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Consociational Roots of German Corporatism: The Bismarckian Welfare State and the German Political Economy

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Abstract

In the literature Germany does not figure as a classical corporatist country. It lacks many features considered preconditions for stable central, tripartite agreements on wages, employment and inflation. Yet, in a variety of outcomes Germany performs truly 'corporatist'. This paper argues that the institutional set-up of the German welfare state offered the 'social partners' the opportunity for long-term economic coordination. Thus they could strike deals that resemble in many respects those central agreements that we know from the classical corporatist countries. This contribution shows that the institutional set-up of the German welfare state must be explained by the fact that the welfare state had been made into an instrument of consociationalism since it was designed to integrate the socialist and Catholic camps into the new Reich. Thus, the paper can demonstrate in detail the working of the nexus between corporatism and consociationalism to which the literature so frequently refers.

1 Introduction

Students of the German political economy frequently note that they are faced with an anomaly (Thelen 1991: 3). The puzzle, in the words of Kathleen Thelen, is that various comparative studies find that:

Germany tends to 'cluster' with the corporatist democracies in a variety of outcomes (labor peace, inflation, unemployment, general economic performance, social policy), but by virtually any theorist's definition or measures – it lacks the structural features that are considered preconditions for, or attributes of, corporatism (Thelen 1991: 3).

Neither centralized wage bargaining, nor long-term political exchange between state, capital and labour, nor the capacity and political will to embark upon an active Keynesian macro-management or Social Democratic hegemony figure prominently within 'Modell Deutschland'. Moreover, Germany also does not qualify as a classical consociational nation (Lehmbruch 1998), while consociational elements are certainly prominent within

Germany's *Verhandlungsdemokratie*, or negotiated democracy. It is as if post-war Germany took a decision that the world had seen enough of its exceptionalism and its own path, and that it would, henceforth, hide somewhere in the middle of each and every index designed by scholars of comparative politics or comparative political economy. Post-war Germany's "politics of the middle way" (Schmidt 1990) seems to correspond to its position in the middle rank with regard to most of the comparative politics indices we know. Yet, as I am going to argue, Germany's quasi-corporatism is based upon an institutional setting, whose historic roots were in many respects consociational in nature: the German welfare state.

Let me start with a brief sketch of the historical argument. The German welfare state was part of a dual strategy, both repressive and integrative, with which the young German Reich sought to achieve inner unity and national identity after the French-Prussian war of 1870/71 had resulted in territorial consolidation. The two 'enemies from within', Social Democracy and political Catholicism, had been the target of repressive state action in the *Kulturkampf*-era of 1873-1878 and in the era of Socialist law of 1878-1890. However, the social legislation of the 1880s offered these two camps avenues for societal integration as well; an opportunity they were quick to grasp. While political repression under conditions of universal (male) suffrage contributed to the formation of the religious and/or political camps, the specific institutional structure of the Bismarckian welfare state helped consolidate the Catholic and socialist camps, and furthered the social integration of Catholic and socialist workers into the new German nation state. Yet, workers were integrated as members of their respective camps, and not – as Bismarck had hoped – as new citizens loyal to the Wilhelmine state (Section 2).

As a consequence, social integration did not simply spell social harmony. With the passing of time, the liberal Protestant bourgeoisie especially came to feel politically and economically excluded from both the game of corporative pluralism (Maier 1975) between organized labour and capital, which critically built upon the proto-corporatism established with the Bismarckian welfare state, and from the political collusion between the Catholic centre and the Social Democrats, which was particularly prominent in the social policy domain (Geyer 1991). Therefore, a social reform project, which once had been of utmost importance to the enlightened German Protestant bourgeoisie, now became one of the prime targets of liberal critique against the Weimar system (Manow 2001). This critique was particularly endorsed by a group of economists who later became known as the Ordoliberals (Section 3). Ordoliberalism is generally understood to "have laid the intellectual foundations for the (...) free market economy in mid 1948" and to have been, since then, "the quasi-official credo of West Germany's economic policy" (Giersch et al. 1992: 16). While many Ordoliberals initially favoured an

authoritarian solution to lead Germany out of the profound political and economic chaos of the late 1920s and to dissolve the corporatist complex of which the Bismarckian welfare state was a prominent part, after the utter failure of authoritarianism, the Ordoliberals began to seek alternative solutions.

Post-war Germany's compromise between the (ordo)liberal economic order and the Bismarckian welfare state was then also a compromise between the Protestant bourgeoisie and the Catholic and Socialist worker movement. This can be seen by the establishment of a system of targetted, selective interventionism by independent agencies, which were institutionally sheltered from party politics and designed to safeguard basic principles of a bourgeois order (central bank, cartel office), on the one hand, and by the reconstruction of the corporatist Bismarckian welfare state that the Ordoliberals had opposed so vehemently on the other hand (Abelshauser 1997). This political and denominational compromise, that is the consociational trait of Germany's post-war order, can explain much of its corporatism-like functioning. The rebuilt Bismarckian welfare state helped stabilize a system of industrial self-governance and helped establish a system of economic coordination within a seemingly 'liberal' market environment that lacked all the 'classical ingredients' of economic corporatism. The German welfare state was an indispensable part of this post-war order and a crucial precondition for its successful working. Two stylized examples are provided to show exactly how the interplay between the welfare state and the economy functioned in post-war Germany's social market economy (Section 4).

2 The Bismarckian welfare state and the anti-liberal turn in German politics

The foundations of the German welfare state had been laid in markedly anti-liberal times (Stolleis 1979), in the context of the repressive measures against the Social Democratic Party (Socialist Law of 1878), of a pronounced protectionist turn in trade-policy (*Schutzzoll*), of the forceful state-led modernization of the German economy, and of the dominance of conservative over liberal orientations in the Prussian bureaucracy after 1880 (Lehmbruch 1997; Nipperdey 1993). Bismarckian social legislation was paternalistic, centralist, *étatist*, interventionist – extremely so in its initial design, and still very significantly so after political compromises had watered down some of its most radical elements and had combined state interventionism with older layers of self-governance (*Selbstverwaltung*) and traditions of corporatist self-regulation.

Yet exactly the element of self-governance of workers and employers in the social insurance system paved the way toward incorporating the organized interest groups of labour and capital into the (welfare) state's administrative structure. Self-administration provided unions and employers' associations with important organizational support (Heidenheimer 1980; Manow 1997, 2001; Steinmetz 1993; Tennstedt 1983). Coordination between unions and employer associations became centrally based upon the formal, legally backed integration of business and workers/unions into the welfare state. The Bismarckian welfare state thus became a central, if not the most central, element in what Werner Abelshauser has described as the emergence of a "modern system of corporatist interest intermediation" (Abelshauser 1982: 287). The state began to "share public space" (Crouch 1986) with organized societal interests and started to use "functional organizations as co-opted agents of order" (Crouch 1986: 189; Maier 1987; Offe 1981). Bismarckian social legislation marked the birth of many "historically durable 'modern' elements in German economic policy" (Abelshauser 1984: 289).

Being targetted primarily at workers, and allowing for the participation of workers' organizations in the administration of the social insurance schemes, the Bismarckian welfare state proved to be especially favourable to the only two political movements that organized the working class: Social Democracy and the Free unions on the one hand, and the Zentrum and the Catholic worker movement on the other. After World War I, the Catholic Center party (Zentrum) and the SPD became the two most prominent and influential parties that were loyal to the new constitution and republic. And nowhere could both parties agree more frequently and more easily on a common programme than in questions of social policy.

Yet, with a worsening depression and a growing paralysis of the political and industrial relations system at the end of the 1920s, the central bureaucracy became increasingly distrustful of and impatient with the organized interests of labour and capital. At the same time, the civil servants increasingly lost confidence that the political parties would be capable of enacting the austerity measures that were – in the bureaucrats' view – urgently needed to overcome Germany's fundamental economic crisis. Finally, the ministry embarked upon a harsh austerity course with the help of emergency decrees under the presidential cabinets of Brüning and Von Papen. The higher civil servants increasingly came to share the view of the conservative critics of the republic and of German employers who blamed an irresponsible and 'unbridled parliamentarism' and the Weimar party state (Parteienstaat) for the grave political and economic crisis (Geyer 1991). In their view, German industry was overburdened with social costs imposed on it by irresponsible politicians who tried to outdo each other in handing out much too generous welfare benefits. The conservative attack on Weimar thus became a dual attack on both

the political system of the Weimar Republic and on the German welfare state. It is not by accident that the last cabinet of the Weimar Republic to be legitimized by parliament fell in 1930 over the decision to raise contributions to the unemployment insurance (Mommsen 1978: 10-14).

3 Ordoliberalism and the rise of 'authoritarian liberalism'

The pronounced critique of the Weimar party state was not only formulated by 'conservative revolutionaries' (Sontheimer 1962), but was in essence shared by the group of thinkers who were to become known after World War II as the founders of the influential doctrine of Ordoliberalism. The ordoliberal doctrine was primarily a response to the crisis of the late 1920s. Two central papers, which are generally regarded to be the founding manifestos of this new school of economic thinking, were written in 1932, when the depression reached its peak: Walter Eucken's *Staatliche Strukturwandlungen und die Krisis des Kapitalismus* and Alexander Rüstow's *Interessenpolitik oder Staatspolitik?* Both papers – and other ordoliberal publications from the same year (Müller-Armack 1932; Röpke 1932 [1962]) – basically shared the fundamental criticism of the parliamentary system formulated by thinkers of the radical right. For Eucken and Rüstow, it was precisely the systematic interpenetration of the political and the economic system (read: the corporatism), which had been inherited from the empire and enlarged during the Weimar Republic, that lay at the heart of the crisis. What might have been bearable, perhaps even desirable under the old Wilhelmine regime, – the aggregation of societal interests in broad and powerful organizations – had now, under conditions of universal suffrage, allegedly become a threat to the economic and political order: "Democratic parties that organize the masses and the interest groups exert an increased influence on the government and thus on economic policy." And these parties and interest groups were held responsible for a growing "dis-organization of the economy by the state" (Eucken 1932: 306, 315; Müller-Armack 1932: 113-117). According to the Ordoliberals, mass democratization had made the state receptive to, if not totally enslaved to, these organized interests. State action could only take place by way of horse-trading between the parties to the mutual advantage of their clientele but at the expense of the general welfare. Yet, a state that begins to "feed the interest groups beast", will ultimately be "eaten up by it" (Rüstow 1945: 83). The ordoliberal diagnosis – which was as vague as it was polemic – saw the effects of pluralistic mass politics within a fragmented, pillarized society as responsible for the sorry state in which the German economy and society found itself.

For the Ordoliberals, the cure for this ill was obvious: government was to regain "strength vis-à-vis sectional interests and to preserve its status as the

impartial and incorruptible arbiter of the economic process” (Giersch et al. 1992: 29). Only a strong state was able to gain this autonomy, to stand “above all groups, above all interests” (Rüstow 1932 [1986]: 69-70; cf. Rüstow 1932a), exercising “authority and leadership” [Führertum], “strength and independence” (idem). The state should “free itself from the influence of the masses” (Eucken 1932: 318; Müller-Armack 1932: 126). Under the label of a new or rabid liberalism, Eucken or Rüstow proposed to re-establish a strict boundary between state and society. If the ‘old liberalism’ of the nineteenth century was essentially a programme of *laissez-faire* that had called for a clear separation between the state and the economy and for state abstinence from any specific interventions into the market, the new liberalism, which scholars like Rüstow and Eucken advocated, was one that wanted to separate the state (and its economic policies) from parliamentarism and partisan politics in order to secure that state interventions in the economy would be reasonable, appropriate, independent, and would serve the general welfare, not particular interests. These thinkers did not ascribe to the state a residual, minimal role. Quite to the contrary: it was the role of modern mass politics that had to be minimized.

Thus, the Ordoliberals’ demand ‘to free the economy from the state’ was at the same time a decidedly antidemocratic one. And Herrman Heller was right to remark that the call for the state’s retreat from economic affairs meant first that the state should retreat from its historically accumulated obligations in social policy (Heller 1933 [1992]: 652). Again it was the corporatist Bismarckian welfare state that was at the centre of the attack on the Weimar party state, since the welfare state was also at the centre of the corporatist complex as the institutional and regulatory framework in which German employers and unions pursued their interests – often at the expense of the middle-class of which the Ordoliberals were representatives. To achieve a ‘healthy economy within a strong state,’ Rüstow, Böhm and others tolerated, even proposed to use, authoritarian means. Devoid of any powerful political addressee responsive to their call for a ‘willed liberal order,’ the Ordoliberals had to seek redress from the state – if necessary, from an authoritarian state. And these authoritarian leanings of the ordoliberal thinkers did not suddenly vanish after the Second World War. Closer inspection reveals that for post-war Ordoliberalism as well, only „Ordo [was] necessary and absolute, while Liberalism [was] only contingent and relative“ (Nörr 1993: 13).

4 Liberalism by default

After 1945, the young Federal Republic was in urgent need for policies that signalled a clean break with the past. The recent past had been much more authoritarian than anybody who had dreamt of a revival of the strong state in

1932 could have anticipated. With state interventionism so heavily discredited, the emphasis changed: the wish for state-strength, authority and leadership receded into the background and a new variant of liberalism came to the forefront. The new economic doctrine was legitimized by a number of factors, namely by the label liberal, by the fact that some members of the ordoliberal school had emigrated (Röpke und Rüstow), while none of them had been severely discredited, and by the “powerful myth of the ‘social market economy’ as a supposedly fundamental post-war political innovation” (Lehmbruch 1992: 33). Of the many collective myths that necessarily stood at the beginning of the second German republic, the myth that the doctrine of Ordoliberalism was a new, liberal, non-interventionist concept is probably the most prominent and the most long-lived of all.

The post-war German political system was a system with many veto points, the West German state being only a ‘semi-sovereign’ state (Katzenstein 1987; Schmidt 1990). The independent central bank (Bundesbank), the powerful constitutional court, the influential second chamber through which the states had gained a decisive role in nearly all matters of political importance, the autonomy of unions and employer associations in industrial relations: the young republic seemed to have learnt its lesson about the dangers of the ‘total state’ quite well. Lessons were not only drawn from the Nazi disaster, but also from the failure of the parties of Weimar, which were held responsible for having paved the road for Hitler. The new distrust of a powerful central state and a mighty bureaucracy, now further strengthened by the negative example provided by communist East Germany, was complemented by the older distrust of the political parties. And the concept of a social market economy still contained these deep prejudices about ultimately ‘volatile, unreliable and irresponsible’ partisan politics. As became clear again, even after the Nazi-catastrophe “pluralist democracy (...) remained alien to Ordoliberalism” (Nörr 1994: 174). In this situation, the new ‘liberal’ equilibrium incorporated neither the old programme of strict non-interventionism nor the kind of authoritarian liberalism so en vogue before 1933, but comprised a system of decentralized and ‘functional’ interventionism in selected economic areas. Central to the post-war equilibrium was that important decisions were effectively sheltered from ‘undue political interference’ and that, generally, the room for political discretion was substantially restricted. The proliferation of veto points did not simply institutionalize a system of non-interventionism, but, on the one hand, allowed for targeted intervention in specified domains to be carried out by specialized agencies like the Bundesbank or the Kartellamt (Federal Cartel Office), and, on the other hand, forced the political actors to resolve conflicting interests among themselves by way of bargaining and ‘amicable agreement’, in other words, it institutionalized the German negotiated democracy. At the same time, however, the restoration of the

German welfare state along the traditional corporatist lines ensured that the ordoliberal economic order would not result in the free rule of the market, but would work through the organized interests of capital and labour offering them multiple opportunities for long-term coordination.

Many answers are relevant if one wants to explain the stability and legitimacy of the new order, its impressive economic performance, and the lower intensity of state intervention with which it managed to work so well. The stability of the new international order under US-American hegemony certainly has to be mentioned in this respect (see Eichengreen 1996; Maier 1987: 153-184). Here, however, I will focus on the domestic preconditions for the functioning of this new order of 'embedded liberalism' (Ruggie 1982), in particular on the German welfare state and how it crucially underpinned an open and allegedly liberal economic order. To do this I will present two stylized examples.

Unemployment insurance and autonomous wage bargaining (Tarifaautonomie): A rather inconspicuous paragraph in the German unemployment insurance law holds that no unemployed person has to accept a job offer if the wage offered is below the level set by unions and employers associations in collective bargaining (see § 103 para. 2, Arbeitsförderungsgesetz [AFG]). What is the effect of this seemingly marginal paragraph? First of all, § 103 AFG ensures that the lowest wage group, as defined in the collective contracts between unions and employers, is also the workers' reservation wage. German trade unions are industrial unions, i.e., they organize skilled and unskilled workers. They traditionally pursue a solidaristic wage policy that strives to narrow the wage spread within an industry. The upshot is that wages for the unskilled are often 'too high.' Since firms cannot expect to find workers who are willing to work for a wage that is below the level agreed upon in collective bargaining, firms will not offer these low-paying jobs in the first place. Instead, they will try to substitute labour with capital (Paqué 1998: 79).

Hence, § 103 AFG quite efficiently prevents downward wage flexibility, especially in low productivity jobs. German labour law applies to all firms, independent of whether the firm is a member of an employer association, and thus covered by collective bargaining agreements, or not. Thus, § 103 AFG secures the extension of collective bargaining agreements to the entire industry. This is the main reason why the often-mentioned provision of the Tarifvertragsgesetz (collective bargaining law, TVG), which authorizes the German Ministry of Labour to declare collective agreements as generally binding, has to be invoked only rarely (OECD 1994: 178). Moreover, if provisions of the unemployment insurance law make collectively bargained wages de facto binding for the entire industry, the power of trade unions is less strongly linked to the sheer size of their membership. Thus, unions are less forced to attract and mobilize members by seeking spectacular confrontations

with employers over highly contested issues, but can follow more long-term and steady mobilization and recruitment policies. Furthermore, a medium degree of union density with the unions' core members in strategic plants or sub-sectors usually suffices to secure favourable wage settlements for the entire industry. Hence, less adversarial capital/labour relations can prevail, which in turn are a critical precondition for a skill- and trust-intensive production model that is based upon long-term cooperation between the core workforce and the management.

What guarantees that the other crucial precondition for such a high quality/high productivity production model is met, that is, the steady supply of highly skilled workers? This is again based upon the fact that wages are relatively uniform across all firms in the same branch of industry, since the uniformity of wages is critical for the functioning of the German system of vocational training. If wages are regulated on an industry basis, (competing) firms have less incentive to poach young skilled workers from each other through mutual outbidding (Soskice et al. 1997: 43-45; Soskice & Hall 1999). Hence, firms can train young apprentices without having to fear that attractive wage offers will lure young workers away from them once they have completed their training. Since wages are collectively and uniformly set and not left to the discretion of a single firm, bigger firms can offer relative job security or better career prospects instead of higher wages as an incentive to keep able young apprentices. Hence, big firms often train apprentices beyond their demand, benefit from this supply of relatively cheap (but already highly productive) workers, and additionally have the opportunity to pick the best candidates to offer them further employment. Within this model, skills are transportable, big firms – and the artisan sector – produce an oversupply of skilled workers, and firms are even interested in having a certain number of trainees leave the firm after training.

Why are workers interested to achieve these skills if it is unclear whether they will be employed later by the company training them, if they risk becoming unemployed and thus losing their investment in such training? Since wages are equal within the same industry, trainees will be able to earn the same wage with other employers should they lose their job and need to find employment elsewhere. Wages depend on a worker's formal qualification and are independent of the size or economic success of a firm. Moreover, since unemployment benefits are strictly coupled with previous wages and – in the case of apprentices, who usually have not yet earned their own wage – to the wage level that a 'similarly qualified worker' would earn in gainful employment, the investment in the achievement of skills pays off even if the apprentice should become unemployed after his or her training has been completed. Furthermore, the period of apprenticeship also affects the length

of entitlements towards the unemployment insurance, which again secures that young workers are not disadvantaged by seeking training.

Moreover, the probability of becoming unemployed and the average duration of unemployment correlate significantly with the level of skills: the lower the level of skills, the higher the probability and the longer the period of unemployment. This then can be part of a self-enforcing arrangement: instead of not risking to invest into the acquisition of skills out of fear of losing this investment in periods of unemployment, workers invest in skills to reduce the risk of unemployment in the first place. A high degree of labour market hysteresis with a high proportion of low-skilled, long-term unemployed becomes an essential 'functional' part of this incentive structure. This, of course, relates back to the fact that the relative high wage level in Germany forces employers to substitute low productivity/ low skill work with capital. Finally, the very demanding acceptability criteria of the German unemployment insurance ensure that trainees, once they are unemployed, will be relieved from the pressure of quickly accepting a new job possibly below their formal qualifications, thus being forced to write off their investment in skills acquisition. German unemployment insurance allows for a long search period and narrowly defines the 'acceptability' of alternative job offers, and thus protects the long-term value of human capital investments (Paqué 1998).

This example of the interplay between the German welfare state, which is particularly designed to serve the interests of the 'social partners' may demonstrate the high degree of complementarity between both spheres that rendered any state activism in favour of concertation or central corporatist coordination between capital and labor superfluous (Soskice & Hall 1999). What has become known as the German model was indeed able to function without much state interference. Interventionism did not loom large in post-war Germany – not because it was not wanted, but because it was not needed (Abelshauser 1982; Shonfield 1965). I claim that the framework of incentives and constraints provided by the German welfare state for the economic actors is one very important explanatory factor for the high capacity of economic coordination of employers and unions, for example, in the domain of collective bargaining, without direct state involvement.

Old-age insurance and central bank independence. Given that the principle of autonomous wage bargaining rules German industrial relations, collective bargaining does not take place in 'the shadow of the hierarchy', i.e., under the threat of state intervention, but in the shadow of the independent Bundesbank. The German central bank – strictly committed to a non-accommodating monetary policy – has sufficiently proven in the past its will to instantly punish any inflationary wage settlement by "retaliatory interest rate increases" (Soskice et al. 1998: 41). Within this system of 'institutionalized

monetarism' (Streeck 1994: 118; Hall 1994; Iversen 1999) wages and working conditions are set through sectoral collective bargaining, in which the metalworkers' union, IG Metall, has most often taken the lead. Pilot agreements in key branches and regions of the metalworking sector serve as a point of reference for the rest of that sector and are often adopted by other branches as well. IG Metall's wage demands usually remain within the limits set by increases in productivity plus the rate of inflation. Wage demands thus essentially mirror the publicly announced growth in the money supply to which the Bundesbank commits itself each year, taking into account exactly these two factors: 'The expected growth of real productive potential and 'unavoidable' inflation' (Streeck 1994: 123). Other unions are eager to reach wage settlements that do not fall below IG Metall's landmark wage deals. However, given the considerable productivity gains in manufacturing, the compressed wage structure, and the relatively high minimum wage as defined by the level of social assistance (or by the lowest wage group for which wages have been set by collective bargaining), even economically responsible wages in the manufacturing sector are usually too high to allow for significant job growth in the lower labour market segments and in sectors with lower productivity, in particular in the service sector.

Central concertation had no prominent place and rationale within this efficient framework of covert economic coordination or 'industrial self-government' (Flanagan et al. 1983: 276). Central, concerted, deliberately reached agreements between the peak associations of labour and capital under state surveillance are not typical for German industrial relations and industrial policy. Students of the German political economy agree that: 'the German system is not really neo-corporatist' (Hall 1994: 15). The institutionalized monetarism of the German political economy, secured by the independence of the Bundesbank, has also prohibited macro-economic adjustments to economic slumps like the strategic depreciation of the Deutschmark or massive deficit spending on the part of the state. At the same time, inflexible and uniform wages, legal provisions offering generous employment protection for German workers, and powerful unions have made adjustments through large-scale dismissals by and large unfeasible. Given that the German production model's comparative advantage lies in a strategy of 'diversified quality production' (Streeck) or 'high quality incremental innovation/HQII' (Soskice), which is based upon long-term commitments between workers and managers, a flexible labour market strategy would not have been feasible anyway. Moreover, as we have seen in the above example, a differentiation of wages between successful and less successful firms would undermine the highly effective system of skill formation that lies at the heart of Germany's export-oriented production model. What then buffers economic downturns if it is not wage flexibility,

labour shedding, or macroeconomic policies? This function has mainly been fulfilled by the welfare state in German post-war capitalism.

The welfare state offers labour and capital the opportunity to externalize adjustment costs without endangering the vulnerable German model of coordinated capitalism. The main beneficiary of the Continental welfare state has been the male skilled worker in the manufacturing sector (not to mention special occupational groups like civil servants, miners and farmers, for whom special laws often apply). Since pensions are status-oriented and supposed to allow for the preservation of one's living standard during retirement, there is usually no gradual transition from work into retirement. Especially disability pensions offer an early exit from the labour force with generous entitlements. The clear-cut boundary between work and retirement is one of many reasons why early retirement is so attractive for employers who seek to downsize their workforce without stirring up major unrest within the firm. The many possibilities for an early exit from the workforce have been extensively used in times of economic downturn. Using the old-age insurance as an instrument of industrial adjustment is also an implicit form of introducing more flexibility into the wage structure if wages are inelastic and follow seniority. At the same time, it can have the beneficial side effect of leading to an improvement of skills within a firm, since firms can then hire young workers who have been trained in the most modern technologies. In fact, German work councils play a crucial role in the management of the process by which older workers are laid off using one of the many paths into early retirement that the German welfare state so generously provides, and by which young trainees are hired in their place.

Germany is the most open of the large economies of Europe. Nonetheless, the country has been able to cope with unforeseen contingencies like unfavourable changes in the exchange rate or a slump in international demand for German manufacturing goods without referring to the strategies of social corporatism so prominent in the small open European nations, such strategies being tripartite central concertation and macroeconomic demand management. What can explain this more liberal character of the German political economy, its lesser dependence on state intervention and active economic policy? Once again one is compelled to refer to the specific incentive and support structure provided by the Bismarckian welfare state to explain this feature of German 'latent corporatism'. The high degree of autonomy of the German Bundesbank forestalls the use of certain instruments of macroeconomic adjustment. However, the functional equivalent for strategic depreciation or counter-cyclical spending is provided by the Bismarckian welfare state and its benefit and regulation structure that is so remarkably fine-tuned to the demands of German employers and unions. At the same time, a hard currency and high labour costs exert constant pressure to improve the productivity of German industry.

5 A bipolar post-war order

It is not by accident that the central laws that established Germany's basic post-war economic order, like the cartel law and the central bank law, were enacted in the very same year as the major pension reform of 1957. This re-instituted the Bismarckian welfare state with its basic principles like parity of representation of organized capital and labour, concentration of the benefits on the core workforce, and the emphasis on status preservation was reinstalled or even reinforced (Hockerts 1980). It is also no coincidence that coordinated wage bargaining established itself at around the same time (Manow 2001a). Important early decisions that anticipated the character of the post-war equilibrium, like the decree on price controls and the currency reform as well as early social legislation like the Sozialversicherungsanpassungsgesetz (social security adjustment law), were also enacted at about the same time in 1948/49 before the German parliament had assembled (Giersch et al. 1992; Hockerts 1980). The simultaneous establishment of a liberal economic order and of the corporatist German welfare state reflects the bi-polarity of the post-war settlement (Nörr 1998: 376; Nörr 1999). A settlement well encapsulated in, on the one hand, a notion of an economic constitution (*Wirtschaftsverfassung*) that went back to Franz Böhm's 1933 seminal contribution to Ordoliberalism, and which understood the economic order as one imposed and guarded by the state, and, on the other, in notions of a *Wirtschaftsverfassung* as one primarily contracted between the social partners as it had been set out in the older concepts of 'economic democracy' developed by prominent Weimar social democrats like Sinzheimer or Naphtali (Mommsen 1978). Whereas the Bismarckian welfare state provided the social partners with the organizational framework, the political legitimacy and the material resources necessary to lend life to the notion of a corporatistically contracted economic order, the cartel and central bank law followed the concept of an economic order imposed and protected by the state. In this schema, however, the state was understood to be sheltered from politics. Hence, the "twilight of sovereignty" (Maier 1975: 9), which hung over post-war Germany, was due to the shadows cast by both: corporatist industrial self-governance and autonomous bureaucratic rule.

It is the interplay between the 'imposed' and the 'contracted economic order', which came to represent the core of German style corporatism after 1945. One of the upshots of this interplay is that it allowed for "a framework approach to economic policy in which strong business associations, trade unions and other para-public organizations are used to coordinate the implementation of policies" (Soskice & Hall 1999: 40), but in which the content of these policies is relatively fixed given that the realm of political discretion is narrowed by many constraining factors. Institutional features like

autonomous wage bargaining and central bank independence, but also the fiscal autonomy of the German welfare state, its employment based entitlement structure, the high degree of statutory provisions for these welfare entitlement, and the central role that the social partners play in the administration of the welfare state, have functioned as institutionalized 'gag-rules' (Stephen Holmes), which largely predefine the course of public economic policy and therefore increase the willingness of economic agents to enter into long-term cooperative relations with the state, and also with each other (Soskice & Hall 1999: 40). In increasing 'policy predictability' (Katzenstein) and decreasing political uncertainty (Moe), the German multi-veto-point-polity established a framework for economic governance which not only stabilized the economic actors in organizational and political terms by granting them certain public domains of genuine competence and bestowing them with authoritative resources, but which also credibly signalled to the economic agents that the state could not deviate from certain established policy paths even if this might be politically beneficial in the short-run. The German post-war settlement essentially embodied a compromise between economic liberalism and welfare corporatism. In turn, corporatist economic practices were based to a considerable degree on an institutional framework, which had originated from the attempt of the state to integrate both the Socialist and Catholic camps into the new German state. This attempt had led to unforeseen dynamics in social integration, but it bred new social conflict as well. These dynamics have to be reconstructed and understood if one wants to disentangle the complicated relation between consociationalism and corporatism (Crepaz & Lijphart 1995; Lijphart & Crepaz 1991).

Notes

1. Comments by Gerhard Lehmbuch, Nicholas Ziegler, Jim Mosher, Thomas Ertman, Friedrich Wilhelm Graf and Eric Kurlander on earlier versions of this paper are gratefully acknowledged. I would also like to thank Dona Geyer for checking and correcting my English.

2. Some Ordoliberalists were even members of the German resistance against Hitler.

3. In connection with the decree of the Federal Office of Labour March 16, 1982, § 5, para. 1, line 2 (Zumutbarkeits-Anordnung, ANBA S. 523).

4. Union density in Germany is medium (32 % [trade union members as % of wage and salary earners] in 1990), the collective bargaining coverage rate, however, is higher than even the Swedish rate (90 % [number of workers covered by collective agreements as % of all wage and salary earners] in 1990; the Swedish rate was 83 % in 1990). See OECD (1994: 173).

5. 'Openness' before unification in 1990 was at 51 % of GDP in Germany (France 40 %, Italy 36 %, UK 44.3 % [Japan 19.6 %, USA 19.9 %]). Openness is (imports + exports) over GDP.

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The Consociational State. Hypotheses Regarding the Political Structure and Potential for Democratization of the European Union

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Abstract

This essay centres attention on the political structure of the European Union (EU) and its potential for democratization. To illuminate the constituent nature and potential for democratization of the EU, a useful theory will be employed that was until now underrepresented in research on European integration, namely consociational theory. Regarding the political structure, it will be argued, the EU is a case of a consociation, albeit not of a democratic consociation. The EU is rather a bureaucratic consociational state with a structural democratic deficit. Whether the democratic deficit of the EU can be ameliorated, and if so, to what extent, will be examined with conceptual tools and hypotheses derived from consociational theory.

1 Introduction

To what extent is consociationalism a useful tool in the analysis of the political structure and the potential for democratization of the European Union (EU)? This is the basic question addressed in this chapter. Regarding the political structure, it will be argued that the EU is a case of a consociation, albeit not of a democratic consociation. The EU is rather a bureaucratic consociational state with a structural democratic deficit (section 2). Whether the democratic deficit of the EU can be ameliorated, and if so, to what extent, will be examined with conceptual tools and hypotheses derived from consociational theory in section 3. The result is moderately encouraging for democratization in the EU.

In some political spheres the political performance of the EU is respectable, in others poor (Dinan 1998; Grande & Jachtenfuchs 2001; Scharpf 1999). To the exceptional achievements counts the contribution of European integration to securing peace among its member states. The EU has also contributed greatly to the democratic transition and the consolidation of democracy in the states of Southeast Europe – Greece, Portugal and Spain – which were formerly governed by authoritarian regimes. After the fall of the Iron Curtain, the Union also worked to promote democracy in the reforming states of Central and Eastern Europe. There is the additional success of bringing together the national economies. Moreover, it is worth nothing the protection against the