

## **Modell Deutschland as an Interdenominational Compromise**

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*Abstract:*

*Usually, Germany's social market economy is understood to embody a compromise between a liberal market order and a corporatist welfare state. While this reading of the German case is certainly not entirely wrong, this paper argues that only if we account for the close intellectual correspondence between Lutheran Protestantism and economic liberalism on the one hand and between Catholicism and welfare corporatism on the other, can we fully comprehend the nature of the German post-war compromise. In particular, this perspective allows to better explain the anti-liberal undercurrents of Germany's soziale Marktwirtschaft. It was especially the role which Protestant Ordoliberals ascribed to the state in upholding economic order and market discipline which accounts for the major difference between 'classic' and 'German-style' economic liberalism. Yet, the postwar economic order did not represent a deliberately struck compromise between the two major Christian denominations. Rather, Germany's social market economy was the result of the failure of German Protestant Ordoliberals to prevent the reconstruction of the Catholic Bismarckian welfare state after the authoritarian solution, which Ordoliberals had endorsed so strongly up until 1936 and from which they had hoped the re-inauguration of Protestant hegemony, had so utterly failed. Since the ordoliberal doctrine up to the present day lacks a clear understanding of the role of the corporatist welfare state within the German political economy, its insights into the functioning logic of German capitalism have remained limited. The paper also claims that accounting for the denominational roots of the postwar compromise allows us to better understand the relationship between consociationalism and corporatism in 'Modell Deutschland'.*

## 1. Introduction

In his recent work Gerhard Lehmbuch has emphasized the long-lasting influence that the settlement of the inter-confessional conflicts in the 17<sup>th</sup> century had on basic patterns of conflict accommodation in Germany (Lehmbuch 1996; 1998). Lehmbuch claims that the Westphalian peace of 1648, like the other settlements of the religious conflicts of the 16<sup>th</sup> and 17<sup>th</sup> century (e.g., the Edict of Nantes), “through the processes of collective learning that they set into motion, served as models which determined to a remarkable degree how modern states would continue to handle fundamental societal conflict” (Lehmbuch 1998: 12). Accommodation of religious conflicts, according to Lehmbuch, had an important long-term impact on state/ society relations and on the way in which attempts were made to solve later ‘secular’ conflicts, especially those between organized labor and capital. While in France the Edict of Nantes supported the emancipation of an autonomous political sphere and a sovereign state with a *raison* of its own, the religiously more mixed countries had to find a different solution to the fierce and gruesome conflicts between the Christian denominations. Elements of the Westphalian peace, especially its formulas of power-sharing like *itio-in-partes* or the proportional representation of the main conflict partners (*Parität*) in bodies where important decisions are reached by way of negotiation and ‘amicable agreement’ became part of the national ‘standard repertoire’ of conflict resolution techniques in Germany. Thus today in Germany consociational techniques remain important in the accommodation of political and industrial conflict beside conflict resolution through ‘majority vote’ or through hierarchical state intervention, while the once violent inter-confessional conflicts which had given rise to these techniques in the first place, are long since a thing of the past. Thus, according to Lehmbuch, the religious conflicts and their settlement in the 17<sup>th</sup> century foreshadowed the way in which the European nations responded to the conflicts of the late 19<sup>th</sup> and early 20<sup>th</sup> century. They established nationally distinct modes of “cleavage management through the invention of specific modes of political conflict resolution that exhibited remarkable variation across nations, but also remarkable path-dependent persistence over time” (Lehmbuch 1998: 12).

When it comes to the question of which mechanisms or institutional channels could have permitted the religious conflicts of the past to achieve such a long-lasting influence and, more specifically, why the German political economy in the 20<sup>th</sup> century employed social techniques that largely stemmed from the accommodation of the 17<sup>th</sup> century’s long passed religious conflicts, it is interesting to note that the plea for a new interdenominational compromise between Protestantism and Catholicism enjoyed prominence in the post WW II debates over the reconstruction or renewal of Germany’s economic and social order (Mueller-Armack 1950: 559). In this essay I will argue that the post-1945 allusions to the Westphalian compromise were not simply misplaced or only meant metaphorically to indicate the importance of the

claims that were at stake. I argue that Germany's *soziale Marktwirtschaft* indeed encapsulates a compromise between Catholic and Protestant social doctrine over the question of how to embed modern capitalism morally and socially. I claim that understanding the sources for the 'theological coloring' of the postwar controversy between (Protestant) economic liberalism and (Catholic) welfare interventionism will allow us better to understand the working of the German political economy, and will lead also to a better understanding of the peculiar linkage between *political consociationalism* and *economic corporatism*, which is not only characteristic for Germany but has been noted for other consociational nations as well (cf. Lijphart/ Crepaz 1991; Crepaz/ Lijphart 1995).

In the first part of this essay I argue that the German welfare state was part of a dual strategy, both repressive and integrative, with which the young German *Reich* sought to achieve inner unity and national identity after the French-Prussian war 1870/71 had resulted in territorial consolidation. The two 'enemies from within', Social Democracy and political Catholicism, had been the target of repressive state action in the *Kulturkampf*-era 1873-1878 and the era of the Anti-Socialist law 1878-1890. But the social legislation of the 1880's also offered to these two camps avenues for societal integration, an opportunity which they were quick to grasp. While political repression under conditions of universal (male) suffrage contributed to and consolidated the *Lagerbildung*, the specific institutional structure of the Bismarckian welfare state furthered the social integration of the Catholic and socialist *Lager* into the new German nation state.

However, social integration did not simply spell social harmony. With the passing of time, especially the liberal bourgeoisie increasingly came to feel itself politically and economically excluded from both the game of corporative pluralism (Maier 1975) between organized labor and capital, which critically built upon the proto-corporatism established with the Bismarckian welfare state; and from the political collusion between the Catholic Center and the Social Democrats, which was especially prominent in the social policy domain. As a consequence, a social reform project, which once had been of foremost importance to the enlightened German Protestant bourgeoisie, became now one of the prime targets of liberal critique against the Weimar system. The Bismarckian welfare state had apparently come to serve the particular interest of the two former anti-protestant *Reichsfeinde*, Socialists and Catholics. It lay at the heart of the latent or manifest coalition between SPD and Center in the 1920s and it underpinned the tacit cooperation between organized capital and labor at the expense of the *Mittelstand* and small business sector. Section 4 then discusses how much the response of the liberal middle-classes was inspired by Protestant social doctrine, in particular by reference to the notion that the state had to secure Protestant cultural hegemony through authoritarian interventionism. After 1945, after the utter failure of the authoritarian option, the Protestant liberal camp sought to compromise with political Catholicism. However, as is shown in section 7, *Modell Deutschland* did not represent a deliberately struck

compromise between Protestant liberalism and Catholic social doctrine, but - rather contra-intentionally – it came to combine Protestant state intervention with Catholic market containment.

## 2. The Bismarckian Welfare State and the anti-liberal turn in German Politics

The German welfare state is often said to have shown an extraordinary institutional stability, surviving – with its basic institutional features almost unchanged – four different political regimes, two world wars, the hyperinflation of 1923/24, the Great Depression of 1928-1932, the post-WWII crisis and German unification in 1990. It is important to note that the basis for this surprisingly stable institutional structure had been laid in markedly anti-liberal times (Stolleis 1979) in the context of the repressive measures against the Social Democratic Party (Anti-Socialist Law of 1878), of a pronounced protectionist turn in trade-policy (*Schutzzoll*), of the forceful state-led modernization of the German economy and of the dominance of a conservative over liberal orientation in the Prussian bureaucracy after 1880 (Lehmbruch 1997; Nipperdey 1993).

Bismarckian social legislation was paternalistic, centralist, étatist, interventionist – extremely so in its initial conception, and still very significantly so after the process of political compromising had watered down some of its most radical elements and had combined state interventionism with older layers of self-governance (*Selbstverwaltung*) and traditions of corporatist self-regulation. The new welfare entitlements were based on occupational status and not granted as universal rights. Elements of choice were almost totally absent from the new social schemes. Workers and firms were forced into the new administrative structure of the accident and health insurance. These insurance schemes had the status of bodies of public law (*Körperschaften öffentlichen Rechts*). They subsequently crowded out many forms of workers' collective self-help or employers' welfare schemes. To the extent that voluntary schemes *were* integrated into the new welfare state, as in the case of company health insurance or the free funds (*freie Hilfskassen*), their character and legal status changed. Insurance became obligatory, state regulation was tight. The administration of the welfare scheme was run either by civil servants (old-age insurance), by employers alone (accident insurance) or by both workers/unions and employers (health insurance, where workers held a 2:1 majority).

The element of self-administration of workers and employers in the social insurance system paved the way toward incorporating the organized interest groups of labor and capital into the (welfare) state's

administrative structure. It provided unions and employers' associations with important organizational resources (Heidenheimer 1980; Steinmetz 1991, 1993; Tennstedt 1983; Manow 1997, 2000). German *coordinated capitalism* became centrally based upon the formal, legally backed integration of business and workers/unions into the welfare state and the Bismarckian welfare state thus became a central, if not the most central element in what Werner Abelshauser has described as the emergence of a „modern system of corporatist interest intermediation“ (Abelshauser 1982: 287). The state began to ‚share public space‘ (Colin Crouch) with organized societal interests and to use „functional organizations as co-opted agents of order“ (Crouch 1986: 189; Maier 1987; Offe 1981). While the usage of pre-modern, *ständisch*-corporatist forms of market regulation and interest intermediation “were carried forward to clutter up the twentieth-century sociopolitical landscape” (Maier 1975: 592-593), they also proved to be especially efficient forms of social organizations and particularly flexible forms of regulating modern capitalism. Bismarckian social legislation in particular marked the birth of many „historically durable ‚modern‘ elements in German economic policy“ (Abelshauser 1984: 289).

Being targeted primarily at worker, and allowing for the participation of workers organizations in the administration of the social insurance schemes, the Bismarckian welfare state proved to be especially favorable to the only two political movements that organized the working class: for Social Democracy and the Free unions on the one hand and for the Zentrum and the Catholic worker movement on the other (Schneider 1982; Loth 1997; Brose 1985; Hiepel 1997; see for the electoral fates of the SPD, the Center and the liberal parties Rohe 1992). After WW I, the Catholic Center party (*Zentrum*) and the SPD continued to dominate the political landscape. They were the two most prominent and influential members of the ‘Weimar coalition,’ i.e. the parties that were loyal to the new constitution and republic. And nowhere could both parties, the Center party and SPD, agree more frequently and more easily than in questions of social policy. Heinrich Brauns, a Catholic priest and member of the Center party, served as minister of the Reich Labor Ministry (*Reichsarbeitsministerium*, RAM) from 1920 to 1928, representing an extraordinary instance of continuity and stability within a context of extreme political volatility (see Sachße/ Tennstedt 1988: 84, 169).<sup>2</sup> As a consequence, the labor ministry could follow a relatively coherent political strategy, formulated by a ministerial bureaucracy with a strong Catholic leaning. The ministry generally favored a further extension of the welfare state, a position also prevalent in the Center party. The pro-welfare stance originated in Catholic social doctrine, but also from three more pressing political considerations: the wish to support many Catholic charitable organizations, hospitals, asylums, and of course the Christian unions, secondly, the need to keep Catholic workers as members and voters of the Center party; and thirdly, the ministry’s simple interest in protecting and possibly expanding its

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2 Average cabinet durability in the Weimar Republic was slightly below 10 months: interwar Germany experienced 17 cabinets in the 14 years between 1919 and 1933.

domain of administrative responsibility. Christian unions especially held corresponding interests, since they hoped that their integration into the corporatist, para-public welfare complex would protect them from being ‚majoritized‘ by the socialist unions (Rabenschlag Kraeusslich 1983).

With the depression worsening and the paralysis of the political and the industrial relations system growing at the end of the 1920s, the labor ministry took an increasingly interventionist position. This is most apparent in the RAM's switch from ‚voluntary‘ to ‚compulsory arbitration‘ in industrial conflicts in the late 1920s (Bähr 1989). This switch expressed the RAM's growing distrust of and impatience with the organized interests of labor and capital. At the same time, the RAM bureaucrats increasingly lost confidence that the political parties would be capable of enacting the austerity measures that were – in the bureaucrats' view – urgently needed to overcome Germany's fundamental economic crisis. Finally, the ministry embarked upon a harsh austerity course with the help of emergency decrees under the ‚presidential cabinets‘ of Brüning and von Papen. The RAM's strategy of ‚conservative stabilization‘ (cf. Geyer 1991) was not only without the consent of the parliamentary majority, but was pursued against the expressed will of the parliament. The higher civil servants increasingly came to share the view of conservative critics and of German employers who blamed an irresponsible and ‚unbridled parliamentarism‘ and the Weimar party-state (*Parteienstaat*) for the grave crisis of the republic and the German economy (Geyer 1991). German industry was seen as being overburdened with social costs imposed on it by irresponsible politicians who tried to outdo each other in handing out much too generous welfare benefits. The conservative attack on Weimar thus became a dual attack on both the political system of the Weimar Republic and the German welfare state. It is not by accident that the last cabinet of the Weimar Republic to be legitimized by parliament fell in 1930 over the decision to raise contributions to the unemployment insurance fund.

### **3. Ordoliberalism and the Rise of ‚Authoritarian Liberalism‘**

The pronounced criticism of the Weimar *Parteienstaat* was not only formulated by ‚conservative revolutionaries‘ (Sontheimer 1962; Breuer 1993), but was in essence shared by the group of thinkers who were to become known after WW II as the founders of the influential doctrine of Ordoliberalism. Ordoliberalism is generally understood to „have laid the intellectual foundations for the (...) free market economy in mid 1948“ and to have been since then „the quasi-official credo of West Germany's economic policy“(Giersch/ Paqué/ Schmieding 1992: 16) and *soziale Marktwirtschaft* (social market economy).

The ordoliberal doctrine was primarily a response to the crisis of the late 1920s. Two central papers that are generally viewed to be the founding manifestos of this new school of economic thinking were written when the depression had reached its peak in 1932: Walter Eucken's „Staatliche Strukturwandlungen und die Krisis des Kapitalismus“ and Alexander Rüstow's short and very pointed statement „Interessenpolitik oder Staatspolitik?“ Both papers – and other ordoliberal contributions from the same year (Müller-Armack 1932; Röpke 1932 [1962]) – shared the fundamental criticism of the parliamentary system formulated by thinkers of the radical right. They were part of a broader stream of “crisis literature” (Tanner 1987), which mushroomed in the late 1920s, early 1930s. The central message of these contributions was that the present crisis of the German economy and society resulted from a *political* crisis, from a crisis of the political and constitutional order of Weimar, not from an economic crisis.

For Eucken and Rüstow it was precisely the systematic interpenetration of the political and the economic system (we would probably say today: the corporatism) which had been inherited from the empire and enlarged during the Weimar Republic which lay at the heart of the crisis. What might have been bearable, perhaps even desirable under the old Wilhelmian regime – the organization of societal interests into broad and powerful organizations – now allegedly became under conditions of universal suffrage a threat to the economic and political order: „Democratic parties that organize the masses and the interest groups exert an increased influence on the government and thus on economic policy.“ And these parties were held responsible for a growing „dis-organization of the economy by the state“ (Eucken 1932: 306, 315; see also Müller-Armack 1932: 113-117). Since political parties were closely linked to clearly delineated *Lager* and socio-economic interests, mass democratization made the state receptive to, if not totally enslaved to these organized interests. The state, that is, the political parties, which run the state, became the instrument of economic interest groups (ibid. 307). State action could only take place by way of horse-trading („Prinzip des Kuhhandels“, Rüstow 1929 [1959]: 91) between the parties to the mutual advantage of their clientele but at the expense of the general welfare. In the view of Rüstow, Eucken, or Müller-Armack, organized interests forced the modern ‚intervention-state‘ exclusively to serve their particularistic needs. Yet, the state, which begins to “feed the interest groups beast”, will be ultimately “eaten up by it” (Rüstow 1945: 83). The ordoliberal diagnosis – which was as vague as it was polemic – saw the effects of pluralistic mass politics within a fragmented, almost pillarized society as responsible for the sorry state in which the German economy and society found themselves.

For the ordoliberals the cure for this ill was obvious: government was to regain „strength vis-à-vis sectional interests and to preserve its status as the impartial and incorruptible arbiter of the economic process against short-term interventionist temptations by limiting its own scope to a few essential tasks“ (Giersch/Paqué/Schmieding 1992: 29). Only a strong state was able to gain this autonomy, to stand „above all groups, above all interests“ (Rüstow 1932 [1986]: 69-70; cf. Rüstow 1932a), exercising „authority and

leadership“ [Führertum], „strength and independence“ (ibid.). The state – as Walter Eucken put it – should „free itself from the influence of the masses“ (Eucken 1932: 318), it was supposed to regain “in the economic sphere full sovereignty over all particular interests“ (Müller-Armack 1932: 126). These early foundations of German *Ordoliberalism* thus revealed profound authoritarian dispositions (Krohn 1981: 173).

Under the label of a new or rabid liberalism, Eucken or Rüstow proposed to re-establish a strict boundary between state and society, to make the political system (again) independent from any societal interests and to guarantee a new stable economic order through a radical „liberal interventionism“ (Rüstow 1932 [1986]: 67). This radical reorganization of society and economy had to be pursued by a strong, meaning fully independent, state. In his call for a strong state, Rüstow, explicitly and affirmatively referred to Carl Schmitt’s notion of the „total state“ (Rüstow 1932 [1986]: 68). Eucken as well referred positively to Schmitt’s writings and also used his notion of the ‚total state‘ (Eucken 1932: 307 and 319). The program of liberal interventionism thus seemed to be in broad agreement with Schmitt’s plea for a transformation from the ‘quantitatively total,’ weak, pluralist state of Weimar to the ‘qualitatively total,’ strong, authoritarian state of the future (cf. Schmitt 1932). Schmitt himself had pointed out in numerous articles the dilemma of a true modern liberalism that could be anything but non-interventionist (see Schmitt 1931: 152-154). If the ‘old liberalism’ of the nineteenth century was essentially a program of *laissez-faire* that had called for a clear separation between the *state* and the *economy* and for state abstinence from any specific interventions into the market, the new liberalism, which scholars like Rüstow and Eucken advocated, was one that wanted to separate the *state* (and its economic policies) from *parliamentarism* and *partisan politics* in order to secure that state interventions into the economy would be ‘reasonable,’ ‘appropriate,’ independent, and would serve the general welfare, not particular interests. These thinkers did not ascribe to the state a residual, minimal role. Quite to the contrary: it was the role of modern mass politics that had to be minimized.

Thus, the ordoliberals’ demand ‘to free the economy from the state’, to de-state the economy (*Entstaatlichen der Wirtschaft*) was at the same time a decidedly antidemocratic one. And Herrman Heller was right to remark that the call for the state’s retreat from economic affairs meant first that the state should retreat from its historically accumulated obligations in social policy (Heller 1933 [1992]: 652). Again it was the corporatist Bismarckian welfare state that was at the center of the attack on the Weimar party-state, since the welfare state was also at the center of the corporatist complex as the institutional and regulatory framework in which German employers and unions pursued their interests. To achieve a ‘healthy economy within a strong state,’ Rüstow and others tolerated, even proposed to use authoritarian means. Müller-Armack, who was later to become the first section chief of the newly founded *Grundsatzabteilung* (planning section) of the ministry of economic affairs and state secretary under



Ludwig Erhard from 1958 to 1963, sympathized with Italian fascism (Müller-Armack 1932: 126-127) and after 1933 warmly welcomed the ‚new order‘ (Müller-Armack 1933). He joined the Nazi party the very same year. Eucken had become a sympathizer of the National Socialist party as early as 1931 (Krohn 1981:170). His 1932 article was nothing less than a total damnation of the ‚system of Weimar‘. For Eucken, parliamentarism and particularism had become synonyms. He shared with Rüstow, Müller-Armack and Röpke the profound distaste for the ‚amorphous mass‘ and favored a strictly elitist conception of political leadership. Böhm was clearly not a Nazi. As a faithful Protestant he even joined the *Bekennende Kirche* in the wake of the conflict between the Hitler-regime and Germany’s Protestant church. But the label liberal did not fit him either. In his writings in the 1930s he repeatedly made his conviction explicit that a reinstatement of a free market order could only be expected to happen through “authoritarian steering by the state” (cited from Krohn 1981: 196; cf. Nicholls 1990: 399; Nörr 1993).<sup>3</sup>

Rüstow was probably the most explicit critic of the Weimar republic among the ordoliberals (cf. Krohn 1981: 172; Haselbach 1991: 205; Meier-Rust 1993: 54-59). In order to understand fully the political implications of his pointed call for a state ‚above all groups and above all interests,‘ one has to recall that these lines were written at a time when the reactionary von Papen government ruled without parliamentary support, backed only by *Reichspräsident Hindenburg* and tolerated – at least in the beginning – only by the Nazis and the other parties of the extreme right. It was an open secret that Rüstow sympathized with the von Papen government (cf. Haselbach 1991: 205). He even claimed to have contributed to the formulation of its economic program (Meier-Rust 1993: 57-59). Already in 1929 Rüstow had contemplated the feasibility of a „dictatorship within the confines of democracy“ (Rüstow 1929 [1959]), and his concern for the maintenance of an overall democratic framework became weaker the more Germany’s political and economic crisis endured.

The many *mixta composita* (radical or rabid liberalism, new liberalism, liberal interventionism, conservative liberalism) that were coined to characterize the strange beast that clearly was not liberal anymore, but neither had simply turned outright fascist, indicate that it indeed had become nearly impossible to draw a clear line between the former liberal bourgeois camp and the camp of the extreme authoritarian right. Clearly authoritarianism pervaded the conceptions of both conservative and liberal thinkers. Eucken, Rüstow and Müller-Armack were of course not dyed-in-the-wool Nazis, but at the same

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3 Röpke called for a strong and active state primarily in economic policy without spelling out in much detail the political preconditions for such a strategy. Röpke advocated answering the economic crisis with an active business cycle policy. In his view, the state should provide the economy with an initial push (Initialzündung) in the form of short-term monetary expansion. While Röpke certainly was the least opportunistic among the early ordoliberals and the one who stuck most to his liberal convictions, he too favored an elitist conception of politics full of

time their opposition to National Socialism was far from “unequivocal” (Nicholls 1990: 399).<sup>4</sup> Similarly, it is simply wrong to assert that the ordoliberal thinkers “were mostly associated with the remnants of left-liberalism in the early 1930s” (ibid.). By that time, most of the ordoliberals had already turned decidedly authoritarian.

Perhaps Herrmann Heller provided us with the best contemporary account of the character of the so-called ‘new liberalism’ in showing that its demand for a strict division between economy and state could be achieved only through antidemocratic means. In the end, Heller claimed, the so-called ‘radical liberalism’ was nothing but an ‘authoritarian liberalism’ (cf. Heller 1933 [1992]). Devoid of any powerful political addressee responsive to their call for a ‘willed liberal order,’ the ordoliberals had to seek redress from the state – if necessary, from an authoritarian state. And these authoritarian leanings of the ordoliberal thinkers did not suddenly vanish after the second World War. Closer inspection reveals that for postwar Ordoliberalism as well only ‘Ordo [was] necessary and absolute, while Liberalism [was] only contingent and relative’ (Nörr 1993: 13).

But the liberals were not simply led to join the camp of the conservative revolutionaries by the depth of the economic, political and social crisis of Weimar Germany. In order to understand more comprehensively the sources for the ‘anti-liberalism of Ordo-Liberalism’ we have to turn to the peculiar influence of Protestant thinking on German Protestant, middle-class *Bildungsbürger* like the Ordoliberals. And as it will turn out in the next two sections, the different exclusive and inclusive effects of the Bismarckian welfare state with respect to the Protestant and Catholic camp very much contributed to the different degrees of political radicalization of Catholic and Protestant intellectuals at the end of the Weimar republic. The vehement Protestant opposition against both the democratic system of Weimar and against Weimar’s corporatistic complex, including prominently the Bismarckian welfare state, was then to re-gain political clout in the post WW II period, when the institutional design of West-Germany’s economic and political system was on the political agenda. However, before addressing these postwar decisions and their outcomes, the following section will first explore the influence of Protestant social doctrine on Ordoliberalism’s anti-liberalism.

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aversion for the “plebianism” of modern democracy and complained constantly about the “weakening of the will of the state” by pluralist interest mediation (Röpke 1942: 34).

<sup>4</sup> See for overwhelming counter-evidence Krohn (1981), Haselbach (1991), Janssen (1998: 184-195). See even the largely hagiographic account of Meier-Rust (1993).

#### 4. Protestantism and Catholicism and the Religious Underpinnings of ‘Modell Deutschland’

Alfred Müller-Armack, the leading figure in the translation of the ordoliberal dogma into practical politics, referred in his 1950 proposal for a “*soziale Irenik*” (social peace) explicitly to the Westphalian peace and expressed his hope that the post-WW II era would become, very much like the second half of the 17<sup>th</sup> century, an “era of reconciliation”, confidence, and harmony between opposed worldviews, this time not only between Protestantism and Catholicism, but between Liberalism, and Socialism as well (Müller-Armack 1950: 559-560). Especially if the two Christian denominations would reach agreement on the central question how modern capitalism should and could be embedded in a broader moral order (that is: an agreement on how to correct unacceptable market outcomes through welfare state intervention), this would then ultimately also help socialist critics of the capitalist market economy to make their peace with the free market, private property principle. Müller-Armack’s concept of a *soziale Irenik* was essentially a proposal for an *ecumenical* social policy that would finally also lead to a reconciliation between socialism and liberalism.

The idea of a ‘third way’ between capitalism and communism (cf. Röpke 1941) was at the heart of Müller-Armack’s concept, but it was the two major Christian denominations who were supposed to take the lead with regard to this third way – the concept of a social market economy thus was ultimately cast in theological terms. Hence, the reference to the Catholic *Ordo*-concept by scholars like Röpke, Eucken and Müller-Armack was a very conscious attempt to build a bridge to Catholic social doctrine, expressed well in Müller-Armack’s hope that the *Ordo*-concept would indeed provide the “common fundament of a *Christian* social doctrine” (Müller-Armack 1950: 562; my emphasis). This labeling, however, rather obfuscated than clarified the concept’s character, since Ordoliberalism was neither particularly liberal (see above), nor had Catholic social doctrine been an important source of inspiration. As I am going to argue subsequently, Ordoliberalism was rather a child of *Protestant* anti-liberalism and anti-pluralism. Correspondingly, the concept of *soziale Marktwirtschaft* cannot be understood, as it often is, as a deliberate compromise struck between a ‘Catholic’ welfare state and a liberal market order. This was only later to become the official reading of what had first been a conflict between two hostile *religious* conceptions about how to reconcile a free market economy with social peace and harmony, a conflict which was going to end with the defeat of Ordoliberalism’s ecumenical concept. Great was then the Ordoliberals’ disappointment when the reconstruction of the Bismarckian welfare state in the 1950s signaled that their vision of a social policy *already embodied, already installed* in the economic order was not going to be realized. But, as we will see, Müller-Armack’s irenic dream of spiritual unity had remained essentially Protestant in character. Thus, its political failure was after all not that surprising.

The theological tone of Müller-Armack's 1950 proposal for a social *Irenik* did not come out of nowhere. Already in 1940 Müller-Armack had begun to analyze the influence of the world religions on "economic styles" (*Wirtschaftsstile*; Müller-Armack 1944). He was well aware that his study might appear somewhat ill-timed in the middle of WW II. and given that the official Nazi doctrine ascribed everything to race rather than religion. All the more notable is his excursion into the sociology of religion. Müller-Armack shared the interest in the religious underpinnings of economic behavior with Alexander Rüstow who at the same time wrote on the impact of religion on economic theory and practise (cf. Rüstow 1942, 1942a, 1945). So did Wilhelm Röpke, who in Swiss exile began to study the relation between Calvinism and economic liberalism. Given his fresh German experiences, Röpke came to ask himself why such a potentially radical and totalitarian doctrine like Calvinism was historically affiliated with liberalism and democracy, while a far less radical and fundamentalist denomination like Lutheran Protestantism – at least in Germany – had contributed substantially to the failure of liberalism and the advent of the totalitarian catastrophe (Röpke 1976: 64-65).

The search for the role of religion in contemporary politics and economics did not mean that the Ordoliberalists altogether changed their view about the causes of the demise of Weimar and the advent of the Nazi movement. For Alexander Rüstow, it was still "pluralism" and interest-group particularism which held prime responsibility for the breakdown of Weimar's political and economic order. But Rüstow now added an explanatory layer. He now came to believe that the failure of liberalism ultimately pointed to a "*religionsgeschichtliches Problem*" (Rüstow 1945). Liberalism's crisis, according to Rüstow, was primarily due to its almost messianic belief that it would sooner rather than later face unconditional surrender from all contending economic and political-philosophic theories and doctrines. Rüstow interpreted the '*laissez-faire, laissez-passer*' principle dominant within classic liberalism as an example of how religious beliefs had become secularized, how classic liberalism had turned into a surrogate-religion of the stoic, passive, attentive type (cf. Meier-Rust 1993: 249-252). But, according to Rüstow and contrary to liberal expectations, the free market messiah would not come to everybody equally.

In this respect, Rüstow gave an interesting twist to the Weber/ Troeltsch hypothesis about 'capitalism and the Protestant ethic'. Given that economic liberalism was firmly rooted in the Calvinist work ethic it was to be expected – claimed Rüstow - that liberal principles would quickly become perverted and distorted in a societal environment in which Calvinism did not dominate (Rüstow 1945: 47, 51 and passim). This of course referred in particular to Germany, where Lutheran state paternalism and orthodox parochial Protestantism ruled supreme and where the losers in the free play of the market were quick in addressing themselves to the state to correct unfavorable market outcomes – leading to a spiral of state interventions and pressure group activity which in the end entirely superseded the working of the free market. According to Rüstow, it was this neglect of its confessional-societal preconditions that had led to

economic liberalism's "pseudo-religious" *hubris* (Rüstow 1945: 51) and naïve belief that its realm and rule would be universal, unavoidable and soon to arrive. Naïve liberalism tended to assume that victory would come „naturally“, simply as the result of the superiority and higher dignity of liberalism as an economic doctrine. In particular, victory would come independently from social, religious, or political factors. For Rüstow, the attentive, non-interventionist, *laissez-faire* attitude of classic economic liberalism was thus an example of „secularized stoicism“ (see Meier-Rust 1993: 246-252). Its core was the “gospel of vulgar-liberalism” which held that one only had to establish the “realm of economic freedom and market justice” and grace would subsequently and automatically come upon us all (Rüstow 1945: 50).

Rüstow emphasized the normative, ethical, religious base for the smooth working of a liberal economic order, and in particular the lack of such a base in Protestant Germany (Rüstow 1945: 47 and *passim*). For Rüstow, the consequence for Germany as a country without strong Calvinist tradition, but with a strong Lutheran influence, was that economic liberalism would not come to dominate unaided, that it needed help from outside. For him it was clear that it was the state, which had to come and support a free economy. The state had to become the prime guarantor of economic liberalism, providing an economic ‘*Schutzraum*’ or protected domain, for free economic activity as it had done before with respect to the freedom of religion. Ordoliberalism thus transferred the idea of *Staatskirchentum* to the economic sphere: the economy was supposed to function freely, according to its own „liturgy“ of free competition and efficient resource allocation, but the state was supposed to oversee and protect this free and undistorted functioning against all undue interference. The authoritarian leanings of ordoliberal thought thus drew heavily upon the Protestant conception of the proper role of the state.

In Lutheran-Protestant thinking the individualism and privacy of religious affiliation went together perfectly well with state paternalism towards the Protestant church (see Nipperdey 1988: 101, 103, 104). This model was not one of a laicist separation between state and economy, in which the state had the autonomy and sovereignty of action and could potentially even claim superiority over the church. Nor was it one in which the state was part of an ascending moral order in which the (Catholic) church was clearly positioned above the state. And evidently the Protestant-Lutheran model was also different from the almost state-less model of the Protestant sects in which the central state possessed if at all only a marginal, most residual role. In the Lutheran-Protestant model, in contrast to all these alternative conceptions, the state had the mission and duty to secure the prosperity of its church. The relation between the public and private, i.e. economic or religious sphere was supposed to be one of “freiwillige Liebeskonkordanz” (Troeltsch 1923: 549). In the Lutheran doctrine, force and freedom could enjoy a happy marriage (Smith 1995: 39). The Lutheran denomination represented a “peculiar combination of spiritual freedom and rigid (*autoritäre*) order” (Nipperdey 1988: 101). This led to quite a distinct conception of proper state/ society relations.

Just how much Lutheran-Protestant thinking impregnated German liberalism can perhaps be most clearly seen in a comparative perspective (see for the following Hübinger 1994: 143-144). The American unitarian church brought together religious and political liberalism and presented a rich source of support for the progressive movement. British non-conformists were said to represent the ‘backbone of British liberalism’ and provided Gladstone with a mass following. In France, religion and politics stood in a more complicated relation to each other: a laicist ‘republicanisme’ as a surrogate religion on the one hand was confronted with the Catholic nationalism of the old, anti-republican elites. German Protestant liberals, by contrast, projected their hopes onto the state, rather than onto a liberal party, movement or their own Protestant church. In this respect it is important to note that the old Lutheran doctrine of the two realms which lay behind these state-oriented attitudes had experienced a strong revival during the *Kulturkampf* era 1871-1878, in which leading Protestants frequently called for vigorous state intervention to establish Protestant cultural-religious hegemony over the ultramontane camp. “For us the state is not, as it is for the Americans, a power to be contained so that the will of the individual may remain unhibited, but rather a cultural power from which we expect positive achievements in all areas of national life”, wrote the prominent Protestant historian Heinrich von Treitschke in 1879 when he looked back to the beginnings of the *Kulturkampf* (quoted in Smith 1995: 37). That the language and images used by the ordoliberal school were largely paraphrases of earlier Protestant *Kulturkampf* positions and that the Ordoliberal’s tendency to opt for an authoritarian ‘solution from above’ in their fight against pluralism and heterogeneity mainly copied Protestant position of the 1870s becomes clear in a synopsis of the ordoliberal writings between 1928 and 1958 and the older appeals for state interventions from the *Kulturkampf* period (cf. Smith 1995: 37).

The *type* of political order that was to guarantee economic freedom was as much of secondary interest to the Ordoliberals as it was to Lutheran Protestants. Agnosticism with respect to the political form of the state corresponded to the Lutheran doctrine of strict and unquestioned obedience of the good Christian subject (*Untertan*) to the secular powers. But given that in the Ordoliberals’ view the main interference with the working of the free market was political in nature, provoked by interest groups which wanted to correct unfavorable market outcomes by mobilizing political support for their particularistic causes, the political order most congenial to economic freedom would be one that could effectively impose self-restraint, that would be tightly bound to the mast when the interest groups intoned their siren songs.

While claiming that the failure of classical liberalism was in the end the result of its neglect for its societal, and especially of its religious preconditions, Rüstow was apparently much less able to appreciate how much his own authoritarian concept of a “free economy and strong state” (Rüstow 1932 [1986]; 1932a) was the child of the very same Protestant *Staatskirchen* doctrine which he himself had just criticized as being so unfavorable for the flourishing of a liberal market order (cf. Meier-Rust 1993: 252-

256; Krohn 1981: 174-175). Rüstow's as well as Röpke's and Müller-Armack's writings provide us with different explanations of how religion came to have influenced the working of contemporary capitalism and, more specifically, how religion was at the center of Germany's current crisis. However, apart from the variations in the secularization hypothesis put forward by the ordoliberal thinkers between 1930 and 1950, it is striking that their writings in this period shared the emphasis on the impact of religion and interpreted their most recent German experiences almost entirely in religious terms. This, I hold, deserves attention in itself - independent of the fact that the various secularization hypotheses remained in the end rather unconvincing. We may ask ourselves how this common interest in religious factors is to be explained, why it was in these years that the ordoliberal thinkers came to reflect on the economic impact of the denominations and especially on the relation between German Catholicism and Protestantism. And how does this relate back to the Bismarckian welfare state? The following section addresses this complex of questions.

## **5. From Periphery to Center: The Dialectics of Negative Integration**

The German postwar debate between Ordoliberalism and Catholic social doctrine is most commonly understood to have been exactly this, a debate between liberals and Catholics (see Langner 1998: 518-548). Within this debate, Catholics pleaded for a 'welfare state supplement' to the liberal economy while the Ordoliberals claimed that social concerns would be served best if the market-mechanism could be allowed to rule fairly and undisturbed, overseen by the state as the arbiter and enforcer of general fairness and social welfare. In this context it is usually also asserted that Catholicism did make an important and genuine contribution to Germany's postwar institutional order by legitimizing the reconstruction of the corporatist German welfare state and leaving a decisive imprint on its organizational form (e.g., subsidiarity principle), while the heterogeneous Protestant social doctrine remained without significant practical-political influence. While this account was largely accepted by the observers of the time, especially by the ordoliberals themselves (cf. Müller-Armack 1950), it overlooks however that the *soziale Marktwirtschaft* concept itself was more than simply an academic blueprint for the design of Germany's postwar economic order and much more than a simple plea for a liberal economy. The Ordoliberals at least had a much more elevated sense of themselves and their social market economy concept. Ultimately, what Röpke, Müller-Armack, Rüstow and others were up to - according to their own testimony - was to develop a *Protestant* social doctrine able to stand up much more effectively to its better elaborated and dogma-based Catholic counterpart.

In the end, German Catholics remained unpersuaded that the ordoliberal market order would secure both growth and social justice and thus represented an acceptable compromise between capitalist efficiency and social equality. And in the end, rebuilding a partially modernized welfare state along the old corporatistic lines proved also to be the political-electorally more rewarding strategy (Hockerts 1980). Disappointed, the Ordoliberals took an increasingly aggressive stance towards the social legislation of the 2<sup>nd</sup> Adenauer cabinet (cf. Abelshauser 1997). Since the ordoliberal proposals on how to reconcile modern capitalism with Christian ethics did not find as much support as necessary to become, as Röpke and others had hoped, the *ecumenical* base of Germany's postwar order, Ordoliberals became vigorously opposed to the reconstruction of the Bismarckian welfare state in the 1950s. In their view, with this measure German politics had stepped again onto the slippery slope of pluralist interest politics, which had led to Germany's political, economic and moral ruin once already (cf. Rüstow 1956; Röpke 1956). But their warnings were to no avail.

But what is more important from our point of view is that the anti-welfare state stance of that group of people, which after WW II was to become the 'official provider' of the new hegemonic economic discourse, reflected also the different inclusive and exclusive effects that the Bismarckian welfare state had on the former *Reichsfeinde*, i.e. Catholics and Social Democrats, on the one hand, and on the former 'naturally' dominant *Reichspartei*, the (national-)liberals, on the other hand. The sympathies and antipathies of Social Democracy, political Catholicism and Protestant Liberalism towards the Bismarckian welfare state reflected the different degrees to which the welfare state served the interests of these socio-political camps and had provided structural support to their different milieus – in particular with respect to their various interest organizations like socialist and christian unions, confessional welfare associations, worker secretaries, and Catholic and Protestant social reform clubs.

It is in this sense that we may speak of the 'dialectics of negative integration'. A stylized account of this dialectical dynamics would go roughly like this: social reform, which initially had been a paternalistic project of Germany's intellectual and political Protestant elite, gave rise to a welfare state which proved to be especially favorable to political Catholicism and Social Democracy. Both had developed into organizationally strong, ideologically coherent camps or milieus as a response to state repression in the *Kulturkampf* era and under the anti-socialist law. After 1890, their organizational strength helped these two powerful movements to colonize the new welfare state (Tennstedt 1977, 1983; Steinmetz 1991; Heidenheimer 1980; Sachße/ Tennstedt 1988). The corporatistic structure of the German welfare state proved to be permeable and penetrable for the worker organizations of political Catholicism and Social Democracy, given that these two political movements were the only ones with a mass worker membership, and given that the Bismarckian welfare state was particularly targeted at workers, offering



them the opportunity of self-administration and self-governance. The socialist and Christian unions quickly seized this opportunity (Manow 1997, 2000).

Both Catholic and socialist unions came to dominate the social insurance administration, their representatives were elected to the industrial and labor courts (*Gewerbegerichte*), both unions developed into counseling agencies for workers in questions of social insurance, offered assistance in law-suits in employment- or social insurance disputes, and they trained workers so as to ensure that worker representatives in the social insurance administration were indeed capable of running these schemes. Both types of unions were subsequently integrated into the framework of corporatistic capital/labor cooperation which had been established in an embryonic form already before 1914, and was to be expanded significantly during the war itself (Feldman 1966 [1992]).

Thus, in strengthening in particular socialist and Catholic unions, the welfare state furthered social integration of the socialist and Catholic camps *as camps*, without blurring the boundaries between the social-moral milieus, without slowly dissolving the *Lager*, without substituting the old with new loyalties (cf. Lepsius 1966). The Catholic and socialist *Lager* came to profit from a welfare state which had been brought into being initially with the intention of supplementing the repressive measures against the ‚red‘ and ‚black international‘ and weakening the socialist and Catholic sub-cultures. But instead of substituting old loyalties to the Catholic or ‚socialist religion‘ with a set of new moral bonds to the Reich, the welfare state became a vehicle for the social integration of Socialists and Catholics via their *organizations*, with *positive repercussions* for the political power and the organizational strength of these two *Lager* (cf. Steinmetz 1993). German nation building therefore has to be understood at least as much as an exercise in cleavage consolidation and creation as an exercise in cleavage management. Given that Germany was a ‚late comer‘ nation, the accompanying process of cleavage formation inevitably mixed ‚old‘ denominational with ‚new‘ socio-economic conflicts. It was then not surprising that the institutional settlement of the modern socio-economic conflict after 1945 possessed an important religious component.

An important element of the religious dimension of the postwar compromise was the increasingly hostile stance of Protestant liberalism towards its former pet project, social reform. I will discuss the causes of this estrangement in the following section.

## **6. Social Protestantism and the Canceling of Social Reform**

Among liberals the feeling of being politically marginalized became widespread in the 1920s. Partly this was due to the fact that in the case of German Protestantism the class-cleavage and the confessional cleavage reinforced each other: Workers were either voting SPD or, if Catholic, Center. Bismarckian social legislation, which was primarily targeted at the (skilled) workers, thus seemed to have both a clear anti-middle-class *and* an anti-Protestant bias. This holds especially true with respect to the accessibility of the welfare state for organized interests. The Protestant social reform movement did not benefit from the corporatist structure of the Bismarckian welfare state since social Protestantism had failed to organize workers, the socio-economic group at which the benefit- and entitlement structure of the Bismarckian welfare state was primarily targeted. Due to the lack of workers' political support, the *Protestantenvereine*, the social reform clubs of the evangelical church, had remained without strong political allies. They were more heterogeneous than the Catholic reform movement both in regional and in socio-economic terms, they were less centralized and more programmatically polarized between Protestant orthodoxy and liberalism (Pollmann 1997; Kaiser 1997). The Protestant program for social reform remained abstract. Protestants perceived social reform as something, which had to be proposed by German professors (*Kathedersozialisten*) and enacted by an enlightened state bureaucracy (Nowak 1997). It was certainly not to be the object and outcome of pluralist interest politics.

Ironically, it was the Protestant doctrine of the two realms of throne and altar which now was invoked in order to fight any attempts to open the Protestant church for workers' interests and to engage in the active political fight for the betterment of the proletariat's plight. The prominent Kulturprotestant Adolf von Harnack, president of the Evangelical Social Congress, stated in the 1890s that Protestants "must adhere to the rule of Luther that the spiritual and the worldly are not to be mixed, and therefore that an economic program may not be proposed in the name of religion" (quoted from Patch 1985: 13). Protestants insisted on their apolitical attitude: Luther's *Zwei-Reiche-Lehre* was called upon in order to avoid being drawn into the political debates of the time: "God has not installed the church to be a referee in worldly matters" (quoted from Pollmann 1996: 4; see Schneider 1982: 38). While Protestants easily identified themselves with the Prussian or German *state*, they were at the same time eager to keep *politics* at distance. They emphasized the clear separation between religion and politics: "Any political agitation, even with the best intentions, contradicts the spirit of the *Evangelium*" (quoted from Kaiser 1996: 76). "Those, who think that the church has any social obligation beyond sermons and care for the salvation of the soul (*Seelsorge*) are following a Roman aberration (*Irrweg*)" (quoted from Schneider 1982: 38). As a consequence, social Protestantism became purely practical and abstained from any social reform activities that would go beyond pure charity. Social Protestantism lacked programmatic profile and political influence and exerted no influence on the course of Weimar's social policy (Reulecke 1996: 63-65; Sachße/ Tennstedt 1988; Preller 1978).

Abstention from politics was one among several factors which prevented the Evangelical Social Congress from becoming the Protestant counterpart to the Catholic *Volksverein*. The Protestant church faced more problems “when dealing with workers. Its identification with state authority and the social divide that branded the pastor one of ,them‘ rather than ,us‘ because the Protestant clergy came from higher up the social scale than Catholic priests” (Blackbourn 1997: 294) prevented social Protestantism from becoming anchored in the labor movement (see also *ibid.*: 301). Protestant social reform remained paternalist in character. In its liberal variant it was understood to be part of a broader *Kulturpolitik*, which was supposed to foster the German *Kultur* by way of educating the workers into it (cf. Nowak 1997). Religious ambitions, a missionary zeal, the goal morally to rejuvenate the nation dominated over the concern for pragmatic improvements in workers everyday life. Furthermore, as early as 1895 many social reformers held the view that the most urgent social problems had been already been taken care of by the new Bismarckian social insurance system and that the increasing national wealth, which came with Germany’s forceful industrialization process, had significantly lessened the need for further welfare state growth (cf. Nowak 1997). In subordinating their goals entirely to the goals of the state, many Protestant welfare organizations had been established in the wake of the social policy initiative launched on the occasion of the accession of Kaiser Wilhelm II in 1890 (*Februarerlasse*) and the quick loss of momentum of this social policy initiative subsequently dampened also the enthusiasm of the Protestant reform movement (Pollmann 1996: 41-44).

Finally, the Protestant liberals in the 1920s turned increasingly critical of further welfare reforms and of social policy in general. For them, the ,archimedic point‘ of social intervention had been lost together with the abdication of the old regime. They could not put their hopes in a political system which apparently had escaped the control of the old elite and had fallen into the hands of organized capital and labor (*Zentralarbeitsgemeinschaft*) and of Social Democracy and political Catholicism, respectively. The Great Inflation of 1921-1923/24, in which unions and big industry fought their “war of attrition” (Eichengreen 1992: 142) at the expense of German middle class interests, with the state staying idly by happy to get rid of its massive war-loan debts in such a painless way, further infuriated the German *Mittelstand* (cf. Childers 1985; Jones 1985). In the late 1920s, for liberal thinkers the welfare state had become the prime cause for crisis, it was not anymore perceived to be a necessary remedy against capitalism’s structural deficiencies and an urgently needed response to the ,labor question‘. In the view of liberals, social policy had escaped the control of the “scientific, well educated bureaucracy situated above all class-interests and party positions” and had fallen into the hands of “the big economic interest associations (...), the political parties and the party- and interest-controlled press” (Herkner 1922, quoted from Kaufmann 1999: 47; cf. Janssen 1998: 213-226). Protestant social reformers, who from the beginning had understood it as their

task to fight a “two-front war” (Pollmann 1997) against Social democracy and Catholic ultramontanism, increasingly came to believe that they had lost this war.

The great inflation was then also a turning point in the liberal assessment of the social and political merits of welfare state intervention: liberals over time had turned from being supportive to being covertly critical to being overtly opposed to the Bismarckian welfare state. Most revealing in this respect are the changes in the *Verein für Socialpolitik*: Once the center of *Kathedersozialismus*, the club became the first place outside the employers’ camp in which severe objections against Weimar’s course of social policy were voiced. Heinrich Herkner’s speech before the *Verein für Socialpolitik* in 1922 at its 50<sup>th</sup> anniversary, which marked the beginning of the intense debate over Weimar’s crisis of social policy (cf. Kaufmann 1999; Herkner 1922), and Alexander Rüstow’s speech before the Verein 10 years later, in which he expressed his hope that an authoritarian state may put an end to Weimar’s ‘corporative pluralism’ (Maier 1975), marked well the distance which liberals had traveled on the political spectrum within less than 40 years.

For liberals, then, the German welfare state seemed to have a clear political-confessional bias and this increasingly estranged the Protestant middle-classes from the social reform project, which they had once strongly endorsed. And given the clear anti-Protestant bias of the German welfare state, it was later quite natural for the Ordoliberalists to cast the question of welfare reform in confessional terms, to seek agreement over the reconstruction of the welfare state in form of a compromise between Catholicism and Protestantism. When the authoritarian, hierarchical ‘solution’ to the interdenominational conflict, in which the German state had been once again called upon to secure Protestant hegemony, had proved to be an utter failure, ordoliberalists were ready after 1945 to pursue an *ecumenical* concept in order to reach consensus and compromise with Catholic social doctrine. This was essentially what the *soziale Marktwirtschaft* concept was about.

## 7. State rules vs. corporatist discretion: Germany’s postwar economic order

After 1945, the young Federal Republic was in urgent need for policies that signaled a sharp break with the past. The recent past had been much more authoritarian than anybody who had dreamt of a revival of the strong, ‘qualitatively total’ state in 1932 could have anticipated. With state interventionism so heavily

discredited, the tune changed: the wish for state-strength, authority, and „leadership“ (Rüstow 1932 [1986]: 70) receded into the background and *liberal* liberalism came to the forefront. The new economic doctrine was legitimized by a number of factors, namely the label liberal, the fact that some members of the *Freiburger Kreis* had emigrated (Röpke und Rüstow) while none of them had been severely discredited,<sup>5</sup> and the „powerful myth of the ‚social market economy‘ as a supposedly fundamental postwar political innovation“ (Lehmbruch 1992: 33). Of the many collective myths that necessarily stood at the beginning of the second German republic, the myth that the doctrine of Ordoliberalism was a new, liberal, non-interventionist concept was to become the most prominent and the most long-lived of all.

The postwar German political system was a system with many veto-points, the West German state only a „semi-sovereign“ state (Katzenstein 1987; cf. Schmidt 1989). The independent central bank (*Bundesbank*), the powerful constitutional court, the influential second chamber through which the *Länder* had gained a decisive role in nearly all matters of political importance, the autonomy of unions and employer associations in industrial relations – the young republic seemed to have learnt its lesson about the dangers of the ‚total state‘ quite well. Lessons were not only drawn from the Nazi disaster, but also from the failure of the parties of Weimar that generally were held responsible for having paved the road for Hitler. The new distrust of a powerful central state and a mighty bureaucracy, now further strengthened by the negative example provided by communist East Germany, was complemented by the older distrust of the political parties. And the concept of a ‚social market economy‘ still contained these deep prejudices about ultimately ‚volatile, unreliable and irresponsible‘ politics. As late as 1945 Alexander Rüstow knew who or what was to blame for the catastrophe that had come over Europe in the form of totalitarianism and fascism: “pluralism” to which “Italy, Germany and France had fallen prey” (Rüstow 1945: 82-83). As became clear again, even after the war „pluralist democracy ... remained alien to Ordoliberalism“ (Nörr 1994: 174).

In this situation, the new ‚liberal‘ equilibrium incorporated neither the classical liberal program of strict non-interventionism nor the kind of authoritarian liberalism so in vogue before 1933, but comprised a system of decentralized and ‚functional‘ interventionism. Central to the postwar equilibrium was the fact that important decisions were effectively sheltered from ‚undue political interference‘ and that, generally, the room for political discretion was substantially restricted. The proliferation of veto-points did not simply institutionalize a system of non-interventionism, but, on the one hand, allowed for targeted intervention in specified domains to be carried out by specialized agencies like the *Bundesbank* or the *Kartellamt* (cartel agency), and, on the other hand, forced the political actors to resolve conflicting interests among themselves through bargaining and ‚amicable agreement‘. In other words, it

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5 Some members of the *Freiburger Kreis* had been even part of the German resistance

institutionalized German *Verhandlungsdemokratie*. It thus imposed very effective restraints on the free working of political competition and partisan politics and on the sovereign powers of an elected government. At the same time, however, the restoration of the German welfare state along the traditional corporatist lines made sure that a liberal market order would not result in the free rule of the market, but would work through the *organized interests* of capital and labor, offering them multiple opportunities for long-term coordination.

It is not by accident that the central laws which established Germany's basic postwar economic order like the cartel law and the central bank law were enacted in the very same year as the major pension reform of 1957 through which the Bismarckian welfare state was re-instituted with its basic principles like parity of representation of organized capital and labor in the administration of the insurance, concentration of the benefits on the core workforce, and the emphasis on status preservation reinstalled or even reinforced (Hockerts 1980). Furthermore, important early decisions that anticipated the character of the postwar equilibrium like the decree on price controls and the currency reform as well as early social legislation like the *Sozialversicherungsanpassungsgesetz* were also enacted at about the same time in 1948/49 before the German parliament had assembled (cf. Giersch/ Paqué/ Schmieding 1992; Hockerts 1980). The simultaneous establishment of a liberal economic order and of the corporatist German welfare state reflects the „bi-polarity“ of the postwar settlement (Nörr 1998: 376) well encapsulated in - on the one hand - a notion of an economic constitution (*Wirtschaftsverfassung*) that went back to Franz Böhm's 1933 seminal contribution to Ordoliberalism and which understood the economic order as one imposed and guarded by the state; and - on the other hand - in notions of a *Wirtschaftsverfassung* as one primarily contracted between the social partners as it had been set out in the older concepts of ‚economic democracy [Wirtschaftsdemokratie]‘ developed by prominent Weimar social democrats like Sinzheimer or Naphtali. This latter notion was also more akin to Catholic ideas of the semi-autonomous role of intermediate institutions regulating their own affairs (under state surveillance) as envisaged in the Catholic subsidiarity principle. Whereas the Bismarckian welfare state provided the social partners with the organizational framework, the political legitimacy and the material resources necessary to lend life to the notion of a corporatistically *contracted economic order*, the cartel and central bank law followed the concept of an economic order imposed and protected by the state. In this schema the state, however, was understood as sheltered from politics. Hence, the “twilight of sovereignty” (Maier 1975: 9), which lay over postwar Germany, was due to the shadows cast by both: corporatist industrial self-governance *and* autonomous bureaucratic rule.

But given their neglect for the strategic complementarities between production and protection and their distaste for long-term cooperation between state and economic agents, it is not surprising that the

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against Hitler.

Ordoliberals were among the most vigorous opponents of the reconstruction and reform of the Bismarckian welfare state that took place in the 1950s parallel to the establishment of the liberal economic order. For them, such reforms, especially the pension reform of 1957, meant that Germany was again traveling down the road to serfdom and „collectivism“ (Röpke 1956) that had already once ruined the Weimar Republic. Very much in line with his earlier revealed hatred for pluralism, Alexander Rüstow now warned in the debate over Adenauer’s pension reform that the pension reform might mark the beginning of the end of political and economic freedom since the establishment of the “total welfare state” would inevitably lead again straight into the totalitarian state (Rüstow 1956: 9). The fierce opposition against Adenauer’s pension plans reflected also the disappointment of the Ordoliberals that their proposals for a common Christian foundation of a social market order remained largely without resonance. Economic Minister Erhard and his academic combatants Böhm, Rüstow, Röpke, and others lost the battle against the reconstruction of the Bismarckian welfare state altogether. This was due not solely, but at least in part to the poverty of their own alternative concept, which mainly held that a flourishing economy is all that is needed as a social policy in a modern market economy. When the hope that the Ordoliberals had put into a „de-proletarianization through the diffusion of property“ (Röpke 1962: 113) did not materialize, and instead a significant rise in income inequality and increasing poverty among the elderly occurred as soon as economic growth had accelerated, the Ordoliberals were left without any convincing economic and political alternative (cf. Abelshauser 1997; Hentschel 1996: 259-271; Hockerts 1980).

While the Ordoliberals finally proved to be unsuccessful in preventing the reconstruction of the old Bismarckian welfare state, their profound distrust towards party politics, which had been mainly derived from their fight against Weimar’s system of ‚welfare corporatism‘, influenced in important respects the design of the *economic* postwar order. More specifically, it did so by establishing independent ‘functional’ institutions, which were effectively made ‚immune‘ against any political interference. The proliferation of veto points, in turn, proved to be crucial for the establishment of long-term cooperative relations between the states and economic agents, and, in providing these agents with a stable framework, also for the cooperation between ‚capital‘ and ‚labor‘.

The ‚imposed‘ liberal economic order thus relied critically on the functioning of the ‚contracted‘ economic order, which, in turn, was to a considerable degree based upon the corporatist Bismarckian welfare state (Manow 2000). Long-term coordination between organized labor and capital was fostered by a set of rules governing economic policy that were beyond reach for politics. It is the interplay between these two elements, between the ‚imposed‘ and the ‚contracted economic order‘, which came to represent the core of German style corporatism after 1945. One of the upshots of this interplay is that it allowed for “a framework approach to economic policy in which strong business associations, trade unions and other para-public organizations are used to coordinate the implementation of policies” (Soskice/ Hall 1999: 40),

but in which the content of these policies is relatively fixed given that the realm of political discretion is narrowed by many constraining factors. These restrictions have rendered the state's commitment to abide by agreements with the economic agents credible. Hence, institutional features like *Tarifautonomie*, central bank independence, but also the fiscal autonomy of the German welfare state, its employment based entitlement structure, the high degree of ‚juridification‘ of these welfare entitlement, and the central role that the social partners play in the administration of the welfare state, have functioned as institutionalized ‚gag-rules‘ (Stephen Holmes), which largely predefine the course of public economic policy and therefore increase the willingness of economic agents to enter into long-term cooperative relations with the state - and also with each other (Hall/ Soskice forthcoming: 40). In increasing ‚policy-predictability‘ (Katzenstein) or in decreasing political uncertainty (Moe), the German multi-veto-point-polity established a framework for economic governance which not only stabilized the economic actors in organizational and political terms by granting them certain ‚public domains‘ of genuine competence and bestowing them with ‚authoritative resources‘, but which also credibly signaled to the economic agents that the state could not deviate from certain established policy paths even if this might be beneficial in the short-run.

At the same time the rebuilt Bismarckian welfare state helped stabilize a system of industrial self-governance and thus established a system of corporatist economic coordination within a ‚liberal‘ market environment. Hence, the German welfare state has to be perceived as an indispensable part of the German postwar political economy and a crucial precondition for its successful working in the first three decades after the war. The German postwar settlement essentially embodied a compromise between economic liberalism and ‚welfare corporatism‘, and also a compromise between Catholic and Protestant social doctrines. Yet, this compromise was not one deliberately struck between the contending camps, but one which was the factual result of Ordoliberalism's failure to gather enough political support behind its ‚ecumenical‘ social market economy concept.



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