

The German Model and European Integration:  
Between Unification and Union

Jeffrey J. Anderson

Department of Political Science  
Brown University  
Box 1844  
Providence, RI 02912  
(401) 863-1575  
Jeffrey\_Anderson@brown.edu

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This paper explores the impact of European integration on the German polity broadly conceived: specifically, the formal institutions, rules and procedures of democracy as well as key elements of the German model of political economy. As one of the founding members of the European Economic Community, Germany has had a long and intimate association with the European project, which increases the probability that the effects of integration on the polity will be both consequential and conspicuous. This hunch is strengthened by the fact that the Federal Republic was and is no ordinary member. As a young, fledgling democracy in the 1950s, Germany embraced European integration with a markedly different approach to national sovereignty in comparison to other large European countries. Specifically, the FRG exhibited a strong inclination to vest elements of national sovereignty in supranational institutions and, more generally, an ingrained, even exaggerated support for multilateralism.<sup>1</sup> These reflexes, which can be traced back to internalized lessons drawn from the Nazi experience as well as to firm international expectations about appropriate West German conduct on the world stage, left the country even more open to supranational influences.

The outline of this paper is basically chronological. First, I establish central features of the West German model as it developed in the postwar period, and examine its relationship to the evolving European project. I then move to a discussion of the separate yet synergistic impact of unification and European Union on the German model, followed by a general analysis of the main findings.

#### THE WEST GERMAN MODEL

Relative to other advanced industrial nations, West Germany (1949-1990) looked big but acted small. According to Katzenstein, "West Germany comes closer than any other large industrial state to the logic by which political life in the small European states is organized."<sup>2</sup> Institutionally and

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<sup>1</sup> Multilateralism is an institutional form that "coordinates relations among three or more states on the basis of generalized principles of conduct..." Two corollaries follow from multilateralism: (1) the generalized principles of conduct "logically entail an indivisibility among the members of a collectively with respect to the range of behavior in question"; and (2) expectations of diffuse reciprocity among members generally flow from successful multilateralism. John Gerard Ruggie, "Multilateralism: The Anatomy of an Institution," in John Gerard Ruggie, ed., Multilateralism Matters (New York: Columbia University Press, 1993), 11.

<sup>2</sup> Ibid, 31. See also Peter Katzenstein, "Stability and Change in the Emerging Third Republic," in Peter Katzenstein, ed., Industry and Politics in West Germany (Ithaca: Cornell University Press, 1989), 347; and Kathleen Thelen, Union of Parts: Labor Politics in Postwar Germany (Ithaca: Cornell University Press, 1991), 4. Even those who do not expressly note this paradox of size end up place

ideologically, the Federal Republic's political economy approximated the neocorporatism of its smaller Scandinavian neighbors, based on principles of consensualism, international liberalization, and domestic compensation.<sup>3</sup>

The origins of postwar German distinctiveness are to be found in the domestic legacies of its Second and Third Reich incarnations, as well as the period of Allied occupation. Its small-state political economy and brand of decentralized democracy was also the product of conscious choices by West German political and economic elites to adapt to a transformed international system. The West German model, renowned for its stability and capacity to perform, rested on the interplay between interlocking sets of institutional arrangements and a firm yet flexible belief system about the functioning of the economy and its relationship to public authority. It drew on a deeply rooted societal consensus.

The defining features of the German model often are described in purely institutional terms. The organization of the economy, in conjunction with the organization of the polity, generate a complex distribution of (in)capacities and (dis)incentives for public and private actors alike. Scholars of postwar German political economy link these institutional affects both to economic performance and to general characteristics of the policy process, including its tendencies toward continuity, incrementalism, and coherence.

Pride of place in institutional analyses of the West German model is usually accorded to the industry-finance nexus. Unlike British or American firms, which garner investment capital through retained earnings, short-term bank financing, or the stock market, major German concerns tend to rely on long-term financing from a major house bank, which typically owns stock in the firm and exercises proxy votes for other shareholders.

The industry-finance nexus in Germany is significant for three reasons. First, it generates a long range planning and investment horizon for management. Second, the interpenetration of finance and industrial capital, in conjunction with a decentralized German state (see below), confers on the private

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the postwar German case in the company of the small European democracies. See Peter Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press, 1986), 207.

<sup>3</sup> Katzenstein, Small States in World Markets, 68-9.

sector the capacity to undertake sector-wide adjustment initiatives. And third, viewed from a macroeconomic perspective, it is the connective tissue of German "organized capitalism" in the postwar period, buttressing the higher levels of industrial concentration and greater incidence of inter-firm cooperation that has set the German economy apart from its competitors since the end of the nineteenth century.<sup>4</sup>

West Germany's institutional distinctiveness extends to the system of industrial relations. Among the large industrial democracies, the FRG comes closest to the classic Scandinavian model of neocorporatism. In contrast to the now virtually defunct Scandinavian model, premised on peak bargaining among the social partners and the state, negotiated adjustment in the Federal Republic takes place almost wholly within the private sector, and below the rarefied heights of the national level and outside formal, parliamentary-electoral channels.<sup>5</sup>

Thus, German associational life is well developed and highly articulated; interest groups enjoy ready access to and legitimacy within the policy process. That said, the Federal Republic is not especially known for its participatory culture along the lines of the United States, despite the significant "green" mobilization and the emergence of the so-called "extra parliamentary opposition" (APO: außerparlamentarische Opposition), both of which exhibited strong bottom-up, grass roots elements. Politically, German citizens tend rather more toward the conventional, passive modes of participation; public opinion polls in the 1980s began to pick up signs of increasing political disaffection and apathy, with the mainstream political parties and "politics-as-usual" coming in for the brunt of the criticism.

Institutional elements of the German model are not confined merely to the economic sphere. Indeed, the patterns of coordination and decentralized negotiated adjustment are replicated to a

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<sup>4</sup> On the subject of organized capitalism, a term coined by the economist Rudolf Hilferding, see Christopher Allen, "The Underdevelopment of Keynesianism in the Federal Republic of Germany," in Peter Hall, ed., The Political Power of Economic Ideas (Princeton: Princeton University Press, 1989), 263-89.

<sup>5</sup> Andrei Markovits, The Politics of the West German Trade Unions (New York: Cambridge University Press, 1986); Fritz Scharpf, Crisis and Choice in European Social Democracy (Ithaca: Cornell University Press, 1991).

remarkable degree inside the state. The symmetry between the public and private spheres is an important aspect of the postwar German model.

A defining characteristic of the German state is its decentralized structure. The starting point here is the FRG's postwar constitution, the Basic Law, which prescribes a unique territorial and functional separation of powers that sets the postwar German state model apart from most of its western counterparts. Territorially, decentralization takes the form of federalism -- more precisely, administrative or horizontal federalism. State governments (Länder) enjoy a significant measure of political autonomy vis-à-vis central government and a key role in implementing national policies owing to the federal government's lack of a field administrative apparatus.<sup>6</sup> In contrast to the American or vertical variant of federalism, the Land governments, each based on a regional parliamentary majority, play a formal role in the national legislative process through direct representation in the upper house, the Bundesrat. Thus, the national government is drawn into regular negotiations with the Länder over large portions of its legislative agenda, a process that is often complicated by the injection of partisan politics into federal-state relations.

Functional decentralization at the heart of the federal (i.e. national) apparatus takes essentially three forms. The first is the constitutionally guaranteed independence of the Bundesbank.<sup>7</sup> Thus, although fiscal instruments remain under the control of elected officials ultimately subject to parliamentary accountability, monetary policy has remained effectively insulated from political pressures, which in turn has generated firm, predictable parameters for governments, business, and labor alike.

The second element of decentralization in the state apparatus springs from the autonomy of individual national ministries. The West German doctrine of ministerial autonomy (Ressortprinzip) creates a fairly broad scope for individual minister initiative, and necessitates a greater need for coordination mechanisms at the highest echelons of government. The result is that the German policy

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<sup>6</sup> A. Gunlicks, Local Government in the German Federal System (Durham: Duke University Press, 1986), 117. For a brief but thorough overview of German federalism, see P. Blair, Federalism and Judicial Review in West Germany (Oxford: Clarendon Press, 1981), 1-6.

<sup>7</sup> For a study of the Bundesbank in comparative perspective, see John Goodman, Monetary Sovereignty: The Politics of Central Banking in Western Europe (Ithaca: Cornell University Press, 1992).

process is more compartmentalized than one finds in other parliamentary democracies, a characteristic that observers describe as "policy sectorization".<sup>8</sup>

Finally, decentralization also results from largely extraconstitutional factors, such as the organizational strength of political parties (Parteidemokratie) and the perennial fact of coalition government.<sup>9</sup> In sum, the West German constitutional-political order generates competing centers of authority and power within the state apparatus, along both territorial and functional lines. This has contributed to many of the trademark characteristics of the German policy process -- specifically, the premium place on concertation, consultation, and the sharing of power among institutional actors.

The FRG has also been characterized by an ideational consensus, captured by the term "social market economy",<sup>10</sup> which assigns roles and relationships to public and private actors and prescribes economic policy approaches in a way that dovetails harmoniously with the institutional characteristics of the German model described above. Where societal production, allocation, and adjustment functions are concerned, social market orthodoxy assigns primacy to the market, defined not in terms of the perfect competition sketched in the economic textbooks or of the American vision of cowboy capitalism, but according to the historical legacy of Germany's organized capitalism. Vis-à-vis the market, state tasks fall into essentially two categories. The first is to uphold the self-regulating economic order by establishing a facilitative framework of rules and regulations (Ordnungspolitik or Rahmenpolitik). From this principle are derived many traditional economic policy priorities of postwar German governments, whether center-right or center-left; these included price stability; privileging investment over consumption, especially as regards the export sector; an open international economy; an arm's length industrial policy, and an anti-cartel policy.

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<sup>8</sup> Kenneth Dyson, "West Germany: The Search for a Rationalist Consensus," in Jeremy Richardson, ed., Policy Styles in Western Europe (London: George Allen and Unwin, 1982), 45; Simon Bulmer and William Paterson, The Federal Republic of Germany and the European Community (London: Allen & Unwin, 1987), 25-31.

<sup>9</sup> For example, the tendency toward ministerial autonomy is further enhanced by the prevalence of coalition government in the Federal Republic; ministers of differing party affiliations face strong incentives to make use of their autonomy in order to enhance their party's profile in the coalition.

<sup>10</sup> The phrase was coined by Alfred Müller-Armack, Wirtschaftslenkung und Marktwirtschaft (Hamburg, 1946).

The second responsibility of the state is to ensure that the dislocation generated by the operation of market processes is addressed through government social policy broadly conceived. With a rationale that many observers trace back to the Bismarckian state, West German policy makers generated a "social" component to the market economy that entails a comprehensive welfare policy, programs designed to address regional economic inequalities, and a limited industrial policy that leaves adjustment strategies to market actors but aims to ease the hardship imposed on individuals and regions by the decline of traditional industrial sectors (e.g. coal, agriculture).

Thus, the state is assigned responsibilities and tasks that take it beyond the nightwatchman state endorsed by neoclassical economists. On the other hand, the state in the German social market economy falls well short of its interventionist and at times omnipresent counterparts in countries like Japan or even France.

The close, harmonious fit between ideas and institutions in the West German political economy rested on a deep consensus in society concerning the market, the state, and their relationship to one another. Societal agreement over the fundamentals of political economy manifested itself indirectly in a number of ways, including the high level of policy continuity that characterized the postwar period despite a fair amount of partisan turnover in government, as well as the generally depoliticized manner in which policy was carried out.<sup>11</sup> The consensus was permissive in the same sense that social market economic doctrine was flexible. That is, it afforded policy makers considerable leeway in formulating concrete policy choices and debating their relative worth, but at the same time imposed well understood limits on what was considered acceptable practice in both the public and private sectors.

The outer edges of a societal consensus over institutions and ideology are always contested ground, and the social market economy between 1949 and 1990 is no exception. The political left and the trade union movement repeatedly tried to strengthen the interventionist capabilities of the state; the SPD achieved a modest measure of success during the 1970s with its concept of "Modell

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<sup>11</sup> Katzenstein, Policy and Politics in West Germany, 363; Dyson and Wilks, "Conclusions," 257.

Deutschland".<sup>12</sup> The lukewarm neoliberalism with which the Christian democratic-liberal coalition under Helmut Kohl wrested power from the SPD was an attempt by conservatives to reorient the consensus toward orthodoxy. And finally, the postmodern challenge issued by the environmental movement in Germany resulted in a greening of the German model, as major political parties on both the left and right have responded to the electoral threat by moving into the ecological issue space, but these changes fell far short of a wholesale reform of the political economy.<sup>13</sup>

Debates over the content of the German model unfolded within clear parameters, however. Although left and right might disagree over the limits of state intervention, or labor and capital might differ on the extent of worker participation in management, at no time during the postwar period were the core institutional and ideational features of the West German political economy placed on the table for discussion.<sup>14</sup> The Bonn model served the interests of a cross-class productive coalition centered in the export sectors of the economy, and could draw on the unswerving support of the state bureaucracy responsible for economic policy.

#### INTEGRATION AND THE WEST GERMAN MODEL

West Germany was not just a truncated version of its pre-war incarnation, but a new polity with tender democratic roots and uncertain economic prospects. And so, based on hard-nosed instrumental calculations, German elites embraced multilateralism, and in particular European integration. Economic integration, combined with collective security through NATO, offered the Federal Republic concrete opportunities to consolidate democracy, to regain elements of its forfeited sovereignty, to create the foundations for economic reconstruction and recovery, and to hold the door open to eventual reunification with East Germany. In this manner, early German support for European multilateralism can be linked directly to domestic interest politics.

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<sup>12</sup> Esser and Fach (with Dyson), "'Social Market' and Modernization Policy," 106.

<sup>13</sup> See Jost Halfmann, "Social Change and Political Mobilization in West Germany," in Katzenstein, Industry and Politics in West Germany, 51-86.

<sup>14</sup> Observers have noted the absence in the 1980s of a German neoliberal revival à la Thatcherism or Reaganism; see Katzenstein, "Stability and Change in the Emerging Third Republic," 328, and Paul Pierson and Margaret Smith, "Bourgeois Revolutions?" Comparative Political Studies 25(January 1993), 487-520. This element of German exceptionalism suggests an underlying level of consensus among political and economic elites over fundamentals.



What we might describe as "polity" interests drove the West Germans toward Europe. With the exception of the left, political elites viewed participation in a community of Western European states as a means to anchoring democracy permanently on German soil.<sup>15</sup> These same political groupings, located on the right and in the liberal center, also valued integration as the unavoidable yet ultimately acceptable price for regaining elements of state sovereignty relinquished in the aftermath of total defeat.

Achieving an "equality of rights" with its European neighbors was viewed in Bonn as the sine qua non for both the international rehabilitation of the new German republic and the domestic objective of reunification.<sup>16</sup> It also was seen as central to the economic recovery and reconstruction of the country. Regaining economic sovereignty, in other words, required a multilateral approach to Europe.<sup>17</sup>

Interest politics alone, however, cannot fully account for much of Bonn's external behavior, including its pacifist military security policy, its approach to national sovereignty, and its aversion to unilateralism. One must look beyond material and political interests to the politics of identity in postwar Germany, which unfolded in searing domestic political debates over rearmament, reunification, and European integration carried out by a new constellation of German political actors under the watchful eyes of neighboring countries and allies.<sup>18</sup>

Initially, the new collective identity defined itself as the negation of the Third Reich: i.e. as the polar opposite of the expansionist, predatory, undemocratic, eastward-looking state that terrorized the European continent between 1933 and 1945. It also reflected foreign expectations about acceptable

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<sup>15</sup> The Social Democrats (SPD) opposed all facets of a western integration strategy in the 1950s on economic grounds and because it would stand in the way of reunification, which required Soviet consent.

<sup>16</sup> Alan Milward, The European Rescue of the Nation-State (Berkeley: University of California Press, 1992), 197-8. See also Bulmer and Paterson, The Federal Republic of Germany and the European Community, 5-6.

<sup>17</sup> Milward, The European Rescue of the Nation State, 67-70.

<sup>18</sup> National identity refers to "(a) the nationally varying ideologies of collective distinctiveness and purpose..., and (b) country variation in state sovereignty, as it is enacted domestically and projected internationally...." Ron Jepperson, Alexander Wendt, and Peter Katzenstein, "Norms, Identity, Culture and National Security," in Peter J. Katzenstein, ed., The Culture of National Security: Norms and Identity in World Politics (New York: Columbia University press, 1996), 59.

German behavior on the international stage.<sup>19</sup> As such, European integration took on added importance to German elites and masses because it reinforced the country's reconstituted national identity. The multilateral frameworks of created by the Paris and Rome treaties provided welcome constraints: liberal-democratic shackles for a fledgling democracy. They also allowed Germany to signal to Europe and to the outside world its changed and ultimately benign identity and intentions, especially with regard to western values and integration.

The coincidence of European integration and polity consolidation in the Federal Republic meant that "integration became a key part of postwar economic and political values in the FRG."<sup>20</sup> Interest groups and citizens alike, saw the economic benefits of the Wirtschaftswunder as inextricably linked to German membership in a larger European mission.<sup>21</sup> Political and economic elites, for their part, saw the EEC not only as a source of concrete economic and political benefits, but as a means of preserving and strengthening the defining ideational and institutional features of the German model of political economy.

Over time, as the Federal Republic established a reputation for economic prowess, new dimensions appeared in its identity, ones characterized more by what the country embodied in the present than by the negation of what it once was; numerous authors have described these new identity elements in terms of the trading state.<sup>22</sup> This evolving collective identity manifested itself in Germany's approach to integration; its general goal in EC politics was to erect institutional and normative frameworks at the supranational level that would nurture or otherwise support its successful domestic economic formula. Bonn's objectives in the ensuing regulative policy areas were to preserve these frameworks and adapt them to changing domestic and international circumstances.

Indeed, up until 1989, Germany's domestic and supranational policies stood in harmony with respect to one another; each set parameters for the other, and each reinforced the principles

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<sup>19</sup> Scholars working in this tradition emphasize the extent to which identity is shaped by the broader environment, including the expectations of other actors. See Jepperson, Wendt, and Katzenstein, "Norms, Identity, Culture and National Security."

<sup>20</sup> Bulmer and Paterson, The Federal Republic of Germany and the European Community, 8.

<sup>21</sup> Hanrieder, Germany, America, Europe, 340-1.

<sup>22</sup> See for example Thomas Berger, "Norms, Identity, and National Security in Germany and Japan," in Katzenstein, The Culture of National Security, 317-56.

underpinning the other. By the end of the 1980s, a high level of congruence had emerged between the Federal Republic and the European Community.<sup>23</sup>

Institutionally, both were characterized by cooperative federal arrangements, in which authority and competencies are shared among executive branches at multiple levels within the larger political system.<sup>24</sup> In each system, the policy process is organized in a highly segmented or sectorized fashion; according to Bulmer's formulation, both Germany and the EC possess "a diverse set of institutionally defined governance regimes."<sup>25</sup>

Similar ideational principles underpinned the rules of the game in each system. Political and economic actors in the Federal Republic and the Community laid great emphasis on consensualism, a logical normative component of a constitutional order based on cooperative federalism.<sup>26</sup> Similarly, the norm of subsidiarity was firmly established in each system. This principle, which is again consistent with the institutional features of each system, prescribes that "policy decisions ... be made on a level as close as possible to the one on which they are implemented while remaining consonant with the basic principles of social justice."<sup>27</sup> One has only to look at Britain or France to observe a fundamentally different set of domestic political assumptions at work. In the economic sphere, the two systems view the relationship between public authority and the market in similar terms; that is, much of the German doctrine of the social market economy finds a counterpart in the social-liberal orientation of the EC's common market.

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<sup>23</sup> The following paragraphs are based on Simon Bulmer, "European Integration and Germany: The Constitutive Politics of the EU and the Institutional Mediation of German Power," in Peter Katzenstein, ed., Tamed Power (Ithaca: Cornell University Press, forthcoming 1997).

<sup>24</sup> In Germany, cooperative federalism embraces the federal government (Bund) and the states (Länder), whereas at the EC level, parallel institutions bring together the member governments and supranational actors like the Commission. See Fritz Scharpf, "The Joint-Decision Trap; Lessons from German Federalism and European Integration," Public Administration 66(Autumn 1988), 239-78; and Alberta Sbragia, "Thinking about the European Future: The Uses of Comparison," in Sbragia, Euro-Politics, 257-91.

<sup>25</sup> Bulmer, "European Integration and Germany."

<sup>26</sup> Community observers are fond of pointing out that even with the increasing legitimacy of qualified majority voting in the Council of Ministers during the 1980s, most decision were in fact reached on the basis of consensus, or informal unanimity, so as not to stretch the fabric of consensus among member governments in the EC. See Wolfgang Wessels, "The EC Council," in Robert Keohane and Stanley Hoffmann, eds. The New European Community: Decisionmaking and Institutional Change (Boulder, Co.: Westview Press, 1991), 133-54.

<sup>27</sup> Peter Lange, "The Politics of the Social Dimension," in Sbragia, ed., Euro-Politics, 231.

Finally, the content of German and EC policies dovetail sufficiently to suggest broad areas of common interest between German policymakers and Community officials. Many of these were touched on earlier; they include essentially liberal external trade and internal market policies, price and structural support for agriculture, the social compensation principles underlying regional economic policy, and the price stability orientation of economic and monetary union (EMU).

Congruence, it should be stressed, was the result of reciprocal influence and convergence, and not strictly the outcome of Germany's projection of its model onto the rest of Europe. As a member of the EC, Germany consistently sought to intensify and expand the multilateral principles on which the European project rested. Politically, this strategy remained viable throughout the postwar period because it satisfied the expectations of other Community members as to the acceptable face of German participation and influence in Europe. This approach also drew on a firm but permissive domestic consensus about the German model and the country's place in Europe, a consensus that was nurtured by economic prosperity. Public opinion either approved or took little notice of the political leadership's policy of exchanging long term intangible benefits for short term material costs.

When one observes the constellation of ideas, interests, and institutions that comprised the West German model, and traces out their relationship to the institutions and policies of the European Community, it is difficult to avoid using the term "equilibrium". Each drew on the other for support, and each influenced the other as adjustment imperatives thrust themselves onto the political agenda from within and from beyond the permeable borders of the Community. The principal issue addressed in the following sections is whether unification and union have had an impact on this equilibrium.

#### THE GERMAN MODEL AND UNIFICATION

Unification effected a wholesale transfer of West German institutions. The sluiceways were opened after the March 18 elections in the German Democratic Republic (GDR), which handed both reform communists and democratic socialists a stunning defeat at the hands of the Alliance for Germany and the Alliance of Free Democrats, both closely linked to the coalition parties in Bonn.

The East German electorate voted in overwhelming numbers for markets, democracy, and unification, and rejected in no uncertain terms a "third way".<sup>28</sup>

Formally, unification was accomplished in two stages. The State Treaty (Staatsvertrag), which went into effect on 1 July 1990, transferred the West German social market economy to the east. Political unification was ushered in on 3 October 1990 by the Unification Treaty (Einigungsvertrag). With few exceptions, it replaced the GDR political system lock, stock, and barrel with the West German. GDR demands for concessions ranging from the symbolic (new flag and national anthem) to the structural (a federal ministry of reconstruction, provisions for direct democracy, constitutionally guaranteed right to work) went nowhere.

The metaphor of institutional transfer should not obscure the tangible changes to the German model wrought by unification. For example, although the extension of West German democracy to the GDR was accomplished with little or no change to the basic principles underpinning the system, national institutions required some recasting to accommodate the territorial expansion. The lower house (Bundestag) expanded from 518 to 656 seats to accommodate the east's members of parliament. The number of seats in the upper house of the federal parliament, the Bundesrat, was expanded from 11 to 16. Weighted voting arrangements in the Bundesrat were also changed to reflect the addition of new members, and as a result, the four largest Länder (North Rhine-Westphalia, Bavaria, Baden-Württemberg, and Lower Saxony), all located in the former West Germany, have enough votes to block proposed amendments to the constitution, which require a two-thirds majority.<sup>29</sup>

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<sup>28</sup> The final election results were as follows:

Alliance for Germany	48.1 percent
SPD	21.8
PDS	16.3
Alliance of Free Democrats	5.3
Others	8.5

<sup>29</sup> Hartmut Klatt, "German Unification and the Federal System," in Charlie Jeffery and Roland Sturm, eds., Federalism, Unification, and German Integration (London: Frank Cass & Co., Ltd., 1993), 5. See also Heinrich Mäding, "Die föderativen Finanzbeziehungen im Prozeß der deutschen Einigung," in Wolfgang Seibel, Arthur Benz, and Heinrich Mäding, eds., Verwaltungsreform und Verwaltungspolitik im Prozeß der deutschen Einigung (Baden-Baden: Nomos Verlagsgesellschaft, 1993), 319.

In addition to formal changes in structure, the transfer of West German federalism generated new stresses and strains that should not go unmentioned. The sheer increase in the number of Länder has complicated the process of consensus-building, both among the sixteen Länder and between the Länder and the federal government.<sup>30</sup> Adding to the problems of intergovernmental consensus formation are the much larger disparities between rich and poor regions that have opened up since October 3, 1990, a dividing line that finds expression in the Bundesrat, where the poorer states now hold a numerical if not party political majority.<sup>31</sup>

Alongside these admittedly modest changes to the formal constitution, unification altered, at least in the short term, some standard features of the German political process, or what is sometimes referred to as policy style. In the context of great uncertainty and increasingly desperate economic conditions in the former GDR, West Germany's "Grand Coalition State,"<sup>32</sup> characterized by close concertation between and among government and opposition parties, federal bureaucracy, state (Land) governments, and peak associations, gave way to a considerable degree of autonomous, centralized initiative on the part of the political executive, centered around the Chancellor's office. In short, the Federal Republic's "enabling state" transformed itself, perhaps only temporarily, to meet the specific challenges raised by the formal unification process.<sup>33</sup>

Beneath the formal process of institutional transfer, an ongoing transfer -- or perhaps better put, projection -- of West German interests and ideas took place, the success of which is in the end far more problematic. Business, agricultural, and labor organizations began to extend their organizations into the eastern territories shortly after the breaching of the Berlin Wall, in many cases imposing a western German interest agenda on their new eastern members and thereby sowing the seeds of future east-west conflicts. The projection of West German ideas, especially identity, was also a prominent

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<sup>30</sup> Manfred Schmidt, "The Domestic Political Economy: Germany in the post-1989 Period," Paper prepared for delivery at the IPSA Round Table Kyoto, March 25-27, 1994, 8.

<sup>31</sup> Ibid, 9. This threatened to strengthen the importance of territory over party in the Bundesrat. On the latter cleavage, see G. Lehbruch, Parteienwettbewerb im Bundesstaat (Stuttgart: Verlag W. Kohlhammer, 1976).

<sup>32</sup> See Manfred Schmidt, "The Domestic Political Economy: Germany in the post-1989 Period," Paper prepared for delivery at the IPSA Round Table Kyoto, March 25-27, 1994, 5.

<sup>33</sup> Wolfgang Streeck, "German Capitalism: Does It Exist? Can It Survive?," in C. Crouch and W. Streeck, eds, Modern Capitalism or Modern Capitalisms? (London: Francis Pinter, 1995).

feature in official government statements, parliamentary speeches, press interviews, and election campaign rhetoric. The goal of ideational-identity transfer went largely uncontested in the vacuum that reigned in the post-communist GDR.<sup>34</sup> And although GDR citizens in the aftermath of November 9 appeared to shed their "double consciousness", seeking refuge in "a larger national identity,"<sup>35</sup> this by no means guaranteed a long-term transformation. In fact, institutional transfer did not automatically entail its ideational counterpart. Public opinion polls conducted in East Germany in 1989 and 1990 revealed substantial opposition to West Germany's security identity (i.e. NATO membership), skepticism about European integration, and lingering support for social and economic principles that would be difficult to reconcile with standard components of social market orthodoxy.

#### THE GERMAN MODEL AND EUROPE AFTER MAASTRICHT

The Treaty on European Union (TEU) was negotiated at Maastricht in December 1991 and signed by the leaders of the twelve member governments in early February 1992. With some notable caveats and exceptions, the member governments committed themselves to the twin and inseparable objectives of economic and political union. Germany's support for the TEU sprang from deep-seated convictions about the integration process, to be sure, but it cannot be divorced from concern about the impact of unification on relations with its European partners. In effect, Bonn asked for "the golden handcuffs," and its European partners obliged.<sup>36</sup>

The impact of European integration on Germany during this period -- for all intents and purposes the 1990s -- can be divided into two categories: formal political institutions and state-society relations. The following subsections catalogue these various changes; a discussion of their implications appears in the paper's conclusion.

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<sup>34</sup> Witness the anemic and ultimately failed efforts of supporters of the "Third Way." On the subject of identity politics in the two Germanys at this time, see Hans-Joachim Veen and Carsten Zelle, "National Identity and Political Priorities in Eastern and Western Germany," Germany Politics 4(April 1995), 1-26.

<sup>35</sup> Jarausch, The Rush to German Unity, 127.

<sup>36</sup> Timothy Garton Ash, In Europe's Name (New York: Random House, 1993), 358.

## Formal Institutions of German Democracy

As elsewhere in the Community, ratification of the Maastricht treaty raised several constitutional issues in Germany. Some were technical in nature, involving the need to bring Germany's Basic Law in line with specific provisions of the treaty; for example, amendments were required to allow EU nationals residing in Germany to vote in local and European elections, and to enable the government to transfer the functions and competencies of the Bundesbank to a European Central Bank at some later date. Others went much deeper, however, raising fundamental questions about the direction of integration and whether the TEU represented a sea-change in the relationship of the EC/EU to its member governments -- thus requiring a comprehensive re-anchoring of integration in the national constitution. This issue provoked a wide-ranging constitutional debate in Germany, one that ultimately led to a potentially significant reordering of formal relationships between the main institutions of government.

Since the 1950s, integration had been regulated by Article 24(1) of the Basic Law, which states that "the Federation may by legislation transfer sovereign powers to intergovernmental institutions." There was general consensus among political elites that a new amendment was necessary in light of Maastricht, both to clarify institutional relationships and to reassure an increasingly restive public (see below).<sup>37</sup> However, major disagreements, which in many cases cut across party divisions, opened up among government ministers, Bundestag members, and representatives of the Länder as to the appropriate constitutional language for achieving these objectives.

The charge against the prevailing constitutional underpinnings of integration in the Basic Law was led by the federal states, which since ratification of the Single European Act in 1987 had voiced growing concerns about EC encroachments on their sphere of competence, aided and abetted by Bonn via Article 24(1).<sup>38</sup> In essence, the Länder argued that EC politics increasingly constituted not foreign affairs by "European domestic policy" and as such, the Länder were entitled to territorial

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<sup>37</sup> There were dissenting voices, to be sure, with some constitutional scholars and political actors arguing that Article 24 was sufficient to accommodate the TEU.

<sup>38</sup> Charlie Jeffery, "The Länder Strike Back: Structures and Procedures of European Integration Policy-making in the German Federal System," Discussion Papers in Federal Studies FS94/4, University of Leicester, September 1994, 4.



representation on EC legislation that impinged on their powers and competencies.<sup>39</sup> Since formal ratification of the treaty required Bundesrat approval, the demands of the Länder carried considerable weight in discussions with a skeptical coalition government and deeply concerned civil servants.<sup>40</sup>

Overlapping this debate over Europe and federal-state relations was a heated discussion of the democratic merits (or lack thereof) of the TEU. Led by representatives of the SPD, but drawing on supportive statements by coalition members and Bundesbank officials, critics of the treaty argued that Germany had given away core elements of sovereignty, symbolized by the fate of the D-Mark under EMU, in exchange for very limited and ultimately inadequate provisions to strengthen the democratic features of the Community. In short, the democratic deficit would widen still further under the terms of Maastricht, with political union lagging well behind the inexorable march of economic and monetary union.

A concrete result of these wide-ranging discussions was a new Article 23.<sup>41</sup> Essentially, it moves the German commitment to participate in European integration from the preamble to the body of the constitution, and makes this commitment conditional on specific features of the supranational entity that results from this process. Specifically, "the European Union must rest upon democratic, social, and federal ... principles, adhere to the rule of law and the principle of subsidiarity, and guarantee fundamental rights and freedoms on a level essentially equivalent to that guaranteed by the Basic Law."<sup>42</sup> The article authorizes the government to transfer authority to the Union only after conducting elaborate and early consultations with the lower house of parliament and, more stringently, obtaining the formal consent of the Bundesrat. Indeed, EU initiatives that fall mainly or

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<sup>39</sup> Ibid, 13; Thomas Christiansen, "The Länder between Bonn and Brussels: The Dilemma of German Federalism in the 1990s," German Politics 2(August 1992), 239-63 at 245-6.

<sup>40</sup> Officials in the Foreign Ministry and the Federal Ministry of Economics were fundamentally opposed to any constitutional changes that would diminish or otherwise complicate their competencies in the EC policy process, both at home and in Brussels.

<sup>41</sup> The old Article 23, after defining the territories to which the Basic Law applied as of the date of inauguration, stated: "In other parts of Germany it shall be put into force on their accession." This article had been used to bring the Saarland into the Federal Republic in 1959, and it provided the vehicle for unification in 1990. With unification, its wording became problematic, since it raised the specter of irredentism (e.g. East Prussia or the Sudetenland), and so it had to go, opening up a space in the Basic Law for a new article on European Union.

<sup>42</sup> Röss, "The Constitution and the Maastricht Treaty," 49.

exclusively within the sphere of authority of the Länder (as defined by other articles of the Basic Law) are subject to a Bundesrat veto, for all intents and purposes. Moreover, on domestic matters of exclusive Länder competence, as set out in other parts of the Basic Law, Article 23 stipulates that the right to represent the position of the FRG in the Council of Ministers shall be transferred to an official appointed by the Bundesrat.

The sense that Maastricht had prompted a "democratic-institutional backlash" in Germany was further reinforced with the Federal Constitutional Court's ruling of 12 October 1993 on the constitutionality of the TEU, particularly with respect to basic principles of democracy and the rule of law.<sup>43</sup> Although the Court rejected all complaints against the Maastricht treaty, clearing the way for formal ratification, its decision reaffirmed the role of the national parliament -- specifically, the Bundestag -- in securing democratic legitimization of the integration process. In affirming the constitutional compatibility of the TEU with the Basic Law, the Court also repeatedly delved into the realm of the hypothetical, stating "that Community acts not covered by the constituting treaties ... are not binding in Germany, that they must be disregarded by German state organs, and that the Court itself will examine Community acts to see if they exceed legal competences."<sup>44</sup>

This, combined with the ruling's consistent characterization of the European project in almost intergovernmental language -- as a "community of states" (Staatengemeinschaft) and a "federation of states" (Staatenbund) -- also served, albeit subtly, to place strong parameters around the integration process. In short, absent a considerable strengthening of the European parliament and the creation of a European citizenship, the road to a United States of Europe would eventually become fundamentally incompatible with the principles of the Basic Law. The ruling identified the Bundestag and the Federal Constitutional Court itself as the principal guarantors that such a fundamental incompatibility would not come to pass.

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<sup>43</sup> The court considered a number of complaints. Several were lodged by German members of the European Parliament, who contended among other things that the TEU violated basic principles of democracy because it failed to strengthen the EP sufficiently. A separate complaint was filed by a former Commission official, Manfred Brunners, who argued that the treaty, and particularly the provisions relating to EMU, contravened basic principles of democracy guaranteed in the Basic Law.

<sup>44</sup> Ress, "The Constitution and the Maastricht Treaty," 65.

### Shifts in State-Society Relations

As for the broad structure of state-society relations in Germany, Maastricht and its aftermath have yet to produce fundamental shifts -- Katzenstein's characterization of a decentralized state interacting with a centralized society retains its basic accuracy -- but change nonetheless is apparent, some of it potentially significant. Europe not only represents a parallel focus of group activity, but it is beginning to influence some of the defining features of the postwar German model, as this section will attempt to show.

As in the case of formal institutions, the Länder have been at the forefront of change in this area. Dating from the early 1980s, when the Länder began to set up independent offices in Brussels to monitor the policy process and represent their interests, the federal states have pushed hard to establish an institutional presence at the supranational level not only for themselves, but for the regional level of government throughout the Community. The "Europe of Regions" initiative, which began with a conference sponsored by Bavaria in 1989 and culminated with the creation of a Committee of the Regions within the treaty framework at Maastricht, can be interpreted as a German-led mobilization effort designed to create a "third level" voice in EU affairs.<sup>45</sup>

To date, the impact of this regionalist dynamic at the supranational level has been modest. The Committee of the Regions has so far progressed little beyond its treaty-defined role as a consultative (and not a decision-making) body. This is in part due to the constraining effects of treaty rules, but it can also be ascribed to two other influences. First, the political assertiveness of the German Länder has not been matched by their counterparts in other member countries, with the exception of the Belgian regions. Institutionally weak and (therefore) dependent on their national governments, regional authorities elsewhere in the Union are simply not in a position to advance the regionalist agenda set out by the Germans. According to Jeffery, "indeed, it would not be completely unfair to say that at the moment the Länder to all intents and purposes are the 'third level' in Europe."<sup>46</sup> Second, the national governments have proven very adept at wrapping themselves in the mantle of

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<sup>45</sup> Jeffery, "The Länder Strike Back," 9-12.

<sup>46</sup> Ibid, 20. Emphasis in original.

regionalism, or at least its practical demand for subsidiarity. The effect is to dilute the distinctiveness and power of the regionalist agenda in Brussels.

Nevertheless, the regionalist dynamic is having significant effects within Germany. Länder efforts in Brussels have opened the door to alternate sources of information, finances, and political support that have enabled them to shore up their position in the domestic policy process. As institutional actors, the voice of the Länder has been strengthened, vis-à-vis both the federal government and their own municipal authorities.

Interest associations, especially business and labor, have also responded to the intensification of integration with organizational and strategic adjustments that reveal a combination of opportunistic and defensive motivations. Matters have progressed farthest among business interest associations (BIAs), the members of which have faced directly the consequences of both internal market liberalization and the expansion of regulatory competences in Brussels.<sup>47</sup> Both at the sectoral and peak association level, BIAs have attempted to strengthen European umbrella groups and to improve their own organizational capacities to monitor and influence the EC/EU policy process. Strategic shifts have also emerged. With the expansion of qualified majority voting in the Council since the 1980s, German BIAs have had to rethink their standard methods of operation in Brussels. No longer able to rely on the national veto in the Council, BIAs have begun to think in terms of building cross-national alliances to increase the chances that their positions line up with the likely winners.

Despite these organizational and strategic imperatives wrought by integration, many German industry associations have already lost their monopoly of representation in Brussels, as larger member firms (e.g. BMW, Daimler-Benz, Siemens) set up offices in response to what they see as a decline in the quality of service provided by the European and national umbrella associations. Thus, German industry associations face a difficult challenge -- coping with the consequences of organizational fragmentation at the European level.

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<sup>47</sup> See Jeffrey Anderson, "German Industry and the European Union in the 1990s," in Volker Berghahn, ed., Quest for Economic Empire: European Strategies of German Big Business in the Twentieth Century (Oxford: Berg Publishers Inc., 1996).

German BIAs will no doubt continue to represent their members' interests in Brussels, but at a diminishing level of performance. The only member firms able to compensate would be those large corporations capable of and willing to maintain their own offices in Brussels. Indeed, in recent years, the Commission – ever starved for informational resources and ever vigilant for key political allies – has demonstrated a willingness to bypass the cumbersome Euro-groups and national umbrella associations, and instead work directly with individual corporations. Since the success of the German economy has not rested solely on the performance of Daimler-Benz and Siemens, but on hundreds, indeed thousands, of innovative small- and medium-sized firms, and since continued economic success increasingly is bound up with the flow of Community affairs, the transformation of Brussels interest group scene into a club for the truly wealthy would be a problematical development for German industry as a whole.

The distinctive role of finance capital in Germany has also grown more open to supranational influences, although the effects resemble opportunities rather than threats from the vantage point of the banks. Already beset by larger forces of globalization, German finance responded to the liberalization of European capital markets, launched with the single market initiative and reinforced by the prospect of a single currency by decade's end, with ambitious buy-outs and mergers that have given the sector an increasingly international profile. This process, combined with the possible impact of domestic legislation designed to reduce the equity-based influence of the banks on industrial concerns, could transform the industry-finance nexus in Germany, with as yet unforeseeable consequences.

The challenges confronting German labor are equally fundamental and perhaps more immediate. The gains registered at Maastricht in the realm of European social policy, coupled with subsequent initiatives such as the European Works Councils directive, have seen an enhancement of labor's presence in Brussels, to be sure, with German unions at the forefront.<sup>48</sup> However, the neoliberal projects embodied in the single market initiative and EMU are taking place largely and literally over

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<sup>48</sup> See Peter Lange, "The Politics of the Social Dimension," in Alberta Sbragia, ed., Euro-Politics (Washington, D.C.: The Brookings Institution, 1991), 230–33; and Stephan Leibfried and Paul Pierson, eds., European Social Policy: Between Fragmentation and Integration (Washington, DC: Brookings Institution, 1995).

its head, as organized labor in general continues to play a modest part in EU affairs. Perhaps the biggest supranational threat to German labor is, ironically, from Eastern and Central Europe -- i.e. the former Soviet zone of influence. Germany's post-Cold War Ostpolitik, which entails free trade in the short term coupled with formal enlargement of the EU eastwards in the long run, poses a tangible threat to labor's place in the high wage German economy. Friction is already apparent in the eastern parts of Germany, where cheap "black" labor from Poland has already caused acute labor unrest in the construction industry. Left unaddressed, this issue -- in combination with the EU policy effects outlined immediately below -- could eventually weaken German labor's long-standing support for both integration and the principle of free trade.

Europe's impact on state-society relations in Germany is also being felt through concrete policy initiatives launched in Brussels, occasionally with the enthusiastic support of the Bonn government. In some cases, these have redrawn the balance of power between central and periphery, albeit on a modest scale. A good example can be found in the recent history of the structural funds, the EC/EU policy instrument designed to ameliorate regional economic disparities. An eastern German lobby, led by the Land governments, drew on the support of the European Commission as well as allies in the federal bureaucracy to secure the importation of an EU regional development model, fashioned after the needs of the European periphery, over the objections of the Bonn ministry responsible for overseeing the program. What was greeted in eastern Germany and Brussels as a victory for subsidiarity was decried in the Federal Ministry of Economics as an unwarranted intrusion on the federal government's constitutional obligation under Article 72 of the Basic Law to bring about an equality of living standards within Germany

Europe presents a more profound challenge to a key element of the German model -- namely, concrete policies that comprise the "social" component of the social market economy. The SEA/TEU liberalization project combined with unification to generate a new edition of an old debate: Germany's status as an attractive location for manufacturing industry. The impetus for this revived discussion was provided by the business community, which began to question whether the country, which for many years has qualified as a high-cost production location, could continue to conduct

business-as-usual under radically changed circumstances. Industry peak associations and individual firm management blamed the unions and government policies for weakening Standort Deutschland to the point where Germany now ranks number one in Europe on a variety of cost factors: the highest wages, the shortest work week, the most vacation days, the most burdensome business taxation system, and the most stringent environmental standards.

Europe played a central role in business's case. The BDI, joined by the other major peak associations of business, maintained that the Single European Act and the push for economic and monetary union would generate intensified competition not just between firms, but also between national production locations in the EC.<sup>49</sup> Industry associations called upon the government, in effect, to converge unilaterally to the European norm, whether it be in the area of business taxation, environmental standards, or the "social wage". In short, they argued, the prospect of an integrated European economic space places a new onus on Bonn: to take account of the current practices in other members countries, and to reconcile the competitive needs of industry with these practices when legislating. Failure to do so will result in an exodus of investment and therefore jobs.

The federal government has also embraced self-imposed constraints emanating from its commitment to economic and monetary union. Specifically, the EMU convergence criteria, particularly the one governing the size of the annual budget deficit, played a part in the government's decision in 1996 to introduce a comprehensive austerity program to parliament, which included a public sector wage freeze and cutbacks in social policy expenditure.<sup>50</sup> Welfare retrenchment alone is designed to save the government DM50 billion, or approximately \$33 billion, in 1997.<sup>51</sup> The proposals elicited swift and total condemnation from union representatives and leaders of the main opposition party, the Social Democrats, who accuse the government of undermining the very

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<sup>49</sup> See for example BDI, "Antworten des BDI auf den Fragenkatalog zur Standortdiskussion der CDU/CSU-Bundestagsfraktion," Cologne, April 1992.

<sup>50</sup> The relevant criterion limits annual budget deficits to three percent of GDP; in 1995, the Federal Republic missed the target by 0.6 percentage points. Terence Gallagher, "Waigel Tries to Rally Support for German Austerity," Reuter, 13 May 1996.

<sup>51</sup> Henry Engler, "EU Likely to Show Bonn, Paris Miss EMU Criteria," Reuter, 12 May 1996.

foundations of the postwar German social contract. Employer associations and conservative economists criticized the proposals for not going far enough.

In the midst of these myriad reverberations, it is perhaps no great surprise to find that European integration is playing to a more skeptical German public. The permissive consensus over Europe began to fray with the signing of the Maastricht treaty, which in the eyes of many German citizens represented an unnecessary and unwarranted encroachment on their national currency and all it stands for.<sup>52</sup> German public opinion toward Europe has been unsettled still further by the Community's loss of momentum post-Maastricht, bitter conflicts with the British and others over the EC/EU priorities, and perceptions that Brussels is becoming more of an obstacle than a facilitator.<sup>53</sup> A recent Commission clampdown on industrial subsidy practices in eastern Germany, which has netted large firms like Volkswagen in Saxony and Bremer Vulkan shipbuilders in Mecklenburg-West Pomerania, has led to a souring of attitudes toward the EC in the new Länder. Indeed, it is a measure of just how much the permissive consensus on Europe has softened since the Maastricht summit that the SPD could seek electoral advantage in 1995 -- in vain, it would appear -- by presenting a more Euro-skeptical position on EMU and enlargement.

ANALYSIS

Europe is beginning to occupy a pivotal position in divisive struggles over distribution in domestic German politics, as well as over the allocation of sovereignty between the national and supranational levels. This is not only a novelty in postwar German politics, but portends major changes in the way in which the German model will function in the future.

If asked to characterize the impact of European integration on Germany in recent years, I would argue that a shift away from mutually reinforcing dynamics -- the national-supranational equilibrium established in the postwar period -- to a much more differentiated pattern has taken place. Whereas in the past, German governments looked to Europe for multilateral frameworks that supported core

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<sup>52</sup> Hans Rattinger, "Public Attitudes to European Integration in Germany after Maastricht: Inventory and Typology," *Journal of Common Market Studies* 32(December 1994), 525-40.

<sup>53</sup> The government's penchant for using Brussels as a scapegoat to justify unpopular measures -- something by no means unique to Germany! -- contributes to public disenchantment with Europe. Support for the EU in eastern German has become more tenuous of late, in part owing to the tough stance taken by the Commission in recent years on federal and state subsidies to ailing firms in the region.



features of their domestic model of politics and economics, the situation since unification and union has grown less clear-cut.

System reinforcement still occurs, but it is confined largely to the realm of formal political institutions. The latest round of integration politics, which began with the SEA but hit its stride in the early 1990s, prompted institutional responses from the German parliament and the federal court that have worked against centralizing dynamics in the sphere of governmental authority. TEU-inspired shifts in the country's federal arrangements provide the clearest example of the reinforcing effects of integration on Germany's decentralized political constitution. Counterbalancing these institutional outcomes, however, are integration effects -- oftentimes amplified by changes emanating from unification -- that are potentially or actually inconsistent with long-standing characteristics of the German model. The vast majority of these are concentrated in the societal sphere (e.g. public opinion) or in state-society relations (trade unions; banking system; welfare state). It remains to be seen whether these new "membership effects" carry significant implications for the German political economy and/or its democratic constitution, to say nothing of the larger European project.