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Challenging varieties of capitalism's account of business interests:  
The new social market initiative and German employers' quest for  
liberalization, 2000-2014

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MPIfG Discussion Paper 14/16

**Challenging Varieties of Capitalism's Account  
of Business Interests**

The New Social Market Initiative and German  
Employers' Quest for Liberalization, 2000–2014

Daniel Kinderman



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## Abstract

Do employers in coordinated market economies (CME's) actively defend the non-liberal, market-constraining institutions upon which their strategic coordination and competitive success depends? This paper revisits the debate over firms' employer preferences with an in-depth examination of employers in Germany – a paradigmatic CME and crucial “test case” for Varieties of Capitalism. It is based on interviews with key officials and an in-depth examination of a large-scale campaign – the New Social Market Initiative or INSM – founded and funded by German metalworking employers to shape public opinion. The paper argues that German employers have a strong preference for liberalization: they have pushed hard for the liberalization of labor markets, the reduction of government expenditures, the expansion of market-oriented freedoms, and cuts to social protection, employment protection and benefit entitlements. I find no empirical support for the claim that the INSM is an attempt to appease discontented firms within employers' associations. On the contrary: for many employers, the Agenda 2010 reforms did not go far enough. Following the discrediting of the Anglo-American model in the financial crisis, far-reaching concessions by employees, and the unexpected revitalization of the German economy, employers have moderated their demands – but liberalization remains their default preference. This paper also addresses the role of ideas and the conditions under which employer campaigns can influence policy.

## Zusammenfassung

Verteidigen Arbeitgeber in koordinierten Marktwirtschaften aktiv die nichtliberalen, marktbeschränkenden Institutionen, von denen ihre Möglichkeiten zur strategischen Koordination und ihr Erfolg im Wettbewerb abhängen? Mit einer umfassenden Untersuchung der Präferenzen von Arbeitgebern in Deutschland, das als typisches Beispiel einer koordinierten Marktwirtschaft und wegweisender „Testfall“ für die Theorie über Spielarten des Kapitalismus gilt, greift dieses Discussion Paper die Debatte über die Präferenzen von Unternehmen in ihrer Eigenschaft als Arbeitgeber auf. Es basiert auf Interviews mit führenden Arbeitgeberfunktionären sowie einer detaillierten Untersuchung der Initiative Neue Soziale Marktwirtschaft (INSM): einer groß angelegten, von deutschen Metallarbeitgebern initiierten und finanzierten Kampagne zur öffentlichen Meinungsbildung. Der Beitrag belegt eine deutliche Präferenz deutscher Arbeitgeber für die Liberalisierung. Mit Nachdruck haben sie sich für eine Liberalisierung der Arbeitsmärkte, eine Senkung der Staatsausgaben und eine Ausweitung marktorientierter Gestaltungsfreiheiten ebenso eingesetzt wie für Einschnitte bei der sozialen Sicherung, dem Kündigungsschutz und den Versorgungsansprüchen. Die Behauptung, die INSM sei ein Versuch, unzufriedene Unternehmen innerhalb der Arbeitgeberverbände zu beschwichtigen, lässt sich durch die empirischen Befunde nicht stützen. Im Gegenteil: Vielen Arbeitgebern gingen die Reformen im Zuge der Agenda 2010 nicht weit genug. Zwar haben die deutschen Arbeitgeber nach der Diskreditierung des angloamerikanischen Modells während der Finanzkrise, weitreichenden Zugeständnissen seitens der Arbeitnehmer sowie der unerwarteten Wiederbelebung der deutschen Wirtschaft ihre Forderungen gemäßigt – doch bleibt ihre grundlegende Präferenz für die Liberalisierung bestehen. Dieser Beitrag befasst sich außerdem mit der Rolle von Ideen sowie den Bedingungen, unter denen Arbeitgeberkampagnen politische Maßnahmen beeinflussen können.

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# Challenging Varieties of Capitalism's Account of Business Interests: The New Social Market Initiative and German Employers' Quest for Liberalization, 2000–2014

## 1 Introduction: Varieties of Capitalism and liberalization theorists' views of employer preferences

Interests and ideas drive human behavior, but some interests and ideas matter more than others. Even in the waning years of “embedded liberalism,” there was growing recognition that business occupies a “privileged position” in society (Lindblom 1977). With the growth of business power vis-à-vis states and other interest groups, scholars have become preoccupied with the question “what does business want?” Scholars agree that “in capitalist democracies, employers exercise very significant power” (Thelen 2010: 201), but disagree about the implications of business power.

Does the removal of constraints on business imply that employers will push to retrench generous welfare states, social protections, and market-constraining institutions? Yes, say liberalization and power resource theorists (Amable/Palombarini 2009; Baccaro/Howell 2011; Emmenegger/Marx 2011; Korpi 2006; Paster 2012a, 2013; Streeck 2009). According to Wolfgang Streeck, capitalists are “fundamentally unruly” vis-à-vis social institutions:

Capitalist firms and those that own and run them can only for so long be treated as patient cogs in a collectively serviceable machine. Then, their true nature must come to the fore again, revealing them to be the live predators that they are, for which politically imposed social obligations are nothing but bars of a cage bound to be too small for them and for their insatiable desire for the hunt ... Capitalists ... are the modern, nontraditionalist economic actors par excellence ... this is why they are *fundamentally unruly*: a permanent source of disorder from the perspective of social institutions, relentlessly whacking away at social rules, continuously forcing rulers to re-write them ... (Streeck 2009: 234–235, 241)

By contrast, proponents of Varieties of Capitalism (VofC) – the most influential theoretical approach of the past fifteen years – deny that globalization and the growth of business power will lead to competitive deregulation. At the core of VofC is the idea that employer interests vary systematically across the LME/CME (liberal market econo-

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This paper was written in 2013, while I was a visiting scholar at the Max Planck Institute for the Study of Societies. I am grateful to the MPIfG as well as to Marius Busemeyer, Martin Höpner, Thomas Paster, Dieter Plehwe, Gerhard Schnyder, Dennis Spies, and participants at the 2014 CES and SASE conferences for very helpful comments. I also wish to thank all of my interviewees; this article would have been impossible without their openness and generosity. I take full responsibility for all remaining errors.

my/coordinated market economy) divide (Hall/Soskice 2001; Hall/Thelen 2009; Mares 2003; Thelen 2014). Whereas employers in LMEs lobby aggressively for liberalization and deregulation, employers in CMEs actively support and defend the non-liberal, market-constraining institutions upon which their strategic coordination and competitive success depends.

In this vein, Daron Acemoglu, James Robinson, and Thierry Verdier contrast the “cuddly” capitalists in Northern European CMEs with their “cutthroat” counterparts in LMEs (Acemoglu/Robinson/Verdier 2012). Kathleen Thelen posits that coalitions led by employers

have certainly proved capable of heading off full liberalization and defending – for themselves – the arrangements long associated with coordinated capitalism ... For all the reasons laid out in the VofC literature, industrial firms and their workers will jointly defend – for themselves – traditional institutions and practices ... Manufacturing employers will not be at the forefront of demands for across-the-board liberalization ... (Thelen 2014: 23, 30)

Cathie Jo Martin and Duane Swank find that Danish business associations “staved off neoliberal attacks” (Martin/Swank 2012: 188). Gregory Jackson and Gerhard Schnyder state that businesses in Germany have “supported only moderate reforms” (Schnyder/Jackson 2013: 332). Anke Hassel writes that “the business community has not pressed for the wholesale deregulation of the labour market” and has instead preferred “patchy” liberalization (Hassel 2014: 77, 62).

The crux of the debate between VofC and liberalization theorists boils down to different understandings of employer interests.<sup>1</sup> Do employers in CMEs actively support and defend non-liberal institutions, as VofC asserts? Or are they striving to break free from these constraints on their market freedom, as liberalization theorists aver? If the evidence is mixed, why do employers’ strategies vary over time? This paper contributes to this debate with an in-depth examination of employer preferences in Germany – a paradigmatic CME, a crucial “test case” for Varieties of Capitalism, and “a ‘model’ for countries unwilling to subject themselves to the rule of the market in the same way and to the same extent as Anglo-American economies” (Streeck 2009: 21). It is based on interviews with leading employers’ association officials and a detailed analysis of the *Initiative Neue Soziale Marktwirtschaft* (INSM) or New Social Market Initiative, a large-scale campaign founded and funded by the employers’ association Gesamtmetall in 2000 to shape public opinion.

Nearly a decade and a half and hundreds of articles after Hall and Soskice’s seminal study, do we really need another contribution on this topic? I believe we do. Given the importance of employer interests as a building block of comparative political economy, our understanding of employer preferences and strategies needs to be brought up to

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1 Kathleen Thelen, remarks given at lecture at the Penn Temple European Studies colloquium; Philadelphia, USA; December 6, 2013.

speed. The evidence in this paper suggests that there is a lot of support for liberalization in the core sectors of the German economy. Claims that German employers have an overriding preference for non-liberal institutions or that their defense of traditional institutions constrains liberalization are hard to sustain. The reality is quite the opposite: employers have a fundamentally liberal orientation or *Grundgesinnung* and prefer a reduction of benefit entitlements and constraints on market activity. If we follow Vivien Schmidt and Mark Thatcher's definition of neoliberalism as, "at its essence . . . involving a commitment to certain core principles focused on market competition and a limited state" (Schmidt/Thatcher 2013: 1), then German employers' orientations are neoliberal. But can a large-scale public relations campaign reveal what employers really want?

While the INSM is not necessarily representative of German business as a whole, it can tell us a great deal about the interests of Gesamtmetall, its founder and funder. Gesamtmetall represents employers' associations in the metalworking and electrical engineering industries – Germany's leading economic sector and the area where VofC is most likely to apply. Gesamtmetall and its member associations have delegated the tasks of articulating and disseminating positions on institutional reform and public policy to the INSM. Because of its formal separation from Gesamtmetall and collective bargaining institutions, the INSM has greater freedom to communicate and critique the institutional status quo. This suggests that although the INSM is not necessarily a more trustworthy expression of employer interests than other more moderate discourses, the INSM is indispensable for gaining a full understanding of employer preferences in Germany.

Of course, statements made by campaigns such as the INSM reflect a variety of motives. As a PR campaign, the INSM needs press coverage; and in order to get it, the staff may sharpen some messages to incite controversy or moderate others in response to anti-market shifts in public opinion. For these reasons, the INSM's statements cannot necessarily be taken at face value or as one-to-one representations of employers' underlying preferences. Some authors have extended this line of thought by suggesting that the function of the INSM is not to represent employer interests at all, but to appease discontented SMEs (small and medium-sized enterprises) within employers' associations. In the second section of this paper, I examine these claims and find no empirical support for them. In order to increase confidence in my findings and better understand employers' underlying interests, I conducted more than a dozen interviews with leading officials. Three of these officials generously read a draft of this paper, and stated that they agree "to a very large extent" with the arguments made herein.<sup>2</sup>

Recent comparative political economy scholarship acknowledges the INSM's role in the German political economy, but only in passing (Hassel/Schiller 2010; Paster 2012a; Silvia 2013; Streeck 2009). While there is a sizeable German-language literature on the INSM (Nicol 2009; Speth 2004), commentators disagree over the initiative's goals. Some

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2 Nico Fickinger, personal communication, June 11, 2014; on behalf of Nico Fickinger, Ulrich Brouck, and Volcker Fasbender.



argue that because it was founded by German employers' associations, a foundational element of Germany's non-liberal model, the INSM does not strive for significant liberalization. Others argue that the INSM pushes for a full-scale neoliberal reconstruction of German institutions. I suggest that even where the INSM fails to advocate for full-scale liberalization, this should not necessarily be taken as support for the institutional status quo. Interviews conducted by the author suggest that while German employers are not pushing for a wholesale dismantling of Germany's CME institutions, some are skeptical that they provide a comparative institutional advantage. While the analysis shows that German employers are not the institutional patriots VofC makes them out to be, their strategy is also more complex than a blanket opposition to non-liberal institutions. Whether employers view institutions as a useful resource or a burdensome constraint depends on their specific and concrete manifestation. A fine line can separate useful resources from burdensome constraints, and institutions which from a distance appear simply as traditional CME institutions may be one or the other. Recognizing that institutions are "highly malleable," employers have sought to reduce burdensome constraints and "expand employer discretion" (Baccaro/Howell 2011: 522, 527).

The INSM is influential. At the time of its heyday, Manfred G. Schmidt described it as a bourgeois extra-parliamentary opposition and as "the most influential lobby that market-liberals ever had in Germany" (Höfer 2010: 405). Since its founding, the INSM has done much to bolster the economic reform and liberalization agenda in Germany. Just as one "cannot overestimate the importance" of Swedish neoliberal think tanks "for understanding the transformation of the Swedish model" (Blyth 2001: 16), the INSM is crucial for understanding the transformations of the German political economy during the past fifteen years: "despite unfavourable institutional conditions for major change, the German welfare state and its labour market policy have undergone substantial changes" (Fleckenstein 2013: 56). Lucio Baccaro and Chiara Benassi find that "even though traditional institutions are still formally in place, the whole system is much leaner and meaner than in the past" (Baccaro/Benassi 2014: 2). Given that approximately 4,000 media statements per month could be traced to the INSM in the mid-2000s (INSM 2009), and approximately 400,000 people now view the INSM's Facebook page each day (Pellengahr, interview 2014), it is plausible to claim that the INSM has played an important role in effecting this transformation.

This paper supports the author's previous findings (Kinderman 2005): employers' default position is liberalization, and their preference for liberalization is stronger than VofC allows. But this paper also goes beyond those findings to show the considerable variation in the tone and the effectiveness of INSM strategies over time. Examining it can help us to answer the million-dollar question: do employers prefer thoroughgoing liberalization, as liberalization theorists claim, or do they prefer more flexibility within existing structures, as coordinationists claim? In short, the answer is: it depends. During the initial period (2000–2006), the INSM was an outspoken advocate of far-reaching institutional change. The INSM played a proactive and agenda-setting role, and many of its positions were radical and point to a *Systemwechsel* or shift towards an

LME-style model. Employers wanted to go further than the Agenda 2010 reforms but were prevented from doing so by public opinion and the governing CDU-SPD coalition. By contrast, since 2006 – and particularly since 2008/2009 – the INSM's critique has softened and its campaigns have become more moderate and defensive. Following the discrediting of the Anglo-American model in the financial crisis, significant wage repression by German employees and the unexpected revitalization and resurgence of the German economy, employers have re-discovered the virtues of the (new) German model. Liberalization theory is more consistent with these developments than VofC, but it too may overestimate companies' and employers' associations' strategic foresight. The new German model is the unintended consequence of these developments, rather than the result of rational design or employers' defense of traditional institutions.

These developments raise a series of questions which will be explored in the pages below: what explains the change in the INSM's strategies over time? What explains the greater effectiveness of the INSM's strategies in the first period compared with the second one? Why did governments take employers' complaints more seriously in the first period than in the second one? Examining why the INSM succeeded in influencing policy in some periods and failed in others can enhance our understanding of the discursive, ideational and structural power of business: "Arguments about the structural power of business in relation to state policymakers thus need to focus on the dynamics of a particular type of constitutive relationship" (Bell 2012: 671). This exercise can also enhance our understanding of the role of ideas in institutional change. According to Vivien Schmidt, this research needs to grapple with the question of "how, when, where, and why ideas and discourse matter for institutional change, and when they do not" (Schmidt 2010: 21).

This paper is organized as follows. The second section explains how the INSM sheds light on German employer preferences and addresses the argument that its real purpose is to appease discontented SMEs. The third section discusses the INSM's origins in the late 1990s. The fourth section describes the INSM's programmatic agenda, and the fifth section discusses the INSM's push for liberalization between 2003 and 2005. The sixth section addresses the INSM's moderation after 2006 and especially following the financial crisis. The seventh section discusses what leading employers have to say about institutions. The eighth section addresses objections to my argument. The ninth section concludes the paper.

## **2 The INSM and German employer preferences**

The underlying premise of this paper is that because Gesamtmetall is the principal and the INSM is the agent, and because the latter has limited autonomy from the former, the INSM sheds light on what German employers want. The INSM's governance struc-

ture suggests that it enjoys broad support among Germany's metalworking and electrical industries' employers' associations. The money for the INSM comes from Gesamtmetall's regional employers' associations. The INSM's supervisory board is composed of representatives from Gesamtmetall and Gesamtmetall's regional employers' associations. Gesamtmetall's member associations play a very important role in determining the content of the INSM: the supervisory board meets 3-4 times per year to decide on the INSM's strategy, which leads the staff to pursue specific PR and advertising strategies. In its attempt to influence public opinion, the INSM draws on advertisements, PR, events, scientific studies, blogs, and an extensive online presence.<sup>3</sup> Gesamtmetall gave the INSM a clear mandate to propagate and popularize Ordoliberal/neoliberal ideas and reforms. To date, Gesamtmetall has spent in excess of 130 million euros to fund the INSM's activities (10 million euros per year from 2000–2009, 8.8 million euros per year from 2009–2014) – not exactly cheap talk.

The INSM does have some operational autonomy from Gesamtmetall: the organization has its own staff and ambassadors, and public relations and advertising companies (2000–2009: Scholz & Friends, 2009–2014: Serviceplan) disseminate the INSM's messages. Yet it is not the case that "Gesamtmetall just pays the [INSM's] bills" (Silvia 2013: 216). Instead, Gesamtmetall leads the INSM "on a long leash" (Speth 2004: 5). The INSM's advisory board plays an important role here: Gesamtmetall's executives and the presidents of all of Gesamtmetall's regional employers' associations meet with INSM staff three times each year to assess the latter's activities and to discuss priorities and strategies. The INSM's strategies are always agreed upon with Gesamtmetall. Depending on the situation, Gesamtmetall may play a very active role and prompt the INSM to prioritize certain topics (Rath, interview 2012). Thus, a survey of the INSM's initiatives will furnish insights into the reforms that German employers want. But perhaps the INSM is just public relations and "verbal radicalism" to placate discontented SMEs:

Superficially, the purpose of the campaign was to mobilize and publicize new ideas for the deregulation and liberalization of the economy. But in reality its function was to deflect the discontented Mittelstand's criticism of wage settlements which favored large firms. (Hassel/Schiller 2010: 126)

Not surprisingly, INSM staffs reject these assertions. The INSM's founder, Ulrich Brocker, claims that "the function of the INSM was never and is not a response to intra-organizational dynamics. Instead, it is communication and advertising for rationally justifiable framework for a properly understood social market economy."<sup>4</sup> Nico Fickinger, formerly in charge of the INSM in Gesamtmetall and now the managing director of Nordmetall, states that "it was never the purpose of the INSM to placate dissatisfied firms or keep them within associations, but only to create a favorable environment for necessary market-oriented reforms."<sup>5</sup> My interviewees also point out that the central

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3 [www.insm.de](http://www.insm.de)

4 Ulrich Brocker, personal communication, July 6 2013.

5 Nico Fickinger, personal communication, June 11 2014.

impetus for the INSM came from large internationalized German companies with foreign supply chains (Fasbender, interview 2013; Engemann, interview 2013), which contradicts claims that the INSM was created to appease the *Mittelstand*.

So does the fact, discussed below, that Ulrich Brocker came up with the idea for the INSM in Südwestmetall, the regional employers' association in Baden-Württemberg. This is significant because association membership unbound by collective bargaining agreements with unions has played a relatively insignificant role in Südwestmetall (Behrens 2011: 174). Firms unbound by collective bargaining agreements are disproportionately SMEs. By contrast, the regional employers' associations in Bavaria and Saxony "are pushing a more or less aggressive collective bargaining strategy by using the 'unbound' association ... to put pressure on the union and by recommending their members to join the 'unbound' association in case they disagree with the collective bargaining norms" (Haipeter 2011: 182). Thus, the fact that the INSM did not originate in Bavaria or Saxony also speaks against Hassel's thesis. Moreover, anecdotal evidence suggests that many SMEs are critical of Gesamtmetall's use of their association membership fees to finance PR campaigns. Dieter Rath, the INSM's first director, recalls that at meetings with INSM staff, SMEs would indignantly say "what are you doing with our good money?!" (Rath, interview 2012).

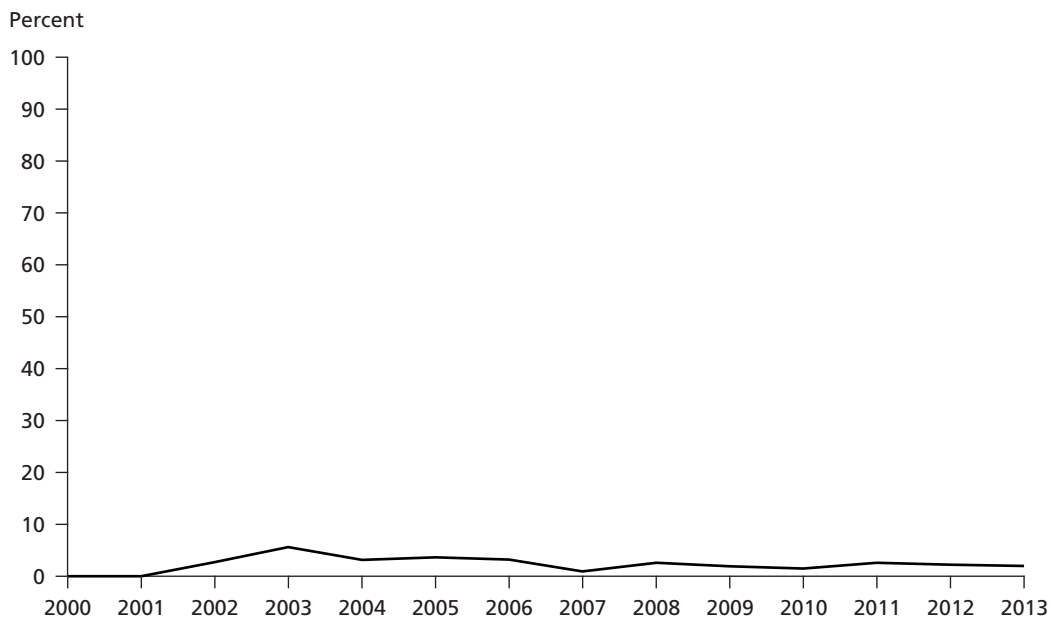
Digging deeper, it is hard to find empirical support for the *Mittelstand* thesis. If it were true, the INSM would draw attention to wage settlements, wage bargaining issues or the plight of the *Mittelstand*. Yet when the INSM was founded it was explicitly decided that it would not address collective bargaining issues (Speth 2004). Figure 1 shows press coverage of the INSM that also mentions the *Mittelstand*.

A very small proportion of INSM press releases and coverage mention the *Mittelstand*. In 2003, seven percent of articles in the LexisNexis German newspaper database contain both these terms, but for all other years, fewer than five percent do. Conversely, a search of the major lobby organization for SMEs in Germany, the *Familienunternehmer* or ASU reveals scarcely any references to the INSM. These findings cast doubt on the claim that the INSM serves to placate the *Mittelstand*. None of this implies that tensions between small and large firms do not exist – but Gesamtmetall has sought to address these intra-association tensions through unbound membership and the 2003 Pforzheim agreement rather than through the INSM (Behrens 2011: 168).<sup>6</sup>

The section below discusses the origins of the INSM in the late 1990s.

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6 Also Ulrich Brocker, personal communication July 6, 2013.

Figure 1 Journalistic coverage of the INSM and *Mittelstand*

Source: LexisNexis, various years.

### 3 The origins of the INSM in the late 1990s

“We were at a dead end [*in einer Sackgasse*] ... there were more and more recessive tendencies.”  
 (Volker Fasbender, managing director of Hessenmetall and one of the INSM’s founding figures;  
 Interview 2013)

Political and economic considerations led Gesamtmetall to set up the INSM. By the mid-1990s, the survival of the German model was in question. Germany was mired in “a deep structural crisis” (Creutzburg, interview 2013), a “catastrophic equilibrium” (Dyson 2005) of rising unemployment and high non-wage labor costs. A climate of *Reformstau* lay over the whole country, and deteriorating economic conditions led to a growing discontentment in the business community (Streck 2005).

According to the INSM’s founders, rising levels of social protection were the underlying cause of these pathologies (Brockner, interview 2013; Fasbender, interview 2013). As Ulrich Brockner, founder of the INSM and former managing director of Südwestmetall and Gesamtmetall, recalls, “contributions to unemployment insurance became more expensive, competition was growing and the pressure became harder ... Eventually the advantages that Germany enjoyed were used up” (Interview 2013).

Yet instead of taking decisive steps to address these problems, politicians implemented costly new welfare-state programs to please voters. Employers failed to halt the implementation of long-term care insurance in the early 1990s, which “catalyzed [employ-

ers'] strategic reorientation from accommodation to assertiveness ... Employers realized that reacting to proposals by other actors was not enough to defend their interests; they had to try to define the reform agenda proactively" (Paster 2012a: 168).

For Brocker, the 1996 conflict over reductions in sick pay from 100 to 80 percent was clear evidence of the public's hostility to reforms (Interview 2013). Unions protested, and the SPD vowed that they would reverse the cuts – which they did once in office. The public's hostility towards reforms contributed to Helmut Kohl's 1998 election loss. The views of the general population and of companies were drifting further and further apart, and discontentment within business was growing. As a result of growing pressure from the latter, the INSM could have been founded as early as the mid-1990s (Fasbender, interview 2013); but a public opinion poll in the summer of 1999 proved decisive. The poll showed that German citizens mistrusted business and the market and supported a generous welfare state. Two thirds of respondents viewed the prospect of upcoming economic reforms with attitudes ranging from "skepticism" to "fear," (*Gesellschaft im Zwiespalt* 2000: 16), and 42 percent favored a third way between capitalism and socialism (Speth 2004: 7).

Gesamtmetall founded the INSM to influence agenda setting – what do people talk about? – and bring about a change in the public opinion climate which would, according to Gesamtmetall's press officer Werner Riek, "get our fellow citizens to recognize what we see as necessary reforms as a positive reform." It was necessary to take proactive steps to inform the public and "halt the decline/demise" (*Niedergang*) of the country which was underway (Fasbender, interview 2013):

Beginning in the 60s there was an increasing entitlement mentality, more and more demands on society and less and less individual responsibility ... The point [of the INSM] was to connect the social market economy with the essentials of entrepreneurial activity: competition, competitiveness, flexibility. All of this contradicts welfare state thinking that focuses on protection, excessive rigidity [*Betonierung*], and all that. (Brocker, interview 2013)

There was also a political dimension. Employers were concerned that Chancellor Gerhard Schröder's newly elected Red-Green government, with its left-wing finance Minister Oskar Lafontaine, would pursue an anti-business and redistributive agenda. The INSM was founded to ensure that even under a Red-Green government, employers could pass laws that are employer- and business-friendly. Brocker's ideas struck a chord in Südwestmetall, the regional employers' association in Baden-Württemberg which he directed at the time; Hessenmetall joined in, and Gesamtmetall also supported the idea, as did many large and small firms (Engemann, interview 2013).<sup>7</sup> In the fall of 1999, Gesamtmetall invited companies to tender bids and selected the advertising company Scholz & Friends as the winner. The INSM began its work on June 1, 2000. The next section discusses the first phase of the INSM from the late 1990s until 2006, when

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7 The chemical industry's employers' association VCI almost joined the INSM, but the former feared that the latter would endanger their cooperative relations with unions.

the INSM advocated radical institutional change and quite possibly a *Systemwechsel* (change of system) to a more liberal institutional framework.

#### 4 The agenda of the new social market economy

The INSM campaign is entitled the “*neue soziale Marktwirtschaft*” – the “New Social Market Economy” – although its goal is to restore the “old” social market economy (Kinderman 2005).<sup>8</sup> The social market economy is the founding myth of the Federal Republic of Germany (Haselbach 1997). For the Ordoliberals in the 1950s, the term stood for the view that free market competition is the best way to achieve social goals (Paster 2012a). The prominence and currency of “social market economy” discourse in Germany is remarkable; it would be no exaggeration to say that it is hegemonic as far as economic and social policy is concerned. As Haselbach emphasizes, “[t]he tale of the ‘social market economy’ ... is referred to almost every day, somewhere in a German newspaper or political statement; it has become part of the national memory” (Haselbach 1977: 161). The genius of the “social market economy” lies in its versatility: it is both “social” (fair/just) and a “[capitalist] market.” The INSM is focused on the disjuncture between the historically evolved social market economy and its ideational origins. As Ralf Ptak points out,

Since the trade unions and the Social Democratic Party learned to use the concept in the same opportunistic way as ordoliberals, persuading governments to expand the welfare state under continuous reference to the social market economy, the model increasingly lost its original neo-liberal content. (Ptak 2009: 125)

The INSM’s founders have sought to move Germany’s discourse, policy, and institutions closer to the social market economy’s Ordoliberal origins. Just as Ordoliberalism’s founders “were hostile in principle towards social welfare as a state responsibility” (Haselbach 1997: 172), the INSM is suffused with a thoroughly liberal ethos. As Fasbender remarks, “freedom is the central value of the Social Market Economy” (Interview 2013). While many German citizens associate the social market economy with the welfare state or “*Vater Staat*,”<sup>9</sup> the INSM’s founder Ulrich Brocker states that he is “for the social market economy but against the welfare state” (Interview 2013). Randolph Rodenstock concurs. As president of the Bavarian employers’ and metalworking in-

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8 Which “old” social market economy? The one that existed before it was “hijacked” by special interest groups and distorted by excessive welfare-state interventionism. When exactly this occurred is not clear. Already in 1958, when German social policy was in its infancy, the Ordoliberal theorist Wilhelm Röpke thought that West German economic policy had taken a turn towards excessive interventionism. He declared that the state should place itself as a “guardian of the market” above societal interest groups (Haselbach 1991: 172).

9 “*Father State*,” a term that apparently exists in no other language.

dustry association, vice-president of Gesamtmetall, and a member of the Mont Pèlerin Society, the world's foremost "neoliberal thought collective," (Mirowski/Plehwe 2009), Rodenstock writes that "the social market economy has gotten out of balance over the years ... Instead of promoting self-reliance," he chides that "Germany has developed into a welfare state" (Rodenstock 2009).

Rodenstock's book *Chancen für alle* is centered on the idea of equality of opportunity in free markets (Rodenstock 2001). This distinctly liberal world view seems quite appropriate for an LME, and it is hard to reconcile with Bismarkian status maintenance and VofC's vision of long-term investments in firm-specific skills. Rodenstock praises the United States and suggests that Germany should model itself on America's flexible labor and product markets and low levels of regulation (Rodenstock 2001: 178). Because the social market relies on efficient self-regulation, it only needs a minimum of ethics and rules (Rodenstock 2001: 28). Market distorting institutions are unnecessary and counterproductive because the market itself is fair and just: it rewards performance and is based on equality of opportunity (Rodenstock 2001: 25).

Rodenstock emphasizes the need for flexibilization and deregulation in general, and of labor markets in particular; and the creation of jobs as the overriding goal of social policy and the principal requirement of social justice. "Badly paid jobs are better than none at all. ... A guiding principal of the new social market economy is the motto: Just is whatever creates employment" (Rodenstock 2001: 54–55). This motto has had a significant impact on German public debate and on public policy. In 2002, the INSM made it the focus of a large-scale advertising campaign. "The purpose of this initiative was to redefine the term 'social' out of the widespread, but one-sided orientation towards government redistribution" (INSM 2009). In the fall of 2002, this motto was used by CDU/CSU and FDP political candidates before Wolfgang Clement, then minister of labor and economics, adopted it as the more or less official slogan of the Agenda 2010 labor market reforms. It is seldom recognized that the INSM created the central motto of the Agenda 2010.

Former Bundesbank president and first INSM chairperson Hans Tietmeyer's statements are also hard to reconcile with the view that German employers are opposed to liberalization. In an early INSM publication, Tietmeyer explicitly refers to a *Systemwechsel* or change of economic model, and makes clear where the journey should go: "the New Social Market economy is equivalent with the Anglo-Saxon, the American principle" and stresses that the road ahead will not be easy: "the necessary reforms and cutbacks will entail social hardships" and "bitter medicine" (Tietmeyer 2001: 8, 22).

In 2003, the INSM challenged trade unions with the motto "Less welfare state means more jobs," and by declaring May 1 to be the day to create jobs through supply-side reforms. In 2004, the INSM placed a sign that read: "It's high time for reforms: GERMANY" at a prominent place in the Spree river in Berlin. The sign was hung so that GERMANY was half submerged under the water, to symbolize the gravity of Germany's situation.



And in 2005, the INSM provided a two-page article to the daily newspaper *Die Welt* entitled “The Greatest Job Destroyers of the Federal Republic” (Hahne/INSM 2005). This article critiques co-determination, employment protection, and labor market regulation – the central institutions of the CMEs. I summarize the worst offenders and their offenses below:

Table 1 The Greatest Job Destroyers of the Federal Republic

	Chancellor	Parties	Years	Problems according to INSM
1.	Willy Brandt & Helmut Schmidt	SPD & FDP	1974–1982	Co-determination and deficit spending
2.	Helmut Kohl	CDU & FDP	1991–1998	Burdens of Reunification, high wage settlements
3.	Kurt Georg Kiesinger	CDU & SPD	1966–1969	Federalism hinders reforms & tax competition
4.	Gerhard Schröder	SPD & Greens	1998–2002	“Strangulation” of the labor market
5.	Helmut Kohl	CDU & FDP	1982–1991	Reforms too timid
6.	Konrad Adenauer	CDU & FDP	1949–1963	Employment Protection Legislation

Source: Authors’ compilation.

The article’s criticism of deficit spending, high wage settlements, and excessive tax burdens may not raise many eyebrows – these are the complaints one expects from a business advocacy organization. However, critiques of the 1976 co-determination law and employment protection legislation should be unsettling for VofC scholars who believe that German employers depend on these institutions for their competitive strategies and defend them against political attacks. If that were really the case, Gesamtmetall would not spend significant amounts of money to publicize the message that “Kohl lacked the courage for radical reforms along the lines of Reagan in the USA or Thatcher in the UK” (Hahne/INSM 2005: 13). The next section examines employer positions between 2003 and the 2005 Bundestag election in greater detail.

## 5 Pressing for liberalization: The INSM from 2003 until 2005

From 2003 until the 2005 election, there was widespread agreement on the necessity of liberalization and welfare-state reform in the German political establishment. Employers were less constrained by electoral politics during these years than at perhaps any other time in postwar German history. And the INSM was influential. During these years, the INSM “had public opinion leadership,” recalls Max Höfer, one of the INSM’s former directors (Interview 2013). This is important for my argument because as Thomas Paster points out, it allows us to see if employers played an agenda-setting role or simply responded to reform initiatives by other actors (Paster 2014: 17–18). If VofC is correct, and employers have structurally conservative employer preferences, they should “hit the brakes” and caution politicians from liberalizing too much as this

could undermine the institutional foundations of their competitive advantage (Thelen 2014: 19; Hall/Soskice 2001: 58; Wood 2001). But if employers have a preference for liberalization, they should push down the gas pedal and press for further liberalization. In this section of the paper, I find that employer positions more closely approximate the latter position than the former. Indeed, there is evidence that employers wanted to go further than the Agenda 2010 reforms.

From 2003 until the 2005 elections, employers clearly supported the CDU and FDP, which had criticized the Red-Green government for adopting too few reforms and too little liberalization. This section reconstructs employer attitudes as the Hartz and Agenda 2010 reforms got underway. Lenin is reported to have famously said: "There are decades where nothing happens; and there are weeks where decades happen." The first few months of 2003, when Schröder announced his Agenda 2010, represent the latter – "a decisive turning point in the history of the semisovereign German state" (Streeck 2005: 163). The INSM was a crucial facilitator for these developments; it laid the foundations for this shift:

We in the INSM had devised the central slogan of the Agenda 2010: "sozial ist, was Arbeit schafft" (just/fair is whatever creates work), and organized a broad platform of politicians, that supported the slogan: Wolfgang Clement, Olaf Scholz, Fritz Kuhn, Wolfgang Schäuble and Guido Westerwelle ... The credo, "sozial ist, was Arbeit schafft" redefined the word "sozial": until then, the word meant that the state spent more money on students, on social assistance, on families, etc. The high unemployment forced us to rethink this: a job helps people more than social assistance. (Höfer 2013: 184)

In a 2003 newspaper column, INSM representative Hans Tietmeyer wrote: "Germany needs far-reaching market-oriented reforms. If necessary, these need to be implemented despite disagreement with influential interest groups and parts of the [SPD's] own party" (Tietmeyer 2003). This statement was made just three weeks before Schröder's famous Agenda 2010 speech. In another column just one month later, INSM representative Oswald Metzger expressed that the "necessary retrenchment of the unaffordable welfare state will take until the end of the decade" (Metzger 2003). At an INSM-organized event in the fall of 2003, Friedrich Merz of the CDU's business wing stressed the need for far-reaching reforms of the labor market, social transfer systems, the social safety net, the tax system, and the education system – "in sum almost excessive demands for politicians and citizens. But there is no alternative" (Merz 2003: 22). These examples illustrate the tight linkages between the INSM's campaigns and the Agenda 2010. In the words of former INSM director Max Höfer, "We did Schröder's public relations activities" (Höfer, interview 2013). At the height of its power, the INSM was influential. In one session of Germany's most influential talk show "Sabine Christiansen," three of the five guests were affiliated with the INSM; and between 2003 and 2008, up to 4,000 media statements per month or over 120 per day were attributable to it (INSM 2009).

The INSM also facilitated the Christian Democrats' turn towards more business and market-friendly policies. The CDU's 2003 Leipzig party convention agenda has been

characterized as “pure market culture” and as “the most market radical program in the party’s history ... catapulting [Merkel’s] party into Anglo-Saxon capitalism” (Kessler 2011). The CDU and FDP’s positions from the Leipzig party convention leading up to the 2005 Bundestag elections were far more radical than those typically analyzed by VofC scholars. The latter claim that employers “since the early 1980s have repeatedly failed to bite when presented with the carrot of deregulation” (Wood 2001: 408) and “had little interest” in a health insurance model which would call “for employers’ exit from financing health insurance altogether and substituting parity financing with compulsory, individual insurance born solely by workers” (Giaino 2001: 354). But in the early 2000s, the INSM favored a transition to flat-rate health contributions to lower non-wage labor costs. Friedrich Merz also advocated this policy, and characterized it as a “paradigm shift” in Germany’s social policy and a departure from the existing trajectory of the past 120 years (Merz 2003: 18). It is revealing that instead of cautioning overzealous politicians from jumping on the neoliberal bandwagon, “many top managers and entrepreneurs were enthusiastic about Merkel’s 2003 Leipziger Parteitag agenda” (Balzer 2008). They wanted to go *further* than the Hartz Reforms: they were not satisfied with the extent and rate of liberalization.

In 2005, the INSM proclaimed that “Germany needs a comprehensive program of market-oriented reforms that goes considerably beyond the Agenda 2010” (INSM 2005a: 8). The INSM praised Margaret Thatcher for not letting adverse circumstances or “fierce distributional conflicts” take her off the path of reforms (INSM 2005b: 47), and cited New Zealand, the UK, the USA, and Sweden as examples of successful welfare state reforms. The INSM also praised Ronald Reagan’s deregulation and tax cuts and Sweden’s decentralization of wage bargaining in the early 1990s (INSM 2005b: 48). In another publication, INSM author Ulrich van Suntum exalts Margaret Thatcher’s radical reforms and laments that these would not be possible in Germany’s political system (Van Suntum 2006: 132–133). Claims that “support for the welfare state is much broader, reaching deep in the business community” (Mares 2003: 265) are hard to sustain in light of this evidence. If that were really the case, would the business community fund a large-scale PR campaign that praises radical welfare state retrenchment and advocates flat-rate health insurance, a 25% flat-rate income tax, and other forms of the individualization of risk?

The mid-2000s presented employers with a larger liberalization carrot than ever before in the postwar period, and many wanted to bite. The language used by the INSM was that the Agenda 2010 was no more than “a step in the right direction,” and further reforms were demanded. An anonymous official close to the INSM and Gesamtmetall recalls that “according to the ‘hawks’ in Gesamtmetall, the INSM should attack the state and unions. Schröder’s Agenda 2010 did not go far enough.”<sup>10</sup> But voters had had enough. By the summer of 2004, Angela Merkel’s Leipziger Parteitag Agenda had come under considerable pressure from *within* the CDU: 56 percent of CDU voters wanted

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10 Anonymous, personal communication; March 5, 2014.

the party to move in a more “social” or moderate direction while 31 percent favored “radical reform” (Clemens 2007: 234). In the spring of 2005, Merkel’s CDU/CSU had hit 45 percent in the polls, but in the Bundestag election on September 18, Merkel received only 35 percent of the vote – a “traumatic defeat” and just marginally more than Schröder’s SPD (Clemens 2007: 239). Not employers but public opinion constrained reforms.

VofC suggests that during the period of Hartz and Agenda 2010 reforms from 2003 until 2005, employers should have cautioned overzealous politicians against too much liberalization. They did not. Instead, they became “a force for the liberalization of the welfare state and of labor markets” (Paster 2012a: 160). The preceding analysis suggests that if the CDU and the FDP had won a majority in the 2005 elections, employers would have pushed for further liberalization, with possibly far-reaching implications for the German model and for VofC. The fact that this did not occur is a contingent result of electoral politics rather than of German employers’ defense of traditional institutions. In the section below I discuss the INSM’s moderation after 2006.

## 6 The moderation of the INSM since 2006

As the political winds shifted to the left, the INSM was forced into an increasingly defensive position. Over the course of a decade, Germany’s political climate underwent a profound shift. In 2003, there was a political consensus on the necessity of reforms (even if these were contested by the rank and file). Through the INSM, German employers acted as motors and accelerators of the liberalization process. The Pforzheim collective bargaining agreement took place against the background of threats by both governing and opposition parties to legislate opening clauses in collective agreements if the social partners would not voluntarily agree to them. There was widespread mistrust in collective bargaining; BDI-president Michael Rogowski declared that collective bargaining agreements should be burned on a campfire. Within ten years the situation underwent “a complete reversal – it’s unbelievable,” remarks Dietrich Creutzburg (Interview 2013). In the early- to mid-2000s, the bourgeois parties supported the INSM’s liberalization agenda. Ten years later, these very same parties endorsed a statutory minimum wage, and in 2014 the CDU-SPD coalition government adopted the country’s first national minimum wage.

While the 2005 election results and the resulting CDU-SPD coalition government were widely seen as a referendum against reforms, the blowback from Germany’s labor market reforms began with the so-called “*Montagsdemonstrationen*” protests against Hartz IV across Germany in 2004. This sentiment grew when SPD Chairman Franz Münterfering described private equity firms as “locusts” in the spring of 2005. The successful establishment of *Die Linke*, the left-wing party in the German party system, is just one

sign of this growing resistance. Elites had failed to win over citizens' emotions for their reform agenda (Fleckenstein 2013: 74; Wolfrum 2013: 578), and many German citizens came to perceive the Agenda 2010 labor market reforms as unjust. Trade union and civil society efforts in opposition to radical neoliberal campaigning, such as the establishment of LobbyControl in 2005, also contributed to this shift. In the words of Hubertus Engemann of NRW Metall, who was present at the founding of the INSM, "reforms were going in the right direction ... but then the societal mainstream shifted to the left" (Engemann, interview 2013). Axel Rhein, a director at IW Medien, has been involved with the INSM since its inception. Rhein likens the public sphere to a stage, on which the INSM needs a megaphone in order to be heard. From 2000 until 2005, the INSM's campaigns resonated in the media and in the CDU/FDP opposition, which, in turn, amplified the INSM's messages. This changed under the grand coalition (Axel Rhein, interview 2014).

These developments made the INSM's work more difficult, and necessitated a strategic reorientation. From 2000-2005, the INSM's negative campaigning style greased the wheels of liberalization. Following the 2005 elections and the formation of the CDU-SPD coalition government which comprised over two thirds of the Bundestag, the INSM's campaigns became more moderate. In 2006, their focus was on promoting economic growth; in 2008, it was on increasing labor market participation; and in 2009, the INSM celebrated the virtues of the social market economy. The INSM has put more emphasis on celebrating existing reform achievements and defending them against rollback (for example, through a legislated minimum wage) than on pushing for further liberalization. An environment in which "reform politics aren't mainstream anymore," the INSM's current director Hubertus Pellengahr told me, demands a different approach than one in which reform proponents can play an agenda-setting role (Pellengahr, interview 2013). Rodenstock recalls that following the Agenda 2010, "the wind was taken out of our sails. The topics were no longer perceived as being so urgent and conspicuous" (Rodenstock, interview 2013). An internal memo points toward setbacks in the battle for discursive hegemony:

The political debate in 2007 was dominated by redistribution. The recognition that economically successful reforms are also profitable/beneficial for ordinary citizens did not prevail. In this conflict situation the Left Party, SPD and trade unions were able to successfully set the agenda for redistributive questions (minimum wages, maximum wages etc.) by offering solutions that appear to offer more security. All political parties, including the CDU/CSU, became involved in a debate about justice, which is mainly a debate about redistribution as the 2009 Bundestag elections approaches. (INSM 2009)

These developments support Ian Bruff's claim that the INSM has had limited success in "detaching a large enough portion of the social democratic and trade union opinion from their version of common sense" (Bruff 2008: 156). A study commissioned by the INSM draws attention to the gap between social understandings of justice/fairness and economic imperatives of efficiency:

The political establishment has missed the opportunity to make it clear to those affected that the reference to social justice cannot lie in a social safety system that is not sustainable in the medium- to long run. Instead they let themselves be intimidated by resistance against the activation strategy and tend to take back reforms to dynamize the labor market. (Schneider/Eichhorst 2008: 12)

The financial crisis that began in 2008 compounded the INSM's problems. According to insiders, the INSM faced the prospect of termination: as the bottom fell out of the global economy, it was unclear what discretionary expenditures Gesamtmetall would be able to sustain. With the rapid recovery of Germany's export markets, these financial concerns faded into the background. While the INSM's budget was reduced to 8.8 million euros per year (7 million euros after taxes), Gesamtmetall's willingness to sustain this expenditure even during hard times attests to the INSM's importance for its founders and funders.

Growing societal antipathy towards markets turned out to be a more serious problem. The financial crisis terminated the *Reformdebatte*, the push for market-oriented reforms: "From 2000-2005 we had the wind of history behind us. That changed with the financial crisis. We had a new field of debate" (Höfer, interview 2012). The INSM had been pushing for comprehensive liberalization but "forgot the deregulation of financial markets" (Höfer, interview 2014). In response to the financial crisis, the INSM took a more moderate Ordoliberal position in order to prevent the market order itself from being made responsible and coming under attack: "The INSM had to react to these changed circumstances to avoid being labeled as radically neoliberal, as further demands for reforms would have been rejected as excessive and unrealistic" (Rath, interview 2014). With the financial crisis, business's discursive power declined, and their favored and preferred market liberal model was delegitimized.

For the INSM, the ambiguity of the ideational construct "social market economy" turned out to be a blessing, for it could now present itself as an alternative to the very same neoliberal economic policies it had itself advocated just a few years earlier.<sup>11</sup> With the financial crisis, the Anglophone neoliberal model lost much of its luster. Whereas in the earlier phase, the INSM praised the Anglo-American model and stressed the similarities between Ordoliberal and neoliberal ideas, with the onset of the financial crisis the INSM trumpeted the superiority of the social market economy and Ordoliberalism over other frameworks (*Ordnungssysteme*). In May 2009, in the midst of the US subprime crisis, the INSM hired an actor to play Ludwig Erhard, father of the social market economy, on Wall Street and convey the message that Germany's social market economy is a model for the USA. The initiative took out a large banner ad on Wall Street which read: "Germany invented Aspirin for your headache. We also got something for depression: Social Market Economy." The message was that "American market fundamentalism can learn a great deal from the social market economy. We must return to these rules" (Höfer 2013: 25).

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11 If the INSM had been based on a different concept – for example, Ordoliberal Walter Eucken's idea of a *Wettbewerbsordnung* or "competitive order" – its popular legitimacy would be harder to defend.

Meanwhile, the INSM was busy defending Schröder's Agenda 2010 against politicians clamoring to re-regulate markets and introduce a statutory minimum wage. My interviewees express admiration for Gerhard Schröder's reforms and a general preference for bourgeois parties.<sup>12</sup> However, they have deep reservations – and in many cases overtly critical attitudes – towards Angela Merkel's CDU-led governments for rolling back existing reforms and failing to pursue new ones. By 2013, for example, all German *Länder* had nullified university tuition fees, a policy the INSM had campaigned for. This suggests that the INSM was not supporting the CDU-FDP government in the 2013 Bundestag elections, as Speth has claimed (2013). Instead, the INSM was campaigning against *all* the major parties who were seeking to roll back the Agenda 2010's market-oriented reforms. This development supports Pepper Culpepper's argument that "business power goes down as political salience goes up ... Even parties of the right will throw their business allies under the bus once the cost of supporting them becomes too high" (Culpepper 2011: 177, 191).

In this context, it is logical that Wolfgang Clement replaced Hans Tietmeyer at the head of the INSM's board of trustees in 2012. While Tietmeyer's age (of over 80 years) surely played a role, this move was entirely logical as the Agenda 2010 and Hartz labor market reforms were under attack. Clement has been affiliated with the INSM since its founding. He had become Minister for Business and Labor in 2002 with one goal in mind: to transform Germany. In this role, Clement had played a pivotal role in pushing through the Hartz labor market reforms. Moreover, Clement was a man of conviction who remained convinced of the need for far-reaching reforms even after his political party, the SPD, abandoned this agenda. In the 2009 Bundestag elections, Clement supported the FDP's Guido Westerwelle, who five years earlier had stated that "the Hartz reforms were just the beginning and that much deeper cuts were needed" (Wolfrum 2013: 573).

"Firms are afraid that [the Agenda 2010] reforms will be taken back," Hubertus Pellengahr, the INSM's current managing director, remarked prior to the 2013 Bundestag elections (Interview 2013). These fears came to fruition with the 2013 Bundestag elections. The resulting CDU-SPD coalition government has legislated a statutory minimum wage, effectively reversing a decade of labor market reforms. The INSM campaigned hard against this policy, and its passage represents a clear defeat for the INSM. Political debates in Germany have moved more and more onto the terrain of justice – generally inhospitable territory for business because of its association with anti-market and redistributive politics. The INSM has stayed true to its founding ideals and its commitment to equality of opportunity. Against those who interpret justice only as distributive justice, the INSM has fought for a more nuanced and differentiated understanding which includes needs-based justice, equality of opportunity, and performance-related justice (*Leistungsgerechtigkeit*). Empirical studies commissioned by the INSM show that Germany performs better in these realms than many citizens believe. Pellengahr summarizes the INSM's activities in this difficult environment:

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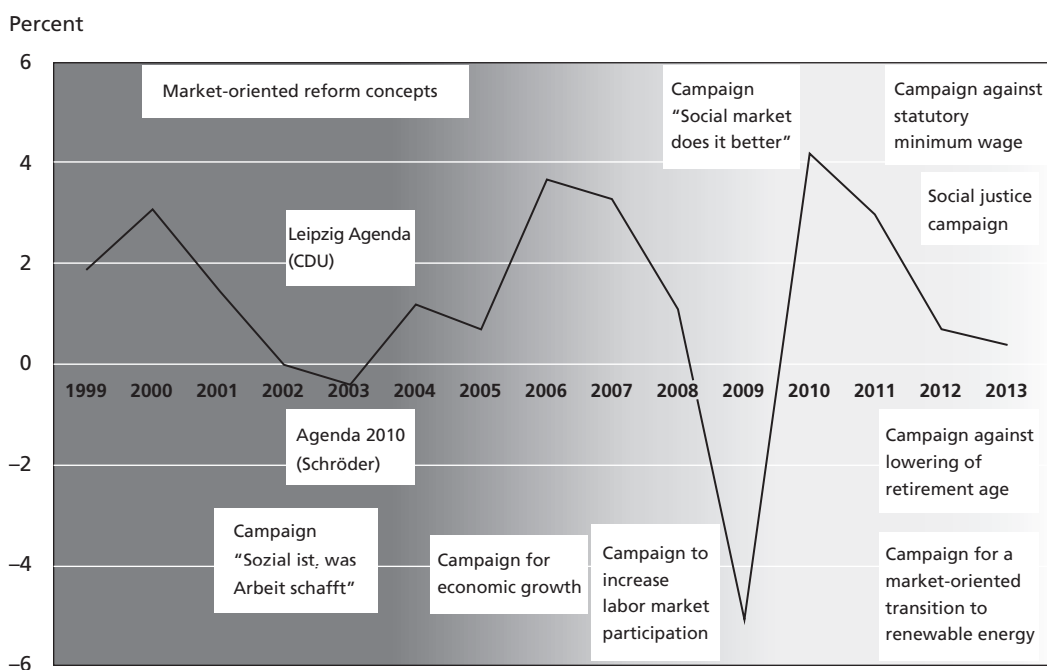
12 See Goerres and Höpner (2014) for an analysis of business donations to political parties.

We were the first ones who campaigned for the greater use of market mechanisms in the transition to renewable energy. While we were unable to challenge the popular legitimacy of the statutory minimum wage, we succeeded in getting all of the leading media to be against the pension law: who is going to pay for this largesse? We did not expect to prevent the law, but we did succeed in damage control: some important aspects of the law have changed. Through the so-called flexi-mortgage people may work longer if they wish. In 2013 we campaigned for social justice – traditionally a topic of the left – and pleaded for a more nuanced and differentiated understanding that includes equality of opportunity. Our long term goal is to change politics and policy. (Pellengahr, interview 2014)

The aforementioned discussion raises the question: is there a relationship between economic conditions and the INSM’s influence over the reform agenda? The figures below show Germany’s growth and unemployment rates and major INSM campaigns during the past fourteen years. The darker shading indicates a more pro-active and agenda-setting role for the INSM (“Market Oriented Reform Concepts”), while the lighter shading indicates more reactive and defensive campaigns.

The high unemployment and low growth rates in the early-to-mid 2000s almost certainly increased the supply and demand for reforms, underlining that crises are moments of opportunity for liberalizers. The Great Recession of 2009 is, of course, a notable exception. To summarize, it appears that party politics, the public opinion climate, and economic circumstances influence the ability of neo-liberal campaigns such as the INSM to persevere in the war of ideas over economic policy. The next section discusses what leading employers have to say about institutions.

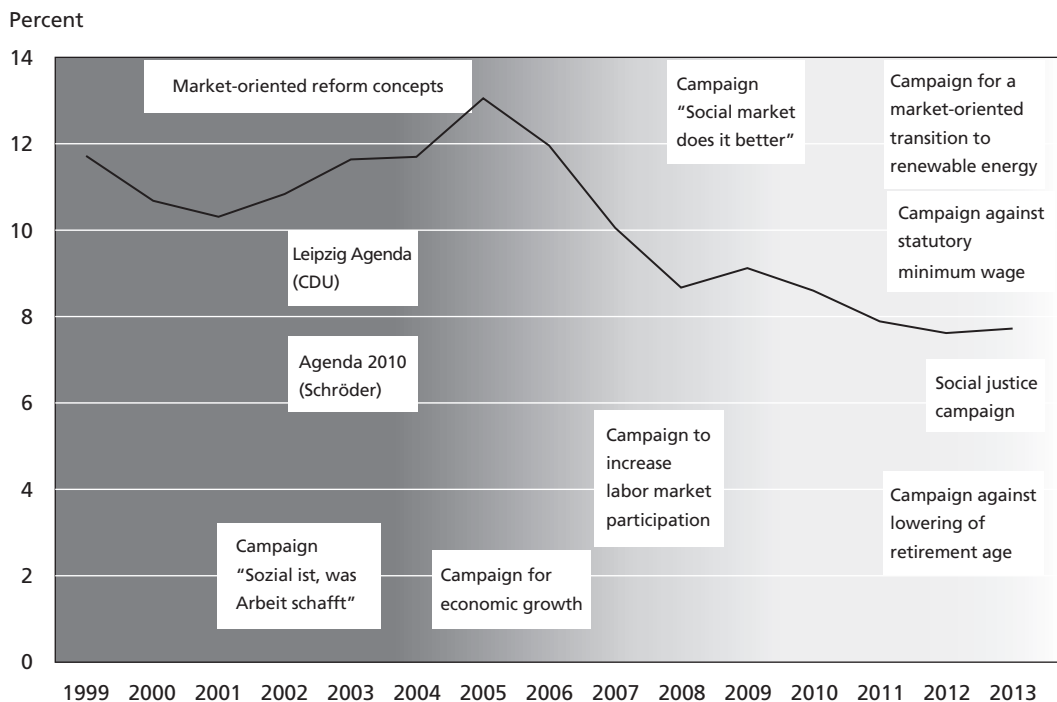
Figure 2 INSM campaigns and the economic growth rate



Data source for growth rate: Statistisches Bundesamt (German Statistical Office).



Figure 3 INSM campaigns and the unemployment rate



Data source for unemployment rate: Statistisches Bundesamt (German Statistical Office).

## 7 Towards a more dynamic, conflictual, and contested view of institutions

My interviewees have diverse views on the usefulness of Germany's non-liberal institutions. They appreciate the benefits of wage moderation and a cooperative industrial relations culture and support the institution of co-determination *up to a certain point*:

Co-determination is useful. The INSM could never have been founded if it had aimed to abolish co-determination. We support co-determination in the right configuration. Entrepreneurial and managerial freedom must be preserved. We do have situations where it goes too far, but the basic idea is right. (Brocker, interview 2013)

I think that most firms think that co-determination is good ... but only to a certain point. That point begins where the entrepreneur is no longer in control of his own decisions and has to ask the works council for approval. It becomes difficult when the entrepreneur is no longer in control of his own decisions. (Engemann, interview 2013)

Both Brocker and Engemann underline the importance of employer discretion, a point that is frequently neglected by VofC-inspired treatments of institutions that emphasize cross-class interests and the efficiency enhancing effects of CME institutions. The dynamic and unpredictable nature of global market competition and the "loose fit"

between institutions and company strategies (Jürgens 2004) may help to explain my interviewees' universal emphasis on the need for ever-greater flexibility (Brocker ,interview 2013; Fasbender, interview 2013; Rodenstock, interview 2013). The reforms of the past decade are certainly helpful, but they do not go far enough, and they have only partly succeeded in preventing a reduction in "employers' freedom and autonomy. It is experiencing creeping erosion. That's the yeast in the dough" (Fickinger, interview 2012). Fasbender is more skeptical of the benefits of the German model:

What we produce here we can also produce in any other country. Today everything you can do in Germany you can also do pretty much anywhere else. The idea that "it only works in Germany," that idea is gone. Institutions in general may be useful – but this really depends on their specific manifestation. Not traditional institutions, but the reforms since the late 1990s have led to our current successes. (Fasbender, interview 2013)

Fasbender contradicts VofC in three ways. First, he categorically denies that Germany's non-liberal institutions provide it with any comparative institutional advantage. German companies can produce in Germany or elsewhere; they are not dependent on Germany's institutional framework. Fasbender's statement points to a central weakness in the VofC literature: its advocates provide little empirical support for the claim that German employers' production strategies and competitive success are heavily dependent on Germany's CME institutions.<sup>13</sup>

There are many reasons to be skeptical of this claim. Baccaro and Benassi find that "German exports have ... become significantly more price sensitive than in the past (2014: 12). In 2013, the German car industry built 59 percent more cars outside of Germany than it did inside the country (Heymann 2014). According to Eric Heymann's analysis, it is two and a half times more likely that Germany's position as an auto-making production location will deteriorate in the coming decade than it is that significant new investments will be made to increase production capacity there. By 2016, BMW's factory in Spartanburg, South Carolina will have a larger capacity than any BMW factory

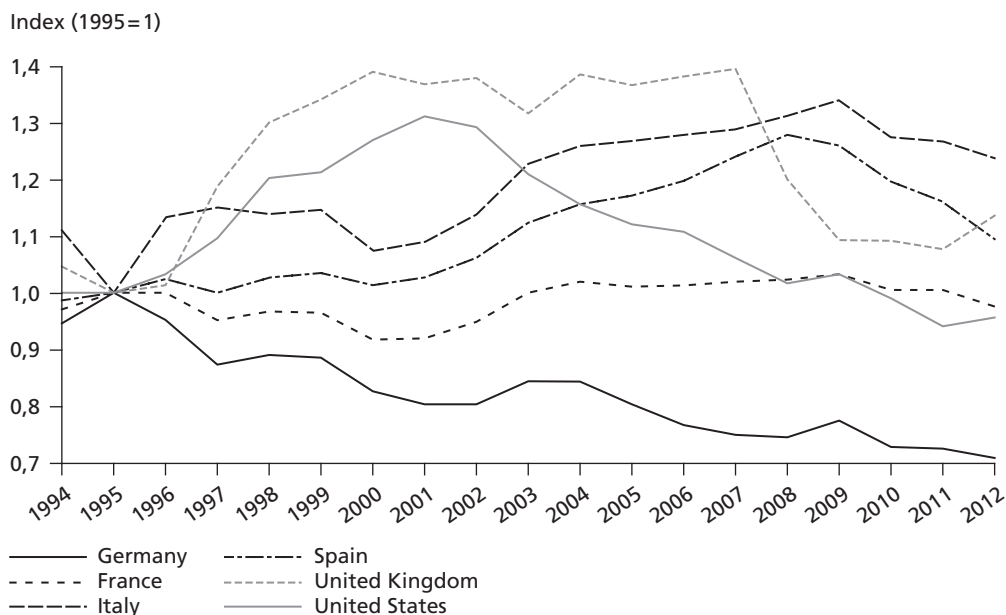
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13 In this vein, Kathleen Thelen claims that "Manufacturing employers continue to support [the core arrangements characteristic of the traditional model] as crucial to their continued success on world export markets" (Thelen 2014: 58). Since an exhaustive analysis of this issue would take me beyond the scope of this paper, a few examples will have to suffice. Between 1997 and 2003, approximately one quarter of German companies in the metalworking industry relocated production abroad (see Kinkel/Maloca 2009: 3). This suggests that VofC overstates German employers' dependence on domestic institutions. In his examination of the German automobile industry, Ulrich Jürgens finds that firms' production strategies are more dynamic and more loosely coupled with national and shop-floor institutions than VofC allows: "The dynamics of change in the automotive industry have not been adequately reflected in the debate on the German model. The concept of a model does not reflect the contradictions, tensions and dynamics inherent to production systems. There may be no production model that is stable in the long run. Instead, the 'fit' between institutions and company strategies is much looser than is often argued. With the fragmentation of process chains in the industry, the core of the German automotive system no longer is the shop-floor production system, but rather inter-organizational co-operation within product development and production networks" (Jürgens 2004: 412, 422).

in Germany. This also casts doubt on VofC pronouncements that German employers depend on traditional CME institutions.

Second, Fasbender implies that the extent to which institutions provide any competitive institutional advantage is variable, contextual, and contingent. This is very much in line with recent work on the contestedness of institutions and on incremental and slow-moving change (and in line with what we know about the transformation of co-determination from an instrument of workplace democracy to co-management). Third, Fasbender charges that Germany's liberalizing reforms since the 1990s, rather than its non-liberal institutions, are responsible for the country's competitive resurgence. The figure below speaks to this claim.

Figure 4 Evolution of competition-weighted relative unit labor costs, selected countries, 1994–2012



Source: Dustmann/Fitzenberger/Schönberg/Spitz-Oener (2014: 170).

This figure shows Germany's competition-weighted relative unit labor costs relative to other major capitalist democracies. Germany's competitive position has improved significantly since the mid-1990s, and dramatically since the mid-2000s. Germany's resurgence coincides with the liberalization of labor markets and collective bargaining institutions from the early 2000s onwards. As a result of these reforms,

The share of German workers covered by any kind of union agreement has sharply declined, and the number of firm-level deviations from industry-wide agreements has sharply increased ... Overall, these gradual changes within the system led to an unprecedented decentralization of the wage-setting process from the industry level to the firm level. (Dustmann/Fitzenberger/Schönberg/Spitz-Oener 2014: 168)

Whereas Kinderman (2005) claims that Germany's traditional institutions were failing to satisfy employer needs in the period up to 2005, Manuel Nicklich (2013) reports that employers' associations' satisfaction with wage bargaining arrangements has increased. Looking at Figure 4, it is not hard to see why. Employees, works councils, and trade unions have made far-reaching concessions to employer demands. INSM affiliate Karl-Heinz Paqué celebrates these changes:

Germany has changed as a *Wirtschaftsstandort* during the past two decades. The country has become a production location that is not only highly innovative – it always was – but also offers a high degree of flexibility. Germany is no longer a citadel of Rhenish Capitalism in which powerful employers' associations and unions hinder adjustment to world market fluctuations. (Paqué 2011: 25)

Even if many employers have failed to achieve their preferred objective of full-scale liberalization, Figure 4 suggests that their second-best alternative, which has entailed far-reaching concessions by employees and a reengineering of the existing system, has worked well for employers during recent years. Given the dramatic improvement of Germany's macroeconomic and competitive position, it is not surprising that German employers have chosen to leave the wage bargaining system formally intact.

Whereas in the mid-2000s, many German managers could not resist “the enticing shores of a neo-liberal market economy without corporatist obligations” (Streeck 2005: 11), the Anglo-American model lost much of its allure with the financial crisis. The latter, and the concessions made by employees, may have led some critics who were enamored with the Anglo-American model to moderate their demands for full-scale liberalization. Perhaps they have even re-discovered the virtues of the new German model, leading to a change in employers' underlying interests and preferences. However, I expect that this support will only persist as long as conditions for German firms continue to develop favorably. When conditions become unfavorable, employers will again campaign aggressively to reform and transform these institutions, as we have seen with the INSM from 2000 until 2006. While the above figures suggest that economic circumstances have influenced the stance and effectiveness of the INSM over the past fourteen years, we should not neglect the possibility that the market-oriented ideas disseminated by the INSM have themselves contributed to the increasing business-friendliness of German institutions and the cost competitiveness of German firms. The next section addresses objections to my argument.

## 8 Addressing objections to my argument

In this section, I address two objections to my argument. First, VofC scholars may argue that they never claimed German employers would defend every detail of the German system, only its basic institutional underpinnings: sectoral wage bargaining and co-determination.<sup>14</sup> Extending this line of thought, a comparison of German employers with employers in LMEs would reveal that the former's demands for liberalization are more moderate than the latter's. In the UK in the late-1980s, for example, Thatcherite John Hoskyns outlined a radical agenda for institutional reform. Hoskyns excoriated collective bargaining, which he described as "obsolescent" and "out of date:" employees should be treated as "individuals not as collective factors of production" (Hoskyns 1988). By contrast, collective bargaining institutions (*Tarifautonomie*), board-level co-determination and works councils enjoy a great deal of support among large German firms (see Höpner/Waclawczyk [2012] for co-determination and Paster [2014] for collective bargaining institutions). The fact that the INSM's main object of critique is the welfare state – and not wage bargaining institutions, co-determination or works councils – seems to support this claim.

There is an element of truth in this position; my response is threefold. First, the core of my argument is that German employers have not acted as a constraint on liberalization. Instead, they have vigorously promoted it through the INSM. In the absence of the INSM, Germany would almost certainly be less liberalized than it is today. Second, as Baccaro and Howell point out, institutions are "highly malleable," and transforming institutions by reducing burdensome constraints and "expand[ing] employer discretion" is sometimes preferable to dismantling them (Baccaro/Howell 2011: 522, 527), especially given the disruptions and costs that dismantling can entail. But it seems problematic to claim that employers defend traditional institutions when what employers are in fact doing is transforming and reengineering institutions from within.

Third, it is necessary to fully appreciate the importance of context. For historical and cultural reasons, Germany is a comparatively inhospitable environment for neoliberal ideas and policy proposals. Security and stability are important cultural values, much to the dismay of Karen Horn, one of Germany's self-ascribed neoliberals:

German society hungers and thirsts for security ... The German values monitor, a study of the Friedrich Naumann Foundation for Freedom based on representative surveys, shows Germans' fears of freedom and their desire for security. Self-reliance, the work ethic or competition are declining in popularity; collectivist values like security and order, solidarity and social justice are high in currency. Only thirty percent identify with the market economy as an important value. The Germans do not love the market and that's why they invented the social market economy with its emphasis on solidarity and security. This orientation towards security has crystallized itself over decades and leaves its marks on all aspects of politics. (Horn 2012: 110, 2010: 55)

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14 I am grateful to Thomas Paster for insights and formulations in this section.

Given the more limited resonance of neoliberal ideas in Germany compared with other states and the “unfavourable institutional conditions for major reforms” (Fleckenstein 2013: 64), the question is not why we fail to observe full liberalization in Germany but how can it be that we observe as much as we do? In spite of the aforementioned obstacles, German employers support liberalization to a much greater extent than VofC allows. Liberalization is Gesamtmetall's default position. In addition, it is essential to recognize that neo-liberalism itself is protean; and that Ordoliberalism, the German variety of economic liberalism (Haselbach 1997: 169), “is substantially less different from other streams of neoliberal thought than many have thought” (Ptak 2009: 99). The next section concludes the paper.

## 9 Conclusion

Varieties of Capitalism's counterintuitive and “extraordinarily reassuring” view of employer preferences has helped it to become “hegemonic” during the past decade.<sup>15</sup> In an era of capital mobility and business power, the notion that different Varieties of Capitalism “operate according to different logics” (Hall/Thelen 2009: 24) can only be sustained if employers truly support and defend non-liberal institutions. Drawing on Lakatos, VofC's conception of business interests can be seen as part of the theory's theoretical core. In this paper, I have challenged it. Through an analysis of the New Social Market Initiative (INSM) from 2000–2014, I have argued that VofC's understanding of German employer preferences is flawed for this time period.<sup>16</sup> It is ironic that employers founded this organization with an explicit mandate to promote liberalization just as Hall and Soskice's influential volume was going to press. By the end of 2018, Gesamtmetall will have spent approximately 160 million euros funding the INSM's activities.

While VofC stresses the imperative importance of non-market coordination for employers in CMEs, the INSM advocates for more market coordination in all areas of social and economic life: it has put wind in the sails of liberalization since its founding fourteen years ago. To be sure, it is hard to find definitive empirical proof of what employers really want. But in light of the evidence presented in this paper, the burden of proof is on those who believe that employers do not really want what they say. The bottom line is that it's hard to reconcile the existence of the INSM, an initiative dedicated to promoting large-scale liberalization, with the idea that employers defend traditional institutions. Despite changing campaigns and emphases over time, the INSM's overall message is clear: a celebration, legitimation and defense of the unencumbered market, and a harsh critique of the welfare state. While the intellectual pedigree of the INSM is

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15 Kathleen Thelen, remarks given at lecture at the Penn Temple European Studies colloquium, Philadelphia, USA; December 6, 2013.

16 It is possible that VofC was accurate in the past and that employer preferences have changed.

Ordoliberal, the differences in comparison with Anglophone neoliberalism should not be overstated. As Stephanie Mudge points out, the “elevation of the market ... over all other modes of organization” is neoliberalism’s “ideological core” (Mudge 2008: 705).

The paper has also sought to shed light on changes in the INSM’s orientation and strategy over time. In the period from 2000–2005, the INSM played an agenda setting role by paving the way for the Agenda 2010 labor market reforms and by coming up with some of its central slogans. From 2003 to 2005, the INSM articulated radical critiques of the German model which point towards a *Systemwechsel* – a system change – away from CME and towards LME-style institutions. Many INSM representatives and employers viewed the Hartz and Agenda 2010 labor market reforms as the beginning and not the terminus of liberalization. Since 2006, and especially since 2009, the INSM’s positions have become more moderate. The INSM has sought to defend existing reform achievements against retrenchment, but it has had to swim with the tide of public opinion and moderate its positions in order to remain relevant to public opinion and political debates. In the first period, the INSM achieved many victories. In the second period, in the context of the heightened salience of social and distributional issues and reduced business legitimacy, the INSM has sustained many defeats in its attempt to defend market-liberal reforms against re-regulation.

I have argued that the INSM’s moderation in the second period should be understood as a response to a growing anti-liberalization sentiment and electoral pressures rather than as an indication of employer support for the institutional status quo. At the same time I have pointed out that improvements in firms’ competitiveness, reductions in unit wage costs, as well as the crisis of the Anglophone model may also explain the INSM’s moderation. This suggests a nuanced and dynamic relationship between ideas and interests, as Marx and Weber have long recognized. It does not contradict my argument that German employers have a genuine preference for liberalization, but it suggests that employer strategies and interests are complex and influenced by a variety of factors. The paper thus points out the limitations of business power as well as its strength. In the end, Gesamtmetall’s investment of large sums of cash in a cutting-edge professional PR campaign based on “a hard appraisal of the malleability of social reality and of people themselves” (Jackall 1988: 164) has been insufficient to convince German policy-makers and citizens of the continued necessity of reforms. This suggests that business does not always win, and that “there is always a fighting chance” (Streeck 2009: 268) for those who seek to reign in the market.

The rise of the INSM coincides with the progressive disorganization of German capitalism (Höpner 2004) and the increasing heterogeneity of employers’ associations. The fact that German employers have initiated and pursued a seemingly coherent liberalization agenda through the INSM flies in the face of claims that divergences in interests prevent employers from articulating coherent association- and industry-wide positions. Of course, the fact that Gesamtmetall and its regional employers’ associations support the INSM does not imply that all German employers or even Gesamtmetall members

do. It is certainly possible that the INSM's positions are too radical for some firms. Yet I have found no evidence to support the claim that the INSM is an attempt to appease discontented managers within employers' associations. Why not?

The explanation may well lie in the inherent asymmetry between liberalization and organization. This could help to explain why even firms that do not actively support the INSM agenda see no need to oppose it. As Paster (2012b) has argued, as long as voluntary practices remain viable, liberalization can accommodate critics as well as defenders of the institutional status quo, whereas the institutional status quo cannot accommodate critics. Thus, while the INSM does not show that all German employers in the metalworking industry have a genuine preference for liberalization, it does show that a significant number do; and that contrary to VofC, those that don't are unwilling or unable to defend the institutional status quo. Gesamtmetall could not sustain a campaign of 130 million euros over the course of fourteen years that did not enjoy support from a large number of their members.<sup>17</sup>

In conclusion, this paper has argued that the claim that German employers will defend traditional institutions against liberalization is untenable. This does not imply that employers are always at war with market-constraining institutions.<sup>18</sup> After far-reaching institutional reforms and concessions by employees and the crisis of Anglophone LMEs, and in the face of growing societal opposition to further liberalization, German employers toned down their demands for liberalization. But following new welfare state largesse and the re-regulation of labor markets, "the discontentment of business is growing and a new *Standortdebatte* (debate on Germany as a production location) is taking place in German companies" (Hüther, interview 2014). To understand these developments, liberalization theorists' view of capitalism as unruly and disruptive<sup>19</sup> provides a promising starting point.

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17 Much of my argument has been based on the assumption that the INSM reflects an aggregation of employers' association members' interests. But as Behrens (2011: 215) points out, employers' associations do not simply aggregate the interests of their members; through their actions, employers' associations shape those underlying interests. The extent to which the INSM has strengthened and reinforced firms' underlying interests is unclear, but the greater this effect, the greater the damage to VofC conceptions of employer interests.

18 See Julien Etienne and Gerhard Schnyder, "Logics of action and models of capitalism: Explaining bottom-up non-liberal change" (*Swiss Political Science Review*, forthcoming) for a fascinating account of Swiss employers' role in non-liberal institutional change.

19 Chris Howell, remarks given at the Society for the Advancement of Socio-Economics, Chicago, July 2014.



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