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**Article by an MPIfG researcher**

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## The ordoliberalism that never was

Against the background of the World Financial crisis of the late 2000s, Robert Skidelsky, J.M. Keynes's most prominent biographer, predicted the fall of neoliberalism and 'The Return of the Master' (Skidelsky, 2009). Skidelsky was wrong. Apart from some short-term Keynesian rescue policies, the neoliberal policy discourse and policies persisted. However, they have changed character since the crisis. The neoliberal policy prescriptions of the 1990s (Lee Mudge, 2008, pp. 719–722) have been replaced by ordoliberalism (Biebricher, 2013), a specific breed of neoliberalism that has its roots in the political and economic crisis of Weimar Germany in the 1920s. Ordoliberalism became politically influential during the 1940s and 1950s in West Germany and is often equated with the economic rehabilitation of the country after WW II (*Wirtschaftswunder*) (Tribe, 1995, p. 203). Today, the public discourse equates it with the success of the social market economy (*Soziale Marktwirtschaft*) and Rhine capitalism.

Germany's recent successes in weathering the world financial crisis, and its emergence as a dynamic economy marked by low unemployment, have seen ordoliberal ideas become attractive beyond Germany. The increased weight of Germany in continental Europe since reunification also made it easier for German

policymakers to plant the seed of ordoliberal ideas at the European level. Today, ordoliberalism not only reigns as the dominant economic instruction sheet in Germany but has also permeated the economic thinking of the European Union and many European governments (Blyth, 2013, ch. 5).

This *Critical Exchange* will show that the current resurgence and popularity of ordoliberalism rests on a flawed perception of ordoliberal thought and of its historical track-record in the German case. Today ordoliberalism is frequently equated with the social market economy. However, the original ordoliberal writings focused heavily on the market but said little about the social aspect. In fact, for ordoliberals ‘economic policy was the best social policy’ (Ludwig Erhard) and ordoliberalism was born as an explicit anti-welfare doctrine during the 1920s and 1930s. The harsh neoliberal policy prescription, made by Protestant ordoliberal economists in the Christian Democratic governments of the 1950s (Manow, 2001), led to a deep economic crisis in West Germany (Abelshauser, 1987). Only once the harsh ordoliberal policies were counterbalanced through corporatism and heavy welfare arrangements could the social market economy emerge.

Ordoliberalism and corporatism are today largely perceived as concepts of technical-economic regulation that exist independently from cultural properties (Lee Mudge, 2008, p. 705). However, this contribution shows that the development of both economic doctrines during the 1930s, 1940s and 1950s in Europe was deeply rooted in different religious denominations. While Protestant economic thinkers advocated ordoliberal ideals, Catholic decision-makers were inclined to follow the corporatist ideas as displayed in the papal encyclicals *Rerum Novarum* and *Quadragesimo Anno* (Van Kersbergen and Manow, 2009). For the Eurozone today, this means that ordoliberalism, as a Protestant concept, is used during the crisis as a policy prescription by a largely secularized but still culturally Protestant European North to discipline a secularizing but still Catholic/Orthodox corporatist European South. This might lead to a deepening of the cultural cleavages between European nations that the European integration project has tried so hard to overcome during the past 70 years. However, ordoliberalism might work if it is backed by, and combined with, strong welfare institutions – as was the case in the late 1950s in Germany.

### **The Historical Roots of Ordo**

Ordoliberalism is a German invention. This specific neoliberal economic doctrine was generated as a reply to the social and economic upheavals of the Weimar Republic. The Weimar era was a period of extreme economic crisis, coupled with a highly fluctuating political situation. Hence, the ordoliberal project sought, first and foremost, to instil a sense of order (*Ordo*) (Blyth, 2013, p. 136) and stability in a frightened and deeply uncertain bourgeoisie middleclass (Manow, 2001, p. 185). For the promoters of ordoliberalism, the project was meant to ‘lead us out of Weimar’s

group-anarchy (Eucken), the chaos of the inflation period and the political volatility' (Manow, 2001, p. 185). Having found a home at the University of Freiburg, from the 1920s onwards, Walter Eucken built up the Freiburg School, which became the centre of ordoliberal thinking (Ptak, 2009, p. 105).

For the ordoliberals, the crisis of Weimar was the result of the capturing of the state by economic and political interests. The ruling coalition of Social Democrats and Catholics, with their strong auxiliary organizations and trade unions, had built an association-state (*Verbändestaat*) that had overburdened and entangled the state in welfare commitments. The state had allowed private economic interests to cartelize and then to eradicate free market competition. This distorted the economy and damaged price stability. The results came in the form of hyperinflation and skyrocketing unemployment rates (employment plummeted from 18.6 million in 1929 to 11.5 million in 1933) accompanied by extreme political polarization and widespread political violence (300 killed and 1100 injured during the Reichstag elections of 1932 alone).

The ordoliberals thought that only the re-installment of free economic competition could lead the country out of the crisis. At first glance, this does not differ a great deal from the classic neoliberal recipe. However, while for classical liberals the state was the problem, for Eucken and his followers it was the solution. Ordoliberals did not call for a weaker, but rather for a stronger state. Their reading of the crisis of the 1920s was that only a strong state could guarantee the functioning of the market. However, the state must be made immune to interests and social influence that would corrupt it (Streit and Wohlegmut, 1999, p. 7). Walter Eucken formulated this in his famous principles:

First principle: the policy of the state should be focused on dissolving economic power groups or at limiting their functioning ... Second principle: the politico-economic activity of the state should focus on the regulation of the economy, not on the guidance of the economic process. (Eucken, 1952, pp. 334,336)

What emerges in the ordoliberal view is a state that is protected and independent from socio-economic interest groups representing either capital or labor. Obviously this concept causes frictions with democratic or pluralist visions of social and political relations in a society. It is, therefore, not very surprising to find that many of the early ordoliberals were enthusiastic supporters of the so-called presidential cabinets of the 1930s which governed the Weimar Republic unconstitutionally – and hence played a considerable role in paving the way for the Nazi takeover. The deflationary policies of these technocratic cabinets were applauded by the ordoliberals and some of their key thinkers, such as Müller-Armack, were fervent supporters of (Italian) Fascism in the 1920s. During the early stage of Nazism in Germany, Ludwig Erhard actively helped the regime to solve problems of economic regulation (Ptak, 2009, p. 116). However, this changed when the regime began to show increasingly totalitarian



traits. From the ‘crystal night’ (*Reichskristallnacht*) onwards, the ordoliberals distanced themselves from the Nazis (Manow, 2001, p. 183) and the Freiburg circle became active in hammering out a detailed blueprint for a post-Hitler economic order. The antidemocratic parts of ordoliberal thinking that were evident during the 1920s and 1930s were toned down in response to the Nazi disaster. However, the core of ordoliberalism, the shielding of key institutions of economic statecraft, survived the totalitarian era and remained the central reference point of ordoliberal post WW II thinking (Manow, 2001, pp. 189–191).

### **Post WW II Ordo**

German Post War politics unfolded in a strongly religious context, as re-Christianisation was perceived to be the only way to avoid another slide into totalitarianism. Germans thought that the ‘third Reich originated in the increasing alienation from God’ (Bösch, 2002, p. 30), and the Churches gave moral grip to a society that had followed Nazi totalitarianism for fully twelve years.

The newly founded Christian Democratic party (CDU), a conservative party, positioned itself to tap into this resurgence of Christianity. The Berlin Program, one of the first party manifestos of the CDU, was of the view that ‘From the chaos of guilt and disgrace, in which the deification of a criminal adventure has thrown us, an order with freedom can only evolve if we remember the cultural, ethical and moral force of Christianity’ (CDU, 1945, p. 1). The caveat was that Germany was a denominationally split country. Even though the party managed to integrate both the Protestant and Catholic camps, these continued to hold fundamentally different interpretations of what had gone wrong in Weimar and how to get it right this time.

While the Protestants had adopted ordoliberalism as a response to the Weimar crisis (Manow, 2000), the basis of Catholic socioeconomic thought had shifted towards Christian socialism, a specific kind of corporatism elaborated in the social encyclical *Quadragesimo Anno* issued by Pope Pius XI in 1931 (Misner, 1992).

Ordoliberalism reflected the positive connotation that the state carries in mainstream Lutheranism (Manow, 2000), and most members of the Freiburg school were ‘profoundly influenced Protestant Christians with strong biographical ties to the church’ (Manow, 2001, p. 185). This ‘implicit religiosity’ (Lee Mudge, 2008, p. 718) can still be found in ordoliberal discourse today. The ordoliberal interim Italian Prime Minister and former Commissioner of the European Union, Mario Monti, declared in 2012a that ‘If we were to compare Europe to a Cathedral then the Euro would be its most perfect spire to date’ (Monti, 2012c). However, in the late 1940s and 1950s, Catholicism advocated neo-corporatism, while Protestants rallied for a free market economy. Bösch remarks that ‘latent mutual mistrust’ (Bösch, 2001, p. 21) persisted between both camps.

Catholics were convinced that the system of rampant free competition had led to the ‘virtual degradation of the majesty of the state’ (Quadragesimo Anno, 1931) and *Quadragesimo Anno* argues, in light of the crisis of the 1930s, that ‘the free market has destroyed itself’ (Quadragesimo Anno, 1931, para. 109). Catholic Christian socialism emphasizes the importance of collective organization for the common good (albeit the right, i.e. Catholic, unions) (Quadragesimo Anno, 1931, para. 85) and their corporatist intermediation. The Catholic encyclical notes that ‘both workers and employers with united strength and counsel can overcome the difficulties and obstacles and let a wise provision on the part of the public authority aid them’ (Quadragesimo Anno, 1931, para. 73). Wages should be set fairly in bi-partite negotiations, and workers should be protected by maximum working hours. Female and child labor should be curbed. Co-determination should reduce industrial conflict and give the employed a voice in the administration of the firm.

The ordoliberal, for their part, were convinced that social policy would kill individual self-responsibility. Eucken emphasized that it would ‘foster collectivization, create coercion and dependency that diminish self-responsibility and endanger the unfolding of the powers which strive in the individual human being for fulfillment’ (Eucken, 1949), p. 131). Social policy should instead be ‘in the first place economic regulatory policy’ (Kaufmann, 2003, p. 131). Rüstow added that ‘social policy has in the 80 years of its existence developed through uncontrolled growth’ (Rüstow, 1959, p. 20). Regarding Christian Democratic post-war plans to reintroduce Bismarckian welfare, Manow judges that ‘in their view, with this measure German politics had stepped again on the slippery slope of pluralist interest politics which had led to Germany’s political, economic and moral ruin once again’ (Manow, 2000, p. 16). Müller-Armack, who later became state secretary, opined as early as 1947 that ‘the social policy results ... have been quite poor’ (Müller-Armack cited in Kaufmann, 2003, p. 130). Kaufmann notes that for Erhard, later to become minister of the economy and the single most prominent Christian Democratic exponent of ordoliberalism, ‘economic policy was the best social policy’ (Kaufmann, 2003, p. 131). Erhard, the ‘Prophet of the Market Economy’ (Görtemaker), ‘who today is blessed by every toastmaster as the father of the social market economy, was instead much more the father of the market economy’ (Bösch, 2002, p. 20).

The diverging ideas about the economy indicate that the Christian Democratic fairy tale of a happy marriage between Catholicism and Protestantism through the social market economy was not without frictions. How did the compromise between both denominations on Germany’s socio-economic post World War II order come about?

### **The Ordo Track Record**

The first years after the war in West Germany were marked by a back and forth between ordoliberal and Christian socialist-inspired policies. The Protestant



ordoliberal Ludwig Erhard quickly rose as the party's economic and fiscal expert, and he recruited the ordoliberal Müller-Armack as his right hand man. Müller-Armack, in turn, became the head of the administration for the economy (*Verwaltung für Wirtschaft*) who was responsible for the economic policy of the occupied zones (Ptak, 2009, p. 121). Erhard's first fiscal reform of 1948, together with the law that set an end to price controls (*Leitsatzgesetz*), were ordoliberal in character and were implemented against the will of the Catholics. When the end of the 1940s brought a strong economic boom, this was quickly ascribed to the ordoliberal policies. It seemed that the ordoliberals had won the upper hand, and that they would determine the makeup of the socio economic institutions in post World War II West Germany.

However, after this short economic boom, the reforms led to a severe faltering of the economy (Abelshauser, 1987, pp. 17–19; Conze, 2009, p. 162). When the onset of the Korean War on 25 June 1950 led to a worldwide economic crisis, unemployment in Germany started to climb to 11 percent. Fearing political and social instability like that seen in the Weimar era, the Allies asked the German government for 'a considerable modification of the free market economy' (Abelshauser, 1987, p. 23). When the ordoliberals declined to do so, the Allies threatened to cut the Marshall Plan aid. Moreover, in the wake of the polarizing world politics between East and West, the Allies pressed for a quick rearmament of West Germany. Large industrial capacities were needed. This was also in the interest of German industry – which had never been happy about the anti-cartelization policies of the ordoliberals (Shonfield, 1969, p. 240). The call for state intervention was also in line with the corporatist preferences of the Catholic parts in the governing Christian Democratic Party.

Hockerts notes that this provided a window of opportunity for the Catholic employee wing which 'went into the offensive in the field of social policy, and achieved here some substantial achievements against the neo liberals' (Hockerts, 1988, p. 45). Catholics and the labor wing pressed for the major pension reform of 1957. Ordoliberals like Röpke were convinced that the proposal would lead to an 'artificial limp of a society crippled by proletarianization and crumbled through collectivization' (Abelshauser, 1996, p. 388). Vocke, another ordoliberal, at that time head of the predecessor of the *Deutsche Bundesbank*, the federation of state banks, argued that it would undermine the future of the central bank's credibility in guarding against inflation. Erhard called it the 'poison of dynamization' and was convinced that it would lead to a 'soulless mechanized society' (Abelshauser, 1996, p. 387). However, the reform passed parliament against the will of the ordoliberals and became one of the most popular decisions of German politics. It secured Adenauer's electoral victory in the same year.

In the same year, Adenauer compensated the ordoliberals by allowing them to create an independent central bank and a strong anti-trust agency. This is what Manow coined 'Modell Deutschland as an Interdenominational Compromise'

(Manow, 2000). The outcome was a mix of ordoliberal institutions that generated stable price levels and hindered cartelization and quasi-corporatist industrial relations based on a Bismarckian insurance state. The highly successful model of Rhine capitalism was born (Abelshauser, 2005).

For most of post war history, the ordoliberal agenda retained its 'utopian ideals' (Patk, 2009, p. 105). The brief period of what comes closest to a pure ordoliberal regime, in the early 1950s, had to be immediately corrected through state intervention and the implementation of stabilizing neo-corporatist arrangements in order to avoid a socio economic crash (Zolleis, 2008, p. 100). To equate Rhine capitalism with ordoliberalism is therefore wrong. The outcome of the social market economy, with its extraordinary growth rates and social stability after WW II, was only possible through a policy mix that was based on a combination of ordoliberal and neo corporatist ideas. However, today ordoliberalism is increasingly romanticised by German policymakers as the foundational concept of the social market economy (CDU, 2001). Christian Democratic politicians in the ordoliberal tradition, like finance minister Wolfgang Schäuble, claim that the success of the German model of Rhine capitalism is based on ordoliberal doctrine. As the history of the 1950s shows, this is not only untrue but also a potentially dangerous belief. It is thus problematic that the ordoliberal myth is becoming today increasingly entrenched beyond Germany on the European level.

### **Why Ordo Now?**

After a brief spell in the sun during the economic policies of the 1940s and 1950s in West Germany, ordoliberalism was sidelined by the preference for Keynesian approaches in the 1960s and 1970s. However, from the 1980s onwards, Germany saw a tentative resurgence in ordoliberal positions. While Kohl had ordoliberal institutions enshrined in the Maastricht Treaty, Chancellor Schröder violated the Stability and Growth Pact several times (Gohr and Seeleib-Kaiser, 2003). Since the world financial crisis and the subsequent debt crises of southern EU member states, the concept of ordoliberalism has made a forceful comeback.

The reason can be found in the reform process that the German political economy underwent during the past decade. During the 1990s Germany was considered the sick man of Europe, stuck in a reform bottleneck with its traditional Bismarckian welfare institutions and burdened with the extraordinary costs of German reunification that were deemed to have depressed the country's competitiveness (Streeck and Kitschelt, 2003). This was turned on its head in the second half of the 2000s. Germany is today largely perceived as a role model for the reform of national competitiveness. The so called Hartz IV or Agenda 2010 reforms originally had little to do with ordoliberal ideology but are increasingly marketed in the name of ordoliberalism. The cuts made under this initiative match the ordoliberal principles

of welfare through competition instead of cushioning competition through welfare. Wolfgang Schäuble, Germany's Protestant Christian Democratic minister of finance, has recently emphasized that he 'comes' from Freiburg (Schäuble, 2012a, p. 4) and has repeatedly argued that the crisis-ridden countries in the southern periphery of the Euro zone should adopt an ordoliberal agenda (Schäuble, 2012b, p. 2).

### **Ordo in Europe**

Blyth notes, 'If a focus by Germans on rules, obligations, a strong monetary authority, a weak parliament, and no spending to compensate for busts sounds familiar, it should. It's the basic design of the European Union. Germany's response to the crisis, and the crisis itself, both spring from the same Ordoliberal instruction sheet' (Blyth, 2013, p. 13). In fact, the ECB's constitution and policies, the rules-based Maastricht criteria, as well as the Stability and Growth Pact and the new fiscal treaty, are all about the 'ordo' (Blyth, 2013, pp. 13–14). Biebricher shows in this Critical Exchange how the mechanizing of the EU's fiscal policies through the so called 'Sixpack', the new Macroeconomic Imbalance Procedures (MIP), is part of a German strategy for the 'Ordoliberalization of Europe' (Biebricher, 2013, p. 10). The push for a mandatory constitutional debt break for all EU states by Germany in 2012 is an additional example of the implementation of ordoliberal principles in Europe. By now, the myth of the ordoliberal formula for economic success and welfare has permeated most EU member states along with the institutions of the European Union.

### **Conclusions**

After over two years of the implementation of ordoliberal socio economic policies in the crisis countries of the Eurozone periphery, a *Wirtschaftswunder* is far from materializing. This is not very surprising if one recalls that ordoliberalism alone did not work in the 1950s in Germany, either.

However, the failure of ordoliberalism to lay down roots in the post war Germany of the 1950s was owed not only to its bad socioeconomic performance but also to its undemocratic connotations. The ordoliberal call 'for a positive state authority superior to all powers present in society' (Ptak, 2009, p. 110) did not fall on fruitful ground in the immediate aftermath of fascist dictatorship. However, even today, ordoliberal economists argue for institutions of economic governance that are shielded from political and social intervention. Streit and Wohlgemuth, both economists working within the ordoliberal paradigm, argue repeatedly for hard-to-achieve supermajorities when it comes to economic and fiscal policy making (Streit and Wohlgemuth, 1999, p. 22). Blyth emphasises that the threats from the European level to the democratically elected governments in Greece and Italy in 2011, and the installing of an administration of technocrats in Italy, fit very well with the original

ordoliberal legacy of the 1920s and 1930s. When one pays close attention to Mario Monti's words that 'democracies are very poor these days to handle this' (Monti, 2012b) and that 'government also has the responsibility to educate parliament' (Monti, 2012c) it no longer seems to be a given that ordoliberalism is discredited as an socio political instruction sheet in the same way that it had been discredited due to its authoritarian tendencies in the 1950s.

Moreover, the deep cultural and religious underpinnings of 'quasireligious Ordoliberalism' (Ptak, 2009, p. 104) in Protestantism, are likely to be a mismatch with the moral-public order of Catholicism or Orthodox Christianity that prevails in the southern periphery of Europe. What we witness today in the crisis of the Eurozone is an ordoliberal/Protestant north pinned against a Catholic/Orthodox south. The novelty that the Euro crisis brought to the European integration project is that, in contrast to the previous sixty years, the aim no longer seems to be to overcome, compensate or compromise for these cultural differences. Instead, certain member states try to enforce their cultural socio-economic paradigm onto others. This cultural dimension could have much stronger and longer lasting repercussions for the cohesion of the European integration project than any of the macro economic imbalances that are currently being discussed.

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