit, and since Europe for the most part trades with itself, it would mean that another country would take the burden of deficit, so long as Germany, Italy, and Spain aim to run a surplus.²⁷⁵ Since the years of the crisis, countries such as Belgium, Finland, France, Slovakia, and the Baltic states of Latvia and Lithuania, has run persistent, although relatively small deficits, as was noted before, many Eurozone members as of now are not compliant with the debt to GDP criteria of the Eurozone. Lately, Italy has been found to be struggling and fears rose if an Italian crisis could spread or give rise to another Eurozone crisis, and for Germany,

²⁶⁸ Stiglitz, p. 72-3 and 212.

²⁶⁹ Christoph Hermann. "The Crisis, Structural Reform and the Fortification of Neoliberalism in Europe." in *Struggle in a Time of Crisis*, ed. Pons-Vignon Nicolas and Nkosi Mbuso, (London: Pluto Press, 2015) Accessed July 1, 2020. doi:10.2307/j.ctt183p5st.14. p. 51-52.

²⁷⁰ Costas Lapavitsas, et al. "Eurozone Crisis, Beggar Thyself and Thy Neighbour" *Journal of Balkan and Near Eastern Studies* 12, no. 4 (December 2010) DOI:10.1080/19448953.2010.510012 p. 337-39.

²⁷¹ OECD (2020), Current account balance (indicator). doi: 10.1787/b2f74f3a-en (Accessed on 17 June 2020)

²⁷² Ibid.

²⁷³ Ibid.

²⁷⁴ Ibid.

²⁷⁵ Stiglitz, p. 118 and 253.

slowing global demand (especially Chinese) have given rise to fears.²⁷⁶ Further putting strain on the recovery from the crisis is the 2020 coronavirus pandemic, which is still ongoing at the time this thesis is being written.²⁷⁷

The contradictions of ordoliberal Europe can again be seen, full liability has been broken, as certain countries received bailouts, and continue to be supported by ECB's government bond buying and quantitative easing.²⁷⁸ But the bailouts themselves were not so that the crisis countries could have an easier time adjusting, they imposed austerity and high unemployment on the crisis countries, and these measures have not even helped them recover fully. While upholding fair and full competition is part of the theoretical foundations of ordoliberalism it gets sidelined, similarly, the labels of "social democracy" (or a social market economy) fall apart when the burden of economic adjustment gets placed on the ordinary people rather than those already well off through bank bailouts.²⁷⁹

3.3. How does the EU benefit Germany?

The fact that Germany is a net contributor to the Union budget gets brought up to imply Germany gives back far more than it receives. Exactly how much Germany gives and receives in terms of monetary transfers can be seen on the European Union official site.²⁸⁰ Of course, countries are not clueless about what they give and receive, and Germany does benefit in other ways from the EU, to think that Germany supports the EU out of the goodness of its heart while receiving no benefits would be a delusion. But importantly, it can be argued that Germany actually benefits far more from the EU than it benefits the EU itself. A Bertelsmann Stiftung report in 2013 notes that a return to the Deutschemark would be an

²⁷⁶ David Dharshini, "Warning over 'new eurozone crisis' *BBC*, May 19, 2019. <https://www.bbc.com/news/business-48258720>. Accessed June 20, 2020; "Here comes the next euro crisis" *Politico*, April 19, 2019. <https://www.politico.eu/article/here-comes-the-next-euro-crisis/> Accessed June 20, 2020.

²⁷⁷ Wolfgang Münchau, "How the next euro crisis could unfold" *Financial Times*, April 12, 2020. <https://www.ft.com/content/ddb02110-7b24-11ea-af44-daa3def9ae03> Accessed June 17, 2020.

²⁷⁸ Stiglitz, p. 170-71; Varoufakis, p. 187-91.

²⁷⁹ Stiglitz, p. 413, note 32.

²⁸⁰ Information on German contributions to EU Budget from European Union webpage. https://europa.eu/european-union/about-eu/countries/member-countries/germany_en Accessed June 30, 2020.

economic disadvantage for Germany.²⁸¹ Bellofiore too notes that the move from the Deutschemark, which was valued highly, to the euro meant a devaluation that boosted German exports.²⁸²

Further, Bellofiore is of the opinion that Germany views the Union as a fixed-exchange rate system whose function is to prevent competitive devaluations.²⁸³ The revival of German exports after the move to the Euro clearly shows that Germany has benefited from the prevention of devaluations. Stiglitz also notes that Germany was also much more capable of convincing its people to embrace internal devaluations measures, some of which happened in the 90's, and yet another series of measures came with the Hartz reforms.²⁸⁴ Thus, the Euro helped Germany regain competitiveness, its competitors could not compete on price, nor could they internally devalue like Germany had, as Germany with its strong welfare state had more expenses it could (and has) cut than other member states. The lack of a European solidarity can be viewed to be a result of this, Germany does not “care” about the economic well-being of its Union partners, it only cares that the exchange rates are fixed, and inflation is controlled. As such, Germany did not feel necessary to support the crisis countries.²⁸⁵ Further, Stiglitz and Bellofiore argue that it is German trade surpluses that cause deficits for other European countries.²⁸⁶

The enlargement of the EU also gave Germany access to cheap labor in Eastern Europe, further helping its corporations compete, as was noted in chapter 2, Germany has a large number of (automotive) factories in Eastern European countries, more than for example, French and Italian car makers.²⁸⁷ Further on, Lapavitsas notes the increasing German FDI towards the eastern periphery of Europe.²⁸⁸ Another important point is made by Lapavitsas, the German exports are then turned into loans for the periphery, which further

²⁸¹ Thieß Petersen, Michael Böhmer, and Henning vom Stein, “How Germany Benefits from the Euro in Economic Terms” Bertelsmann Stiftung Policy Brief, 2013/01. https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Presse/imported/downloads/xcms_bst_dms_37730_37731_2.pdf Accessed June 22, 2020.

²⁸² Bellofiore, p. 129.

²⁸³ Ibid, p. 141.

²⁸⁴ Stiglitz, p. 104-105.

²⁸⁵ Balaam, p. 327-28.

²⁸⁶ Bellofiore, p. 121 and 140-41; Stiglitz, p. 253

²⁸⁷ Talked about in chapter two, under “Monopolies, Oligopolies, Mergers and Acquisitions”.

²⁸⁸ Lapavitsas, p. 343-44 and 337-38.

cement German economic strength.²⁸⁹ Thus basically, the European periphery takes loans from German banks to pay for the German goods they are to purchase. And when a balance of payments crisis arose, such as the European sovereign debt crisis, the bailouts are given not to provide stimulus to the crisis countries but to ensure that the crisis countries are able to pay back their debts, hence the calling out of the bailouts towards the GIPS as “bailouts to German banks” by Stiglitz and Varoufakis.²⁹⁰ It is important to understand how beneficial the Union is for Germany.

Yet with all the benefits, Germany has not been benevolent in how it approaches its partners. Denise Currie and Paul Teague for example consider the German stance during the debt crisis to be that of a coercive hegemon.²⁹¹ While Alan Cafruny and Simona Talani argue the German approach towards the Union is a matter of power and interest.²⁹² An example to this would be the Nord Stream projects Germany overtook with Russia, where again the wishes of the European periphery was ignored as the project was in the interests of Germany.²⁹³ Instead of being a benevolent leader for the Union, which it took part in the creation of, Germany acts in its own interest. For Germany, economic concerns weigh far more than concerns over a lack of European solidarity, even as it benefits from the Union. When the costs of being in a union look to increase, Germany opposes such measures, such as the banking union proposals and the European Central Banks quantitative easing programs.²⁹⁴ As such, it seems correct to think that Germany views the Union as nothing more than a fixed-exchange rate system as Bellofiore argues.²⁹⁵ It is thus another contradiction, Germany needs the European Union, yet at the same time acting fully in its self-interest may (and to some degree already has) lead to the ties of the union weakening, while “Grexit” has been averted (for now), “Brexit” has gone through, and with

²⁸⁹ Ibid, p. 322.

²⁹⁰ Stiglitz, p. 202-03; Varoufakis, p. 158.

²⁹¹ Currie and Teague, p. 159.

²⁹² Cafruny and Talani, p. 1016.

²⁹³ Giovanni di Maio “Nord Stream 2: A failed test for EU unity and trans-Atlantic coordination” *Brookings*, April 22, 2019. <https://www.brookings.edu/blog/order-from-chaos/2019/04/22/nord-stream-2-a-failed-test-for-eu-unity-and-trans-atlantic-coordination/> Accessed July 1, 2020; “Nord Stream 2: EU agrees tighter rules for Russian pipeline” *BBC*, February 8, 2019. <https://www.bbc.com/news/world-europe-47170420> Accessed July 1, 2020.

²⁹⁴ Balazs Koranyi and Francesco Canepa, “ECB ‘undeterred’ by German court ruling over bond buying” *Reuters*, May 7, 2020. <https://www.reuters.com/article/us-ecb-policy-deguindos/ecb-undeterred-by-german-court-ruling-over-bond-buying-idUSKBN22J0V7> Accessed July 2, 2020.

²⁹⁵ Bellofiore, p. 141.

Euroscepticism rising, Germany may need to forgo some of its self-interests to preserve the European Union, which is also in their self-interest.²⁹⁶



²⁹⁶ John Follain, “Italy’s Newest Political Party Wants the Country out of the EU.” *Bloomberg*, June 23, 2020. <https://www.bloomberg.com/news/articles/2020-06-23/italy-s-newest-political-party-wants-to-pull-country-out-of-eu>; Drew DeSilver, “Eurosceptics are a bigger presence in the European Parliament than in the past” *Pew Research Center*, May 22, 2019. <https://www.pewresearch.org/fact-tank/2019/05/22/euroskeptics-are-a-bigger-presence-in-the-european-parliament-than-in-past/>.

CONCLUSION

This thesis sought to look at the contradictions between German economic thought, ordoliberalism and German economic practices. In the first chapter ordoliberalism was explained, how ordoliberals think the state and the economy should be in theory was given, and then contrasted with how it was practiced in the second chapter. As a form of neoliberalism itself, at this point it makes sense to look at David Harvey and his argument that neoliberalism usually deviates from theory when put to practice, and Germany is another example for this point.²⁹⁷ Germany does not commit to neither the “social” nor the “market” of its social market economy. In terms of the “social”, the German wage cuts in the 90’s, the Hartz reforms in the 2000’s, and the lack of a minimum wage up until 2015,²⁹⁸ show a trend of social spending cuts in the recent years.²⁹⁹ And Stiglitz notes the increasing GINI coefficient and poverty rates of Germany to showcase that German competitiveness came at the cost of the welfare of the bottom.³⁰⁰

But that is not because Germany has chosen to fully undergo liberalization. In terms of the market, the German state has not shied from participating in the market. As an example, in the energy sector they have encouraged the creation of national champions as was mentioned in chapter two. The second chapter of this thesis sought to show these contradictions, state participation and monopolization similarly exist in the rail transport sector, telecommunications. Creation of national champions have been generally encouraged. The energy sector is further interesting as it has also, at the behest of the state has been forced to move to renewable energy from nuclear, while at the same time pipelines have been laid from Russia to Germany for access to Russian natural gas. The German state also participates in the banking sector, as was noted in chapter two, where state owned banks

²⁹⁷ David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2007), p. 70

²⁹⁸ Michael Nienaber, “Germany to raise minimum wage to 9.35 euros in 2020” *Reuters*, June 26, 2018. <https://www.reuters.com/article/us-germany-economy-wages/germany-to-raise-minimum-wage-to-935-euros-in-2020-idUSKBN1JM1AS> Accessed July 1, 2020.

²⁹⁹ Sabina Stiller, “A Bird’s-Eye View of the German Welfare State.” In *Ideational Leadership in German Welfare State Reform: How Politicians and Policy Ideas Transform Resilient Institutions*. (Amsterdam: Amsterdam University Press, 2010). Accessed May 12, 2020. doi:10.2307/j.ctt46n2hk.6. p. 72-74.

³⁰⁰ Stiglitz, p. 79.

make up around 36% of the banking sector.³⁰¹ Of course, Germany, albeit not extensive as the UK and the USA bailouts, did bail some of its banks out, which were also mentioned in chapter two.³⁰²

Germany is thus contradictory, the “social” and the “market” of its economy seems to be broken from as it suits the state. Harvey makes a point that the “neoliberal states typically favor the integrity of the financial system... over the well-being of the population or environmental quality.”, ordoliberal Germany on the other hand similarly seems to favor policies that uphold state power, over the well-being of the population and the free market.³⁰³ Although ultimately, Harvey’s judgement is correct in the sense that strong national corporations further state power far more than citizens living in welfare.

The third chapter aimed to show that these German contradictions have spread to the European Union itself, as it too prefers the creation of European champions, and in the case of government bailouts, prefers to defend the integrity of the euro and to uphold the organizations power and integrity over the well-being of ordinary Europeans (Greeks, Irish, Portuguese, and Spanish). Thus, German leadership over the Union has resulted in the appearance of the same ordoliberal contradictions at the European level.

One of the arguments of this thesis is, as Currie and Teague argued in their paper, that Germany is a coercive hegemon and, and this thesis sought to show that German economic contradictions appear Europe-wide as Germany further establishes itself as the leader of the Union.³⁰⁴ With the Covid-19 pandemic, the contradictions are again surfacing, as the “socialness” of the German market economy is being questioned in terms of the state

³⁰¹ DZ Bank Corporate Presentation 2020. (State shares in Commerzbank do not seem to be included in the 36% given, which only includes the Landesbanken and the Sparkasse systems) Accessed from: https://www.dzbank.de/content/dzbank_com/en/home/DZ_BANK/investor_relations.html Accessed June 29, 2020.

³⁰² Second chapter of this thesis under “State Participation and Intervention in the German Economy” p. 20-22.

³⁰³ Harvey, p. 71.

³⁰⁴ Alan Cafruny and Leila Simona Talani, “German Ordoliberalism and the Future of the EU” *Critical Sociology* 45, no. 7-8 (November 2019) doi:[10.1177/0896920519837334](https://doi.org/10.1177/0896920519837334) p. 1011-1012; Currie and Teague, p. 154.

response to the pandemic (which seem to favor corporations over people),³⁰⁵ while Germany has been trying to set a pandemic recovery fund up (along with France) for the EU,³⁰⁶ on the other hand Germany continues to oppose the government bond buying program of the ECB, which started as a response to the European debt crisis, has become a staple with a pandemic recovery program started in 2020 and which was started earlier and has been ongoing, contrary to the fund to be set up by Merkel and Macron.³⁰⁷ German contradictions thus seem to continue, and its leadership stance has not changed, which in turn cast doubts over the sustainability of the Eurozone, whose failure would in turn danger German economic strength too.³⁰⁸

Thus, this thesis sought to show that first, the same contradictions of neoliberalism that manifest in practice which David Harvey has noted apply to ordoliberal neoliberalism as well. These contradictions have led to Germany professing ordoliberalism while at the same time adopting (neo)mercantilist policies, and also a significant contradiction is the state's considerable participation in the economy. This is important because while Talani and Cafruny and also Szabo have argued that German policy is guided by the wishes of its socio-economic actors,³⁰⁹ German states participation in the economy and the National Industry Strategy 2030 shows (amongst others such as the Volkswagen Law and on), the socio-economic actors are not above the state.³¹⁰ The German state meets the wishes of its socio-economic actors so long as their wishes are in accordance with the state's, with the Porsche-Volkswagen case being another example.

³⁰⁵ Bellofiore, p. 134; Thomas Sablowski, "The Coronavirus and the Class Character of German Politics" June 24, 2020. <https://socialistproject.ca/2020/06/coronavirus-and-class-character-of-german-politics/> Accessed, July 3, 2020; "German coalition parties put off decision on coronavirus stimulus package" *Reuters*, June 2, 2020. <https://www.reuters.com/article/us-health-coronavirus-germany-stimulus/german-coalition-parties-put-off-decision-on-coronavirus-stimulus-package-idUSKBN2392M3> July 3, 2020.

³⁰⁶ Ferdinando Giugliano, "Merkel and Macron Make a Stunning Coronavirus Proposal" *Bloomberg*, May 18, 2020. <https://www.bloomberg.com/opinion/articles/2020-05-18/merkel-and-macron-make-a-stunning-proposal-on-eu-pandemic-fund> Accessed June 30, 2020.

³⁰⁷ "Merkel, Macron hope for EU summit deal on budget, recovery fund" *Reuters*, June 29, 2020. <https://fr.reuters.com/article/idUSKBN2402G3> Accessed July 4, 2020. and "Bundesbank must stop buying government bonds if ECB can't prove need" *Reuters*, May 5, 2020. <https://www.reuters.com/article/ecb-policy-germany/bundesbank-must-stop-buying-govt-bonds-if-ecb-cant-prove-need-court-idUSL8N2CM5J2> Accessed July 4, 2020.

³⁰⁸ Cafruny and Talani, p. 1016 and 1019.

³⁰⁹ Cafruny and Talani, p. 1012; Stephen F. Szabo. "The reinvention of German power" in *Connectivity Wars: Why migration, finance and trade are the geo-economic battlegrounds of the future*, edited by Mark Leonard (European Council on Foreign Relations, 2016) p. 143 and 147.

³¹⁰ Chapter 2 and Chapter 3 of this thesis detailed such cases.

The main purpose of showing these contradictions were of course to shed light on to German status as the leader of Europe, in Gramsci's analysis of social groups (of Italy), he finds that a "leader" has to show "moral leadership" to its allies and "dominate" its enemies,³¹¹ for Lentner, who looked at Ancient Greek city states for his definition of hegemony, he similarly leads to the conclusion that a leader has to respect the "autonomy" of its allies.³¹² This thesis gave examples of situations where Germany did not respect the wishes of its allies and more importantly, imposed its own views on them (to which it doesn't even fully adhere to, such as "fiscal responsibility" and the Stability and Growth Pact), which, whichever way you look at it, either harmed its partner states, or at best did not bring them back to prosperity. Thus Germany risks the fracturing the "alliance" of which it has come to be the leader (the European Union), from which it reaps many benefits (most important is that it allows the unprecedented German export surpluses), which in a way, is the ultimate contradiction of German ordoliberalism.

³¹¹ Antonio Gramsci. *Selections from the Prison Notebooks of Antonio Gramsci*, edited and translated by Quintin Hoare and Geoffrey Nowell Smith. (New York: International Publishers, 1971) p. 57.

³¹² Howard H. Lentner, "Hegemony and Autonomy." *Political Studies* 53, no. 4 (December 2005) p. 739-740.

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