The Crisis and Germany: The Trading State Unleashed

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Abstract

Based on interviews with the main German actors and on secondary sources, the article examines the recent development of the German political economy, and the German strategy vis-à-vis the Euro zone. Germany is a trading state whose economic growth is strongly export-led. Until the years 1990s, strong institutional rigidities, both in industrial relations and in the welfare state, contributed to reconcile export growth with household consumption, thus keeping the German "tiger" on a leash. From the early 1990s on, however, both industrial relations and social protections have been strongly liberalized, thus further stimulating external competitiveness and reducing the role of consumption in the German growth model. The unleashed trading state shapes the German response to the Euro crisis and the austerity policies that Germany imposes to Europe. These policies are strongly supported by political parties, social actors, and public opinion in Germany, and the likelihood that they change in the near future is minimal.

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1 Introduction[1]

Having spent a considerable amount of time as the ‘sick man’ of Europe in the 1990s, by 2005, Germany again became a success story in economic terms. While unemployment increased from 5.5 % in 1991 to 11.3 % in 2005, it dropped to 5.5 % again in 2012 (Statistisches Bundesamt 2013: 349). Although the number of jobs in Germany barely changed in 2005 compared to 1991, this figure jumped an additional 7 % in 2012 (Statistisches Bundesamt 2013: 340), and the Real Gross Domestic Product also increased by 11 % between 2005 and 2012 (Statistisches Bundesamt 2013: 315). The bulk of this success can be traced back to high competitiveness, which allowed exports to grow dramatically. In nominal terms, exports increased by 35 % in 2012 when compared with 2005 (Statistisches Bundesamt 2013: 406). Germany’s exports had exceeded imports by about 20 % for many years (Statistisches Bundesamt 2012: 414, 2013) but after the 1990s, the difference between exports and import grew particularly strong (Fig. 1a).

Figure 1b–e depict this success story in a comparative perspective for the indicators employment, unemployment, growth and trade integration, measured as the sum of imports and exports in % GDP. The low values for imports and exports in % of GDP seem to contradict the notion of the trading state. However, many OECD countries are small nations that are strongly integrated into international markets, due in part to the size of their domestic markets. In 2012, about 37 % of all exports went to countries of the Eurozone, another 20 % to EU countries outside the Eurozone, 9 % to NAFTA-countries and 16 % to Asia. In order to allow for long-term comparisons with Germany, we limit the group of countries to mature OECD-democracies in the late 1980s.[2] The group includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the USA. If not otherwise indicated, the source is Armingeon et al. (2013).

Germany’s competitiveness and success is a problem for its competitors within and outside of the Eurozone. Officially, however, the German government does not see a problem, arguing that Germany has done its ‘homework’ in revitalizing its economy and implementing various reforms—major examples being the debt brake and Schroeder’s Agenda 2010 with its Hartz reforms. Now other countries must do

[1] This paper builds on interviews with representatives of political parties and interest groups, which we conducted in the fall of 2012. We thank our interview partners for their time, support and patience. The paper draws heavily on an article by Baccaro and Benassi (2013), which develops and modifies the argument about the liberalization of industrial relations and its economic consequences. We are grateful to Fritz W. Scharpf, Wolfgang Schroeder and Rüdiger Schmitt-Beck for comments, support and encouragement. Baccaro thanks the Hans-Böckler-Stiftung for covering his travel costs.

[2] Replicating the graphical analyses with the countries of Western Europe or the members of the Eurozone in Western Europe does not alter the conclusions. For the sake of clarity, we therefore restrict the comparison to Germany and these mature democracies of the OECD.

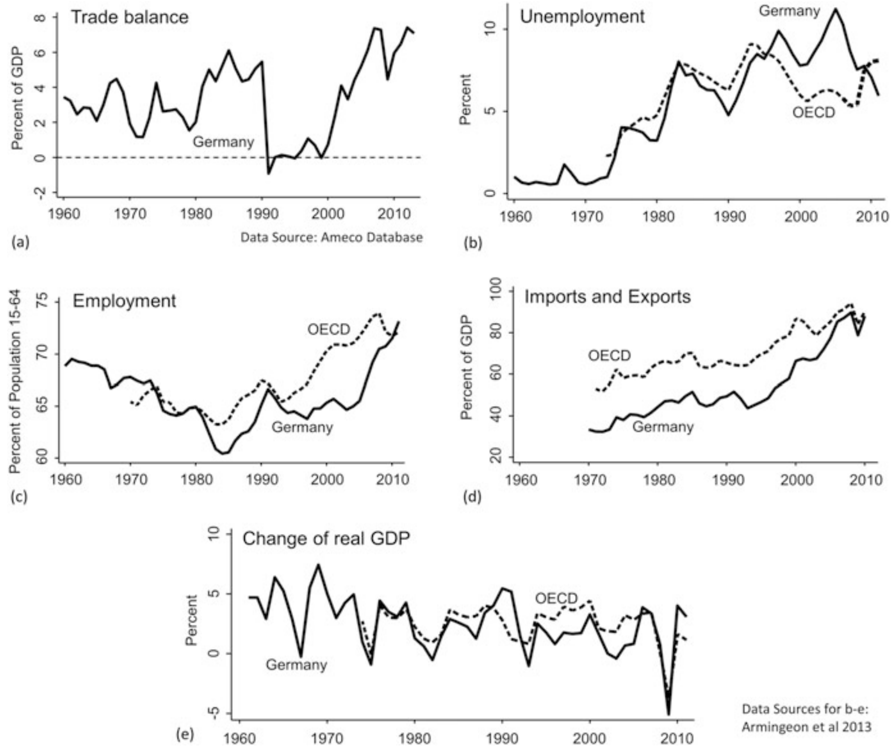

Fig. 1 Germany's success in a comparative perspective

their 'homework' as well. There is no reason for pessimism in the Eurozone if these countries succeed in structural reforms and thereby narrow their competitiveness gap in relation to Germany (http://www.youtube.com/watch? v=6JWWpLOtjHc, accessed on January 15, 2014). The German government expects that other countries in the Eurozone will converge rapidly towards the German standard, both with regard to industrial structures and productivity as well as in terms of prudent fiscal policies and efficient containment of public debt.

Given the vastly different industrial structures and economic potential of the Eurozone countries as well as the lack of convergence during the past two decades, it is highly unlikely that these expectations will be met. This being the case, the German success strategy could be self-defeating. Other Euro-countries have to finance their imports—from Germany and other nations—with increasing debts and deficits that, in turn, require bailout activities by successful Eurozone members such as Germany. If these fiscal transfers are not sufficiently large, the Euro project could fail. Germany would have to return to its former currency or a Northern Euro, which would be an extremely strong currency comparable to the Swiss franc. Doing so would however endanger Germany's export success with skyrocketing relative prices for German products.

How do German political elites cope with the problems of being dependent on the stability of the Eurozone while, at the same time, contributing to its destabilization? This is our guiding question.

We argue that Germany has shifted from a redistributive trading state to a trading state that unleashed its economic potential by removing tempering institutions in the field of industrial relations and labour market policy. This was a major reason for its export-led growth since the early 2000s, which had detrimental consequences for the stability of the Eurozone. However, in responding to the Euro-crisis, it framed the problem in line with its ordoliberal stability culture (Fleckenstein 2012, 2013), which identified the fiscal profligacy of countries such as Greece as major problems. From this perspective, the adequate reaction was austerity and liberalization of the markets. In the short run, this policy serves German interests; over the long run, however, it could be self-defeating. The current policy of ad hoc measures combined with the demand for austerity and liberalization is a strategy of muddling through with respect to both the requirements of domestic politics and interest constellations, as well as the minimal requirements for the survival of the Eurozone. There are no feasible alternatives or majorities to deviate from this course.

This article is organized into three sections. The first section describes the structure of the tamed trading state as it existed in the 1980s, prior to reunification and the Euro project. The second section deals with the changes since 1990, which eroded the institutions of the tamed trading state in industrial relations and labor market policy. Section 3 looks at the unfeasibility of alternative strategies.

2 The Tamed Trading State

After WWII, Germany followed an atypical international strategy for a big country. In large countries, the domestic market is usually so large that the share of exports and imports in gross domestic product is comparatively small (Dahl and Tufte 1973), while the sheer size of the nation makes it an important player in international relations. In contrast, the German government could not and did not want to play an active and leading role in international relations due to its past experiences and the constraints facing a country under the supervision of the allied powers.

German firms, on the other hand, were strongly export-oriented. They were specialised in highly skilled industrial production based on vocational training, continual skill advancement of workers based on cooperation, coordination and industrial peace. Germany became a trading state that avoided political leadership in the international arena and instead focused its international relations on trade and the expansion of the world economy (Rosecrance 1986). The government resolutely supported a strategy of export-led growth based on an ordoliberal strategy (Young 2013) that set a legal framework in which markets could work efficiently and establish a generous welfare state, a working (anti-trust) competition policy, sound public finances and a monetary regime with an independent central bank preoccupied with price stability (Katzenstein 1987, Chap. 2). This resulted in a

comparatively high share of exports and imports (as % of GDP) for a large country and a balance of trade that was almost always positive, with the exceptions being 1991, 1995 and 1999 (see Fig. 1).

The positive current balance was a problem, in particular the balance of trade. This was explicitly addressed in economic policy and implicitly addressed in the system of industrial relations and social policy. In 1966, the government, which was comprised of the Christian-Democratic and Liberal parties, parties that had governed for almost the entire post-war period, was replaced by a Grand Coalition of Social Democrats and Christian Democrats. While this change in power did not lead to the end of German ordoliberalism, a strong Keynesian element was temporarily introduced. The new government tried to have a stronger and more active grip on the economy. It introduced a law for the promotion of the stability and growth of the economy (1967), which established a set of macro-economic goals to guide German economic policy (reprinted in Katzenstein 1987: 110–112).

The four goals consisted of: (1) the promotion of a stable price level, (2) high employment, (3) a balance of foreign payments consistent with (4) steady and reasonable growth of the economy. Economic policy had to respect these goals. However, by the mid-to-late 1970s, after the failure of Keynesian steering (Scharpf 1991), governmental economic policy returned to the previous ordoliberal mixture of policy instruments with an emphasis on price stability and sound public finances.

The co-operative system of industrial relations was of particular importance. German trade unions endorsed a strategy of social partnership (Sozialpartnerschaft). It differs clearly from the conflictual systems in Anglo-Saxon countries or the highly ideologically-driven union strategies in Italy or France. While the trade unions never succeeded in organising a large share of the workforce, such as in Belgium or in the Nordic countries, they did enjoy important institutional guarantees. The system of work councillors (Betriebsräte) and co-determination (Mitbestimmung) facilitated a union presence on the shop floor level and established a strong role for these mostly unionized work councillors and board members in the day-to-day running of German firms. Although some tensions arose in the 1970s among workers (Bergmann et al. 1976), trade unions pursued 'Sozialpartnerschaft' for most of the post-war period, some periods of conflict and industrial action notwithstanding.

In addition, during the interlude of Keynesian steering, the government attempted to establish wage coordination on the macro-level with the so-called 'Concerted Action', an informal meeting of union leaders, employer representatives and government (Lehmbruch 1999). The cooperative mode of regulating class conflict was of course conditional on co-operation by employers and their organizations. This co-operation was practiced at least until the 1990s. Concerted Action resulted in the broad coverage of collective agreements, a large number of generally binding (extended) collective agreements, a moderate to low level of industrial conflict and a moderate wage policy. The guiding formula was 'distribution-neutral wage setting', that is, wages should increase at the same pace as general inflation plus productivity of the entire economy. Wage rounds were strongly co-ordinated between sectors of the economy.

Some unions were ‘wage leaders’—usually IG Metall—setting a norm that was generally accepted with few modifications in other sectors. These collective agreements were then further adapted to the firm-specific situation by additional wage increases. Here the trade union representatives—work councillors and shop stewards (Vertrauensleute)—played an important role. This wage drift worked as a safety valve for intra-class conflicts over relative wages, which relieved pressure in the system of collective agreements whenever the compression of wages went too far in the eyes of workers. The interplay of co-ordinated sectoral agreements with firm level bargaining created a semi-flexible system with rigid collective agreements for large sectors (Flächentarifvertrag), thereby binding most firms in this sector and guaranteeing a minimum wage topped up with firm-specific wage additions.

The wage-setting system constrained wage differences between sectors and set a cap on wage changes in both directions. It thus hindered redistributional policies in favor of the employers or the employees. Firms producing for the world market therefore had to cope with a relatively high and inflexible wage share, and their most promising strategy was a high-productivity production with a highly-skilled workforce under conditions of industrial peace. Low-productivity firms operating on the domestic market had a strong incentive to increase productivity by technological innovation.

Finally, the German welfare state expanded considerably after World War II. Both leading national political parties—Christian Democrats and Social Democrats—supported a generous welfare state. Its basic foundations were contribution-based financing (in contrast to the tax-based Scandinavian system), a conservative emphasis on the family (originally with a single breadwinner) and a generous level of benefits. Job security was established by the system of work councillors, who have a say in decisions on hiring and firing and restrictive employment protection legislation. If employees were laid off, they enjoyed a high level of benefits that were paid for a relatively long period. Employers faced considerable hurdles in pursuing hire-and fire policies in reaction to short-term business fluctuations. Unemployed workers were not forced to accept any job offer with wages far below the previous wage level thanks to high wage replacement rates for long periods.

On the one hand, the German economy was clearly export-oriented and very competitive; on the other hand, this competitiveness was considerably constrained. Germany was an economically-open social market economy with a redistributive system of industrial relations and a generous welfare state that provided social security against the risks of the industrial society, in particular for the cases of sickness, unemployment and old age.

3 Unleashing the Trading State

The institutions that tamed the trading state had been under pressure for a long time. Arguably, capital mobility is one of the major determinants of the room of maneuver a national system of industrial relations has. Under conditions of liberalized capital markets, any expansionary fiscal policy or increase of wage shares can be penalized by capital flight. Between the 1970s and 1990s, Germany set itself apart from other OECD nations with its very open capital markets. This however changed dramatically in the years following 1990, when other countries liberalized their capital market too, thereby offering German capital additional opportunities for leaving the country (see the indicator by Chinn and Ito at http://web.pdx.edu/~ito/Chinn-Ito_website.htm, last accessed on May 21, 2012).

The globalizing economy affected the style of collective bargaining. The 'Flächentarifvertrag'—the application of coordinated tariff wages—was increasingly criticized by many employers who either left the business associations or settled for membership without being forced to abide by the collective agreement reached between trade unions and the respective business association. Germany once had coverage rates of collective agreements well above the 80 % level. This rate has declined dramatically since the 1990s, reaching a level of about 60 % in 2010. In contrast, coverage rates in other OECD have not exhibited downward trends, remaining more or less the same with an average coverage rate of around 55 % (Visser 2011). There is little doubt that the 'Flächentarifvertrag' has been modified substantially due to both employers' reluctance to enter agreements and various modifications which have led to flexibilisation (Baccaro and Benassi 2013).

Closely connected to the declining coverage of collective agreements is the declining union density. In the OECD nations, the decline of union density generally started in the 1980s. In Germany, union density has decreased since the 1980s, albeit at a much slower pace than in the average OECD country. This however changed after 1990 and following a temporary spike in union density directly after German reunification due to the transfer of members of the former United Union of the GDR to the Deutsche Gewerkschaftsbund and its member organizations in the 1990s (Fig. 2).

A similar finding is revealed when analyzing industrial actions. During the entire post-war period, Germany had been a role model of 'social partnership', using strikes only as 'ultima ratio'. Up until the mid-1980s, there were a few years with large strike figures; by the mid-1980s, this short-term surge in strikes had disappeared in Germany. The former temporary and moderate industrial conflict has all but withered away in Germany, and, as the graph below illustrates, Germany is by no means exceptional in this regard. Not only have trade unions lost members and much of their former capabilities to settle working conditions for the majority of employees, they have also become unwilling or unable to pursue offensive wage policies to the same extent as they had previously.

All these developments may have contributed to the trade unions' moderate wage policy (Sachverständigenrat zur Begutachtung der wirtschaftlichen Lage 2013: 87, 497), which created favorable conditions for German firms in

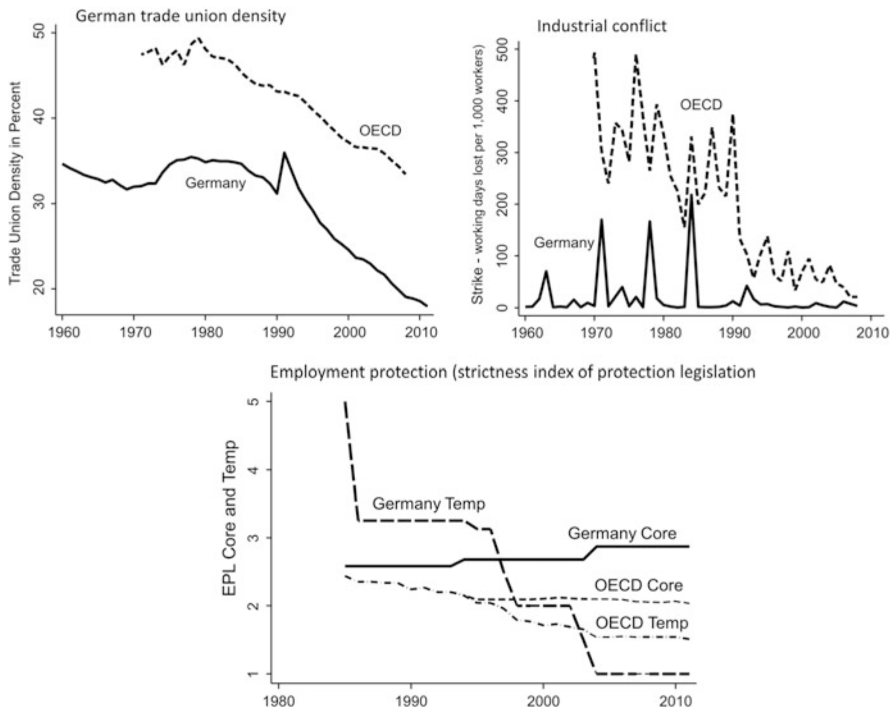

Fig. 2 Industrial relations in a comparative perspective

international markets. While these developments apply to all groups of the labor market, only two far-reaching reforms concerned the marginalized work force directly: the radical liberalization of employment protection for workers with temporary work contracts and the liberalization of unemployment compensation for the long-term unemployed.

Figure 2 depicts the development of employment protection legislation (EPL) for workers with regular work contracts and for workers with temporary contracts. The higher the value, the stricter the regulation of individual dismissals will be. The strictness index of EPL for workers with regular contracts has declined on average from 2.3 to 2.0 over the last 25 years in mature OECD democracies. German workers with unlimited contracts enjoy much better employment protection, which even increased slightly in the past years. In contrast, while workers in the 1980s with temporary contracts were extremely well sheltered, by 2010, the situation had changed completely.

The second major change had to do with the system of unemployment compensation. The Hartz reforms of 2003–2005 dramatically reduced the compensation for the long-term unemployed. In contrast, workers who are only unemployed for a short period continue to receive generous unemployment compensation. The basic idea of the Hartz reforms can be traced back to a liberal vision of 'workfare', wherein the long-term unemployed have strong incentives to re-enter the labor

Table 1 Non-employment benefits (for an average worker with two children and one earner), measured as a % of average wage

Year	Germany	Median OECD-countries	Median EU-countries
Immediately after loss of job			
2011	70	64	66
2001	70	64	66
Long-term unemployed			
2011	39	9	10
2001	62	12	12
Average of 5 years of unemployment			
2011	50	33	34
2001	64	41	42

Note: Median of all OCED and EU countries, i.e., including Central and Eastern European countries
Source: http://www.oecd.org/els/benefitsandwagesstatistics.htm, downloaded on 2012-12-11

market when conditions are significantly worse than compared to the last period of employment (Fleckenstein 2012, 2013; Hassel 2012). There is no question that the Hartz reforms signify a particularly severe liberalization of labor market policy. Table 1 shows the worsening situation of the long-term unemployed in Germany between 2001 and 2011, in particular as compared to core workers. On the other hand, even after Hartz IV, the long-term unemployed in Germany are much better off in comparison to the median in the OECD or the EU.

Over the course of German labor market reforms up until 2000, policy change was strongly coordinated between employers, unions and the government. In contrast, actors in government and parliament almost exclusively executed the Hartz liberalization of the labor market, while interest organizations, in particular the trade unions, participated only at the margins in designing and implementing the 'Agenda 2010' of the social democratic-green government (Trampusch 2009).

When we interviewed representatives of the labor market parties in the fall of 2012, we repeatedly heard the argument that these reforms also had signaling effects for the core work force (Interviews NGG, ver.di). 'Hartz IV' made clear that the generous German welfare state could be reformed and that although the reforms began at the margins, the core of the welfare state and its clientele could very well become the targets of reform over the long-term as well.

It is worth noting that these harsh reforms concerned only a relatively small segment of the workforce. In 2012, the German labor force totaled about 42 million with around one million long-term unemployed (persons on unemployment for at least 12 months and thus eligible for Arbeitslosengeld II, also known as Hartz IV).

These reforms, together with the liberalization of marginal employment, have changed the employment structure of Germany. Anke Hassel concludes her survey of German labor market reforms as follows: "Overall, the experience is therefore mixed. More employment is combined with low pay and insecure employment" (Hassel 2014: 70).

This situation not only concerns marginal workers, but also sends a signal to the core workers. It may explain, for example, why trade unions (even in sectors with high density and a large share of core workers) were unable to prevent a declining wage share. Income inequality and the share of people at risk of poverty has increased. The Gini coefficient increased from 26.1 in 2005 to 28.3 in 2012; across the EU-15 the increase was from 30.0 (2005) to 30.4 (2012). Likewise, in the EU-15, the share of people at risk of poverty was 23.1% (2012) as compared to 21.6% (2005). The level of poverty in Germany, however, remains much lower: 19.6% in 2012 and 18.4% in 2005. The ratio of the top 20% of incomes to the bottom 20% of incomes grew from 3.8 (2005) to 4.3 (2012), while comparable data for the EU-15 show a more modest rise from 4.8 to 4.9.[3]

These developments did not, however, indicate that the Germany society and economy had undergone a transformative change. Significant changes concerned some elements of the system of industrial relations and labor market policy, where massive liberalization occurred. But these reforms had no significant effect on other elements of the system of labor relations, in particular the works constitution act (Betriebsverfassung) and the system of co-determination (Mitbestimmung). Both institutions comprise the backbone of trade union power on the firm level. Likewise and even more important, the German welfare state has not been dismantled.

Figure 3 shows the development of total social security expenditures in Germany (in % of GDP) and the average in OECD democracies (mature OECD democracies from the 1989 country group; see footnote 2). While Germany pursued a partial liberalization, it maintained its core of the welfare state principles, which concerns, in particular, the elderly and the sick (Schmidt 2012, 2013). And, as shown above, in terms of income inequality and poverty, even after 2005 the situation is much better in Germany when compared with the average EU-country.

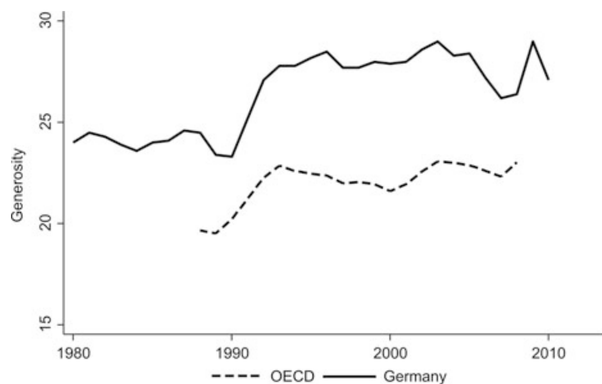

Fig. 3 Generosity of the welfare state in Germany and in the OECD

[3] Data are from Eurostat. http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/database, last downloaded on 2015/04/10. http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/main_tables, last downloaded on 2014/01/15.

In sum, the liberalization of industrial relations, employment protection and social security of the marginal workforce, together with the moderate and flexible trade union wage, have arguably contributed to increased competitiveness. Institutions that used to tame the German trading state have been partially dismantled. A large share of the costs of these reforms have been shouldered by the employees, and in particular by the rising numbers of employees who do not belong to the core of the labor market, due to temporary work contracts or their particular vulnerability to long-term unemployment.

4 The Politics of Coping with the Effects of the Unleashed Trading State

Germany, as a traditional export-oriented economy, benefitted from the opportunities created by the EU's internal market, in particular during the past decade when the German economy unleashed its economic potential by modifying its labor market institutions. In addition, Germany also benefitted from its reputation as a competitive and vibrant economy when financing its sovereign debt. Since the mid-1970s, the spread between Germany's long-term interest rates on government bonds and the rates in other OECD and EU countries has been quite large. After reaching a maximum value in the mid-1980s, the average spread between Germany's and the national interest rate in the Eurozone receded and approached 0 by the mid-2000s; thereafter it rose again to 3 %. The average spread between the OECD countries and Germany was 2 % during this period (see Fig. 4). The positive evaluation of the German economy by international financial markets considerably reduced the costs of servicing Germany's sovereign debt.

How did German political elites deal with the challenges associated with aggravation of the currency union brought on by the success of their reforms in relation to national industrial relations and labor market policy? The problems of a monetary union in a non-optimal currency region have been well-documented since the beginning of the Euro project. For those economists and social scientists who

Fig. 4 The spread between Germany's interest rates on long-term government bonds and the interest rates in the OECD and Eurozone countries (average interest rate of the respective country group minus Germany's interest rate)

have pointed to the risks of the project, it came as no surprise that under external shock, problems related to the absence of adjustment mechanisms materialized, i.e., that weakly performing countries could not devalue their currency and were therefore forced to undertake internal devaluation (Armingeon and Baccaro 2012).

However, major political party elites preferred a different framing of the problem: fiscal profligacy and unsustainable welfare states caused the fiscal crisis in the Mediterranean states. The Euro project continued to be perceived as one without major flaws; the problems were rather with the national political economies.

Using this frame, the German government asked for tough austerity measures and far-reaching structural reforms to bring the countries back onto a growth path. This frame was upheld, even after the IMF wondered about the economic wisdom of long-term pro-cyclical fiscal policy and after austerity failed to lead to growth and rising employment, but rather led to rising unemployment, debts and interest rates on the government bonds of the southern European countries. The Chancellor and her government argued that structural reforms and austerity had worked in Germany since the turn of the century; these reform processes needed to be replicated by the governments in southern Europe (Interview with the Ministry of Finance).

The argument that Germany's economic success and it's extremely positive trade balance was increasing pressure on the Eurozone was clearly rejected. One argument pointed to the fact that only about 40 % of exports go to Eurozone countries—this point was also underscored by employers.[4] Another argument stressed that instead of reducing Germany's capacities to the level of other countries, these countries should do everything they could to quickly conform to the German standards (Interview with the CDU). This request assumes that what could not be reached during the past 10 years of relative stability and favorable circumstances could now be done within a few months or years under extremely bad economic and social conditions.

These hopes of convergence are also built on institutional reforms of fiscal policy such as the strengthening of the Stability and Growth Pact and the Fiscal Compact. They limit the room for maneuvering fiscal policy, in particular fiscal profligacy. By exporting the German 'debt brake' to the EU member states, they force a reduction of excessive debts—which will be very difficult if economic growth is depressed by austerity policies.

The way in which the German government framed the problem was highly inappropriate. While fiscal profligacy applied to Greece, this was not the case for the other countries in trouble. In fact, the fiscal position of Spain or Ireland immediately before the onset of the crisis was much better than Germany's (Armingeon and Baccaro 2012; Scharpf 2011).

Invoking the notion of 'lazy Greeks' and that good member states such as Germany are not liable for the shortcoming and debts of 'bad' member states

[4] Leaflet published by the Bundesvereinigung der Deutschen Arbeitgeberverbände, April 2013: 'Germany's export strength–bad for Europe?'

(Schmidt 2014: 204), the German chancellor applied economic ideas and preferences that had been influential for previous German economic policy.[5] It reflected the basic conviction held by a large majority of Germans that the German interwar catastrophe of inflation and unsound public finances cannot be allowed to repeat itself (Schmidt 1986). This German 'stability culture' is not only explicitly supported by the chancellor and her party, but also, albeit not explicitly, by the Social Democrats. At the core of this stability culture, we find inflation aversion and a high degree of trust in inflation-inhibiting institutions. Jacques Delors once phrased it as 'not all Germans believe in God, but they all believe in the Bundesbank' (Howarth and Rommerskirchen 2013, for the quote of Delors see page 752).

Insisting that the problem was with other countries rather than with the structural setup of the currency union or the imbalances created by the Eurozone, to which the German economy has contributed, the German government efficiently pursued its interests in short-term stabilization of the Eurozone by allowing German export-led growth to continue. The obvious problem with this approach is that, in the medium-to-long term, this will once again contribute to similar imbalances that need to be solved by similar ad hoc measures and support. Muddling through in pursuit of the interests of the German economy therefore appears to be the preferred strategy.

The alternatives to this problem framing and policy responses are difficult to realize in the German context. Returning to the former European Monetary System, i.e., the Deutsche Mark, would imply considerable risks for the German economy. There is no majority among politicians and the electorate who would be willing to take that risk. Another alternative would be to create a permanent fiscal transfer union, which would imply substantial redistribution across the regions. It would start with the view that the Eurozone is a non-optimal currency region and needs permanent transfers between member states in order to correct for the imbalances. Germany has extensive experience with such transfer systems, as it lent long term support to structurally-weak economic regions bordering the former German Democratic Republic, had a major flow of resources between the states (Bundesländer) with varying levels of economic performance and, after unification, established considerable transfers to the new Eastern 'Bundesländer'. These transfer systems were backed by an electorate that felt some national identity and hence the duty for solidarity.

In contrast, the European identity in Germany (and other EU countries) seems much too weak (Scheuer and Schmitt 2009) to legitimize major and permanent inter-regional transfers. In addition, in order to govern this transfer union with some democratic legitimacy, the European Union would need a working democratic

[5] This is another example of discursive institutionalism. It builds on approaches that emphasize the 'coordinative discourse' of policy construction via discourse coalitions, epistemic communities and knowledge regimes as well as those concerned with the 'communicative discourse' between elites and the public through deliberation and contestation with mass publics, the media, electorates, social movements and the everyday public' (Schmidt 2014: 3). See also Lehmbruch (2013).

system that organizes democratic deliberation, party competition and democratic decision making on the level of the European Union (Follesdal and Hix 2006; Schmidt 2010: 399–411)—tasks which arguably do not seem feasible at the present. At least with regard to the domestic political system, Germany is stuck between returning to the Deutsche Mark (which is not feasible) and its inability to move toward a democratic currency and fiscal union.

These constraints not only apply to the major governing political party, the Christian Democrats, but also to the second major party, the Social Democrats. There are few major differences between the SPD's and CDU's strategies to address the sovereign debt crisis. While wholeheartedly supporting the request for institutionalized austerity, the SPD inconsistently adds that it would like to combine countercyclical policy in structurally-weak economies with some growth (Interview SPD) and Eurobonds, all the while detesting austerity in principle. Kurt Hübner has analysed German newspapers and weekly papers to reconstruct the policy positions of the major political parties (Hübner 2013). As in the case of the 'stability culture', the major parties do not differ in their preferred response strategy to the Euro-crisis with regard to strengthening the Stability and Growth Pact, the Fiscal Pact and the debt brake (Table 2).

The new governing coalition of CDU/CSU and SPD and its coalition treaty clearly demonstrate the overlap of positions with regard to the European Union. 14 pages of the 185 page treaty deal with the EU; none of these pages deviate substantially from the previous government's EU policies. There was and there still is no major difference in this regard between the Social Democrats and the Christian Democratic Union.

Likewise, an alternative strategy could not be based on broad support among the major interest groups. For employers, the present strategy of wage moderation and an export-led growth is optimal in the short term, in particular for the export-oriented industries; they are in full support of the government (Interview Gesamtmetall). The trade unions have a less clear position. The major trade union, IG Metall, which organizes workers mainly in the export sectors and whose members benefitted from growing employment during the past years (and whose organizations have witnessed slight increases in membership due to growing

Table 2 Lack in party competition in response to the Euro-crisis

	Strengthening SGP	Fiscal pact	Debt brake	Austerity	OMT	Eurobonds
CDU/CSU	+3	+3	+3	+3	−3	−3
SPD	+3	+3	+3	−2	+2	+3
FDP	+3	+3	+3	+3	−3	−3
Green Party	+3	+3	0	0	−1	1
Linke	−3	−3	−3	−3	−1	+3

From '+3 in strong favor' to '−3 in strong rejection'
Source: Hübner (2013: 10)

Table 3 Support of non-austerity policies by households without union members vs. trade union households (% yes)

	Western Germany		Eastern Germany	
	Non-trade union households	Trade union households	Non-trade union households	Trade union households
Financially strong member states should help weak member states	32	35	33	30
Should Greece get additional money from the EU?	39	41	28	34
Introduction of Eurobonds	17	11	13	17
Support haircut on Greek debts	44	38	38	40

Source: Calculated from the Politbarometer West and East, 2011

employment in recent years), has little incentive to mobilize against the official government strategy (Interview Gesamtmetall).

In contrast, the members of the second largest union, which organizes in the service sector (ver.di), draws much less benefit from export-led growth. Wage expansion is more advantageous for them, and ver.di therefore tries to push forward its minority position of a 'Marshall Plan' for the southern European countries in the German trade union movement (Interviews with ver.di and NGG). However, the likelihood of mobilizing trade union members on a broad base for a substantial change to the government's EU-strategy is slim. While trade union elites tend to question austerity policies, the rank and file is very much in favor of the governmental position (Interview with NGG). This is supported by a re-analysis of surveys. The "Forschungsgruppe Wahlen" conducted surveys in 2011 that also contained questions relating to the crisis policies (see Table 3).

The differences are not significantly different from zero. In Western Germany, there were only two items (Eurobonds and haircut) where the difference was close to the 5 % level. These were the cases where trade unionists were more strongly in favor of austerity than households without union members.

Likewise, party electorates generally do not differ with regard to these questions. Even after controlling for occupation and union household, we could not find any systematic and significant differences between the voters of the CDU and the other major parties—with the exception of Green Party voters who were significantly less in favor of austerity policies. Even the leftist 'Linke' voters support the government's austerity policies to an extent similar to that of the CDU, SPD or FDP. In other words, among the electorate, there also exists a grand coalition in support of the government's policies (see Table 4). In another survey, Bechtel et al. (2014) also found no significant difference at the conventional level between voters of the CDU, SPD, Greens and FDP, while the voters of the 'Linke' and the (small) radical right parties are significantly more opposed to financial rescues than the voters of centrist parties.

Table 4 Support of non-austerity policies by party vote intention (% yes)

	Western Germany				Eastern Germany				
	CDU	SPD	Green	Linke	CDU	SPD	FDP	Green	Linke
Financially-strong member states should help weak member states	32	35	41	46	23	43	45	47	35
Shall Greece get additional money from the EU?	41	45	52	34	30	32	20	50	30
Introduction of Eurobonds	12	18	24	26	17	19	0	36	14
Support haircut on Greek debts	46	50	58	64	37	45	44	57	50

Source: Calculated from the Politbarometer West and East, 2011

This conclusion also holds in view of the success of the party 'Alternative für Deutschland' (Alternative for Germany), which won nearly 5 % of the total vote in the 2013 elections. A recent analysis showed that about one-third of these voters were deliberate opponents of the Euro; another two-thirds decided to vote for the party only very shortly before the election with a mix of motivations, among them protest against the major parties and opposition to increased migration. The unexpected success of the AfD can be mainly attributed to the discourse among the major parties which remained relatively silent about EU policy and presented no clear alternatives to the voters (Schmitt-Beck 2014). The voters—and not only the voters of the AfD—are very much concerned about the Euro project. But since none of the major parties took up the issue—arguably because they have no alternative policy suggestions—this unease was not articulated, thereby making it easier for the AfD to organize as a Eurosceptic party.

5 Conclusion

The main result of our analysis can be summarized as follows: Germany witnessed a tamed trading state up until the 1990s, with industrial relations institutions designed to 'spread the wealth around'. In addition, they ensured high wages and a relatively egalitarian distribution of earnings. These conditions, however, tempered the competitiveness of exports and favored a growth model in which domestic consumption played a larger role than after 2005.

Since the 1990s, and particularly since 2003, Germany has unleashed its trading state by embarking on a number of institutional reforms. After 2005, growth was strongly export-driven, and domestic consumption played a much smaller role for economic development (Baccaro and Benassi 2013). The competitiveness and the

export-led growth are favorable for German employers and the median worker, since s/he faces less risk of unemployment; instead, the main burdens are carried by the marginal groups of the workforce. Unleashing the trading state not only had domestic consequences for redistribution, but also contributed to the destabilization of the Eurozone.

Germany has become the leading economy and the leading political power within the European Union. On June 15, 2013, *The Economist* reported: "Bureaucrats in Brussels talk ruefully about Berlin becoming the capital of Europe. 'When the German position changes on an issue, the kaleidoscope shifts as other countries line up behind them,' says one official." If Germany accepts this leadership position and its responsibility as a leader, the government and interest groups need to consider the requests by the EU Commission, other EU members states and international actors to do more to increase domestic demand and thereby reduce Germany's reliance on exports for economic growth. At the same time, in their own long-term interests, German political actors have to think about an institutionalized transfer union, which channels resources from countries such as Germany, the Netherlands and Finland to the southern European nations in the sense of permanent support to structurally-weak regions of the Eurozone.

For domestic reasons, this option is not feasible. The overwhelming majority of German citizens are not willing to extend solidarity to structurally-weak regions, having only recently experienced liberalization, decreasing wage shares and austerity policies in their own country. The two leading political parties risk electoral punishment if they agree to a permanent transfer union in favor of the weak economies. Therefore, and following historically-established ideational paths of problem definitions, they framed the crisis as a result of fiscal profligacy and lacking liberalization of labor markets. They requested that other countries adopt the German reform path. "We have realized our Agenda 2010, and now we can expect other countries to pursue their Agenda 2010", as one of our interview partners put it.

But, as we have argued, this German crisis response will not help to solve the structural problems of a currency union in a non-optimal monetary region. Since German politicians and interest groups are trapped in their own problem frame and since they have to insist on the continuance of export-led growth for domestic reasons, the German economy will ultimately continue to contribute to the destabilization of the Eurozone on which Germany depends. This will force Germany to solve major imbalances by ad hoc measures as in the past. Nothing is left but muddling through and hoping for a global wave of economic growth that will relieve Europe of its structural problems. Alternatives are not feasible, since there are no majorities backing policies other than the current broadly-supported ones. There is no party competition in this policy field and no major conflict between labor and capital over the desirability of export-led growth that could trigger a major policy change. The recent national election and the building of the new grand coalition indicate that Germany will continue its response pattern in the European sovereign debt crisis.

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