

**RISE OF RIGHT-WING POPULISM IN EUROPE? THE CASE OF  
ALTERNATIVE FÜR DEUTSCHLAND (AfD) IN GERMANY**

by

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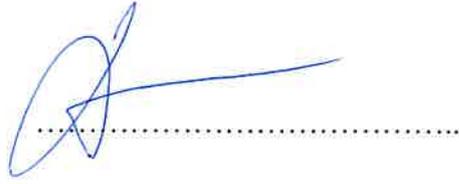
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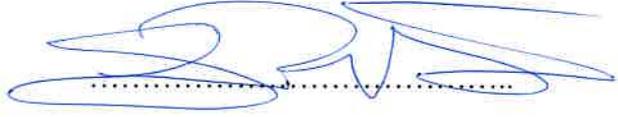
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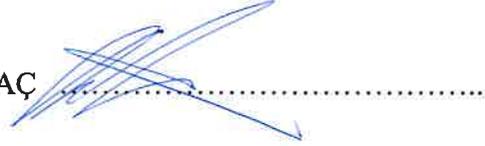
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## ABSTRACT

### RISE OF RIGHT-WING POPULISM IN EUROPE? THE CASE OF ALTERNATIVE FÜR DEUTSCHLAND (AfD) IN GERMANY

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Keywords: right-wing populism, AfD, neoliberalism, legitimacy crisis, Germany

This study analyzes the recent rise of extreme right/ right-wing populism in Germany in the case of Alternative for Germany (AfD) from a critical political economy perspective. Through mainly focusing on ‘political’ realm, the mainstream literature on populism analyses the rise of populism as a threat to liberal democracy by establishing an external relationship between two concepts without referring to the impact of neoliberalism and global capitalism as indispensable components of liberal democracy on its rise. Main argument of this study is that AfD’s recent success in Germany is an outcome of ongoing legitimacy crisis of neoliberalism. In this respect, this thesis argues that rise of right-wing populism is emerged within the problems and contradictions of liberal democracy in the context of neoliberalism and globalization. While assessing this, the issue is discussed in a historical perspective without treating political and economic realms as ontologically exclusive entities. Historical perspective proposed in this study analyses (i) how neoliberalism has transformed the relations between the state, capital and labor in Germany starting from German Reunification; (ii) how left-wing politics in Germany has moved towards identity-based politics while distancing itself from class-based politics under neoliberalism and (iii) how the European Union impacted this transformation. Under these conditions, this study asserts that people who are exposed to negative impacts of neoliberal policies are more prone to get under the political influence of AfD in the absence of a meaningful left-wing alternative.

## ÖZET

### AVRUPA'DA YÜKSELEN SAĞ POPÜLİZM Mİ? ALMANYA İÇİN ALTERNATİF PARTİSİ (AfD) ÖRNEĞİ

UTKU AKMAN

SİYASET BİLİMİ YÜKSEK LİSANS TEZİ, TEMMUZ 2019

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Anahtar Kelimeler: sağ popülizm, AfD, neoliberalizm, meşruiyet krizi, Almanya

Bu çalışma Almanya'da yakın zamanda yükselen aşırı sağ/sağ popülizm olgusunu Almanya İçin Alternatif Partisi (AfD) örneğinde eleştirel siyasal iktisat perspektifinden ele almaktadır. Ağırlıklı olarak 'siyasal' alana odaklanan ana akım popülizm literatürü yükselen popülizmi liberal demokrasiye dışsal bir tehdit olarak inceleyerek onun ayrılmaz bileşenleri olan neoliberalizm ve küresel kapitalizmin yükselen popülizm üzerindeki etkisini göz ardı etmektedir. Bu çalışmanın ana argümanı AfD'nin Almanya'daki başarısının neoliberalizmin süregiden meşruiyet krizinin bir ürünü olduğudur. Bu anlamda bu çalışma, yükselen sağ popülizmin liberal demokrasinin neoliberalizm ve küresel kapitalizm bağlamındaki sorunları ve çelişkilerinden ortaya çıktığını tartışmaktadır. Bu değerlendirme yapılırken konu tarihsel bir perspektiften siyasal ve ekonomik alanları ontolojik olarak birbirini dışlayan varlıklar olarak ele almadan tartışılmaktadır. Bu çalışmada öne sürülen tarihsel perspektif (i) neoliberalizmin Almanya'da devlet, sermaye ve emek ilişkilerini Almanya'nın Birleşmesi'nden itibaren nasıl dönüştürdüğünü; (ii) sol siyasetin neoliberalizmin etkisiyle nasıl sınıf temelli siyasetten uzaklaşıp kimlik siyasetine yöneldiğini ve (iii) Avrupa Birliği'nin bu dönüşümü nasıl etkilediğini incelemektedir. Bu koşullar altında, çalışma anlamlı bir sol alternatifin yokluğu durumunda neoliberalizmin olumsuz etkilerine maruz kalmış insanların AfD'nin siyasal etkisi altına girmeye daha yatkın olduğunu öne sürmektedir.

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## 1. INTRODUCTION

The term populism has been still one of the central topics discussed in the literature of political science despite there is no consensus on its definition and meaning. In the context of European politics, recent increase in visibility and electoral support of various right-wing parties such as Front National (FN) in France, United Kingdom Independence Party (UKIP) in Britain, Federation of Young Democrats-Hungarian Civic Alliance (FIDESZ) in Hungary and Alternative für Deutschland (Alternative for Germany-AfD) in Germany on the one hand have been mostly labeled as ‘right-wing populist’ parties by the mainstream literature without considering the differences among them. On the other hand, the term ‘neofascism’ has been preferred by some critical scholars due to these parties’ extremist standings and fascist-laden historical roots.<sup>1</sup> This in turn causes a battle of concepts which mostly limits the discussions to the conceptual realm. Instead, what I put forward in this study is that studying main sources, conditions and reasons behind these parties’ rise is more valuable attempt to grasp the nature of their visibility and success. In this respect, this thesis aims to analyze the recent rise of AfD in Germany in light of this concern. For the sake of terminological choice, I prefer not to label AfD as simply populist but rather as more of an extreme-right party given its leaders controversial statements on country’s Nazi past and other sensitive topics such as xenophobia.<sup>2</sup> Nevertheless, finding the correct adjective for the party is not the main concern

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<sup>1</sup> For further discussion on terminological and conceptual inadequacy of the term populism, see Foster (2017) and Mammone (2009) who prefer to use ‘neofascism’ instead of populism.

<sup>2</sup> Alexander Gauland, one of the leaders of AfD, defined the Nazi era as “‘bird shit’ in more than 1,000 years of successful German history”

‘AfD’s Gauland plays down Nazi era as a ‘bird shit’ in German history’

<https://www.dw.com/en/afds-gauland-plays-down-nazi-era-as-a-bird-shit-in-german-history/a-44055213>

Björn Höcke, the leader of the AfD in Eastern state Thuringia, who is mostly known as representative of extremist side of AfD calls Holocaust memorial located in Berlin as “monument of shame”.

‘AfD co-founder says Germans should be proud of its second world war soldiers’

of this study. In any case, the literature refers to the same object of inquiry in terms of the success of right-wing parties either depicted as populist, extreme-right or neofascist.

AfD was founded in 2013 and emerged out as a more right-wing alternative to Christian Democratic Union (CDU). It is mostly identified with its anti-refugee/anti-migration stance and opposition to EU based on its supranational (potentially federal) structure and its single currency policy, which were conceived as impediments against nation state power. When the party firstly participated to the general elections in 2013, it was able to receive only 4.7 percent of the votes and was not able to enter the Bundestag. In 2017 Bundestag elections, AfD received 12.6 percent of the votes and became the main opposition party with 94 seats in the parliament.<sup>3</sup> Furthermore, AfD received an intensive support from Eastern Germany, which was the territory of former socialist German Democratic Republic (GDR). This in turn shows that most people living in East Germany has gone under the influence of an extreme-right party having experienced real existing socialism more than forty years. For that reason, it constitutes one of the puzzles of this research. In addition, the party's fast rise and increased visibility are mostly tied to refugee crisis considering its anti-refugee and xenophobic discourse. However, this study aims to go beyond the impact of refugee crisis on the rise of AfD and proposes a historical perspective to understand the nature of the rise of extreme right in Germany. In doing so, this study problematizes the premise of mainstream literature which locates the rise of populism as a risk, impediment, threat and danger to liberal democracy. The problem of this presumption is that it establishes a unilateral causation between populism and liberal democracy, thus establishes an external relationship between the two. Through only focusing on 'political' realm, this literature pays little attention to the impact of neoliberalism and global capitalism, which are indispensable components of liberal democracy in Germany, on the rise of extreme-right. Conversely, this study endeavors to show that the rise of right-wing populism is emerged within the problems and contradictions of liberal democracy in the context of neoliberalism and globalization. In this sense, a holistic and historical perspective proposed in this study aims to fill the lacuna

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<https://www.theguardian.com/world/2017/sep/14/afd-co-founder-alexander-gauland-says-germany-needs-to-reclaim-its-history>

<sup>3</sup> Official results of Bundestag Elections could be found at website of The Federal Returning Officer. Retrieved from <https://www.bundeswahlleiter.de/en/bundestagswahlen/2017.html>

in the mainstream literature while searching for answers of these questions: Why is AfD on the rise especially in the Eastern Germany? What are the factors behind its success? Does it pose a threat to liberal democracy or is it an internal outcome of liberal democratic order?

### **1.1. Predicaments of Mainstream Literature on Populism: A Threat to Liberal Democracy**

The external relationship between populism and liberal democracy in this literature could be found in Cas Mudde's various contributions. Mudde and Kaltwasser (2017, 1) analyze populism 'within the context of liberal democracy' since they conceive populism as being "fundamentally juxtaposed to liberal democracy" rather than to "democracy per se or to any other model of democracy". In their view, what made liberal democracy distinctive from other types of democracy is the existence of "independent institutions" which are responsible for "protection of fundamental rights" (Mudde and Kaltwasser 2017, 81). By referring to Robert Dahl, 'independent institutions' of liberal democracy are seen essential to effectively operationalize "public contestation" and "political participation" (2017, 81). They further claim that while populism might increase political participation by integrating 'excluded' segments of society into the politics, it impedes public contestation due to its emphasis on "majority rule" and "popular sovereignty" which have the possibility to abrade the institutions of liberal democracy (Mudde and Kaltwasser 2017, 82-84). Overall, what the core of this analysis is locating populism as an external threat to liberal democracy. In a quite similar vein, Müller (2016, 102) conceive populism as "a real danger to democracy". In this respect, populism is understood as something to be 'dealt with' for protecting the premises of liberal democracy and increased mass interest in populism is explained on the basis of 'lack of representation' in liberal democracy, which should be the main concern of supporters of liberal democracy (Müller 2016, 103).

Within this framework, both two analyses depict the liberal democracy as an ideal form of political regime which is seen in danger due to rise of the influence of populism. While the analyses accept the fact that some segments of society are excluded from the

political scene, the source of the exclusion is tried to be understood solely within the realm of ‘representation problem’ to make liberal democratic order better. In this sense, capitalism as a form social relation receive no reference in these analyses given their explicit focus on ‘political’ realm.<sup>4</sup> Consequently, the rise of populism is not analyzed in the context of neoliberalism and global capitalism which are not separate from functioning of contemporary liberal democracy. This in turn not only ignores the internal relationship between liberal democracy in neoliberal era and the rise of right-wing populism/extreme right but also makes these analyses a-historical given their neglecting of the impact of neoliberalism and global capitalism on the issue. Therefore, my argument is that today’s rise of right-wing populism/extreme right is closely interlinked to the contradictions, power relations and social relations under neoliberalism in Germany which experiences a form of legitimacy crisis both at the country and the EU level. Given that Germany is accepted as one of the strongest institutionalized examples of liberal democracy in Europe, it faces the abrupt rise of AfD which I believe cannot be solely explained in terms of ‘representation problem’ of liberal democracy. Rather, it needs a historical and holistic perspective which does not ontologically separate politics and economics but establishes an internal relationship between the two by taking state-capital-labor relations under neoliberalism.

## 1.2. Theoretical Framework

This study analyzes the rise of extreme right in Germany from a critical political economy perspective, which treats politics and economics/ state and society as ‘constituting elements’ rather than externally related entities (Chandhoke 1994, 17-18). As Wood (1995)

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<sup>4</sup> Within the same mainstream literature, there are also scholars who acknowledge that socio-economic inequalities and unequal distribution of wealth play an important role in rise of populism (see Inglehart and Norris 2017; Inglehart and Norris 2019). In doing so, they correctly refer to rise of identity-based politics (‘postmaterialist values’) and the decline of class-based politics, which also coincides with the main arguments of this thesis albeit their different angle. Nevertheless, they seem to ignore the impact of neoliberalism on the emergence of identity-based politics in parallel with the notion of ‘free civil society’. In addition, they still conceive liberal democracy as an ideal type of governance and locates populism as a fact which again poses a threat to liberal democracy (Inglehart and Norris 2019, 6). By this way, they continue establishing an external relation between populism and liberal democracy, while preservation of the latter turns into the main concern. Finally, it is not possible to see a holistic and systematic perspective on the effect of neoliberalism on the rise of populism except from signifying the rising inequalities in their analyses.

puts forward, “formal separation between ‘economic’ and ‘political’” is what distinguishes capitalism from pre-capitalist mode of production. While in capitalism ‘appropriation of surplus value’ occurs in ‘economic sphere’ by ‘economic means’, the same process was realized in pre-capitalist mode of production by ‘extra-economic’ means such as ‘political, legal or military coercion’ (Wood 1995, 28-29). This in turn means that political and economic power ‘formally’ belong to different holders in capitalism, which was ‘politically and historically produced’ (Chandhoke 1994, 16). However, this does not imply that politics and particularly the state has no role in economic realm in capitalism. Conversely, advent of the modern nation state and development of capitalism was inseparable historical developments. This constitutes the main reason why this study does not treat politics and economy (i.e. state and society) as ontologically distinguished realms.

In this regard, critical political economy approach emphasizes “[...] the power relations, special interests and arbitrariness contained in market forces and civil societal relations . . . and seeks to relate these to state power” (Drahokoupil et al. 2009, 5) Here, ‘state power’ refers to power of capitalist state which ‘creates, maintains or restores’ necessary conditions for capital accumulation (Jessop 1990, 117), as “a form of capitalist social relations” (Holloway 1994, 28). This study elaborates neoliberal experience of Germany within this perspective by paying particular attention to state-capital-labor relations.

Neoliberalism emerged out as a response to 1970s crisis of capitalism as a form of new accumulation strategy for capital mainly through privatization, deregulation, labor market flexibility, competition, monetarism and austerity. This essentially called Keynesian welfare state for restructuring process based on the supremacy of market. Put differently, while the dominance of ‘free market’ is stressed in every domain of life, the most important anchor of neoliberalisation process was inevitably state itself based on neoliberal restructuring. The process in Germany initially started by the end of SPD-FDP social-liberal coalition through monetarist policies of Bundesbank (Leaman 2009) and strongly promoted by Helmut Kohl’s 15-year governance. The genesis of German unification introduced neoliberalism to East Germany, what Kohl calls, to create “blooming landscapes” which caused inexorable impact of peoples’ lives in the form of deindustrialization and mass

unemployment. In following, SPD-Green ‘Third Way’ coalitions introduced more deeply neoliberal prescriptions based on labor market flexibility and global competition in line with EU’s neoliberal measures under Maastricht Treaty and the Economic and Monetary Union (EMU). The process was accompanied by attenuation of class-based politics vis-à-vis identity-based politics. Throughout this process, ‘social market economy’, also known as ‘German model,’ was gradually eroded in light of neoliberal policies, which caused organize labor both losing its socio-economic and political power. In a nutshell, after almost four decades, the central aspect of neoliberalism has been nothing but ‘business as usual’ in every aspect of social life. This finds its empirical reflection as demise of regulatory and distributive apparatus of state<sup>5</sup>, rising inequalities among the rich and the poor and implementation of austerity measures on the masses to secure the investment environment. What is more, all the established political parties in German political structure has insisted on implementation of neoliberal policies since the beginning of 1980s including the Greens. The only party who opposes to these policies is The Left Party (Die Linke) but it is more prone to identity-based radical democratic policies than class-based politics. This also partially explains the decline of established parties in German political structure, resulting in people’s being more prone to AfD’s political influence.

It is important to note that all these developments have been taking place within the boundaries and institutional framework of liberal democracy in Germany, which necessitates an internal and holistic relationship between liberal democratic order and recent rise of extreme right in Germany. Therefore, AfD’s rise would only be meaningful when this historical process is taken into account. In this respect, it is my main claim that neoliberalism in Germany has played a crucial role in the rise of AfD and I argue that rise of the extreme right is an outcome of legitimacy crisis of neoliberalism. While assessing this, I put this issue in a historical perspective by analyzing how neoliberalism has transformed the relations between state and society in Germany starting from German Reunification; how left-wing politics in Germany has moved towards identity based politics while distancing itself from class-based politics under neoliberalism and how the European Union (specifically Economic and Monetary Union) impacted this transformation. Under these conditions together with the

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<sup>5</sup> See World Inequality Report 2018 for further details.

lack of strong left-wing alternatives, I argue that AfD is able to address and mobilize people who are exposed to the negative impacts of neoliberalism in Germany.

### **1.3. Epistemology, Ontology and Methodology**

Departure point of this study is that epistemological and ontological assumptions are the key factors determining the proffered research method. In this respect, the arguments proposed throughout this thesis detach from mainstream positivist approaches based on their attempt to prioritize methodological issues over epistemological and ontological concerns (Yalman 2009, 39). Given that positivist approaches endeavor to produce generalizable theories through analyzing the ‘regulations’ and ‘patterns’ between ‘contingently’ related objects, it concomitantly brings about identifying the ‘cause’ independent from its ‘effect’ and causal relationship is viewed as ‘external relation’ between two separate entities (Yalman 2009, 41). In addition, emphasis of positivist epistemology on ‘prediction’ rather than ‘explanation’ constituted an important obstacle while studying the object of inquiry. Instead, this study aims to present a detailed explanation to the rise of extreme right in Germany rather than proposing hypothesized predictions. By this way, avoidance of mainstream positivist traditions from exploring the ‘nature of social reality’ (Yalman 2009, 41) would be prevented and this exploration becomes the central object of this study. As Yalman (2009, 51) puts forth, providing an explanation to the object of scientific inquiry also means to shed light on how the analyzed relationship is ‘constituted’, how its components are related to each other and on which manner explanandum is ‘internally’ related with the other components that we see as ‘externally’ related. It is this ground on which I analyze the rise of AfD in association with Germany’s experience with neoliberalism and its legitimacy crisis to eschew establishing an external relationship between the rise of extreme right and liberal capitalist democracy in neoliberal era. This is also the reason why I do not treat ‘political’ and ‘economic’ spheres as ontologically distinctive entities but rather insist on an intrinsic relationship between the two, which necessitates taking the role of

‘politics’ into consideration (particularly the ‘state’) in the process of neoliberal capital accumulation in Germany along with its further impact on today’s rise of extreme right in the country. This in turn necessitates a holistic perspective to the social reality rather than analyzing its constituencies separately.

Within this framework, this study utilizes from different sub-tools of qualitative methodology. Due to the fact that I do not aim at producing generalizations, making predictions and testing probabilistic hypotheses in light of my epistemological and ontological premises, quantitative analysis is not preferable method of this thesis. As Coppedge (1999, 465) puts, while the small-N qualitative analyses deal more with “thick”, “complex” and “multidimensional” theoretical frameworks and conceptualizations which are less generalizable by nature, quantitative analyses rely on “thin”, “reductionist” and “simple” theories and conceptualizations to be easily tested and generalized. In this regard, this thesis fits to the former one given its theoretically complex nature and its historical focus within a single case design to bring a detailed explanation to the recent rise of AfD in Germany. As Gerring (2007, 94) puts forward, by “case study” it should be understood that:

“ [...] its method is qualitative, small-N; that the research is holistic, thick [...] ; that it utilizes a particular type of evidence [...] ; that its method of evidence gathering is naturalistic (a "real-life context"); that the research investigates the properties of a single observation; or that the research investigates the properties of a single phenomenon, instance, or example.”

In this regard, this study is an “idiographic” and “theory guided case study” which seeks to “explain, interpret, and/or understand a single case as an end in itself” endowed with “well-developed conceptual framework” instead of drawing generalizations (Levy 2008, 4). This particularly means that my arguments, conceptualizations and theoretical framework are specifically about German case in terms of rise of extreme right in case of AfD, which do not aim to provide a coherent ‘general’ framework of right-wing extremism in Europe and other countries in the world. According to Gerring (2007, 99), conducting a case study has at least two important benefits: its leverage in ‘exploratory’ research and when the research topic is studied ‘for the first time’ or approached from a radically different perspective. In this vein, detailed historical perspective of this study strengths both its ‘exploratory’ nature and

analyzing the rise of AfD beyond the impact of relatively recent refugee crisis through tracing (and linking) its sources back to the German unification, neoliberal experience of Germany and legitimacy crisis of neoliberalism could provide a radically different angle as compared to extant literature. Even though single case studies have been usually exposed to methodological criticisms due to small number cases (small-N), it is precisely an explicit choice of this thesis for “knowing more about less” rather than “less about more” (Gerring 2007, 106). In other words, my concern is not about the ‘amount of evidence’ since it is sometimes likely to see that very large amount of evidence is not capable to help explaining the scientific phenomenon under the scrutiny while even ‘one piece of evidence’ bears out the explanation (Brady et al. 2010, 209). As an alternative, my aim is to bring a detailed historical explanation as much as possible on the rise of AfD in Germany within a single case research design.

In order for showing the historical roots and process of AfD’s getting mass support in the context of the legitimacy crisis of neoliberalism, I use process tracing as one of the important sub-tools of qualitative method. As Brady et al (2010, 208) argue that process tracing is effective in indicating ‘sequences and mechanisms’ during the ‘unfolding of hypothesized causal processes’. In addition to pointing out the relationship between explanans and explanandum of this study, understanding under which conditions and through which mechanisms the relationship is established becomes possible through process tracing. Concretely, given this study aims to elucidate on the rise of AfD in Germany in tandem with legitimacy crisis of neoliberalism at both EU level and country level, the process through which AfD’s getting mass support from the people should be traced back to neoliberalisation of Germany with Helmut Kohl’s neoliberal new right governance and the German unification, the neoliberal outlook of SPD-Greens coalition under the influence of Third Way and neoliberal turn occurred within the EEC/EU starting from Single European Act and continued with Maastricht and Lisbon Treaties and went into crisis in 2008. Through revealing this process, I aim to indicate how neoliberal governance in Germany and the EU face difficulty in getting consent of the masses (especially of working class), thus finds its reflection as AfD’s rise in German political spectrum. Put differently, rather than treating it as an immediate consequence of refugee crisis, I claim that current situation is an outcome

of accumulation of complex, multi-structural, historical conditions and contradictions generated by neoliberalism and global capitalism. Hence, given my epistemological assumptions, qualitative methodology supported by process tracing within a single case study on Germany constitutes the methodological framework of this thesis.

Even though this study brings a historical explanation to the AfD, it has certain limitations as well. As touched upon before, I intentionally left aside conceptual complexity in finding correct label for AfD and other right-wing political parties. This sometimes led me to use both extreme right and right-wing populism at the same time. Therefore, a detailed analytical conceptual study focusing on the ideological grounds of populism and extreme right is still waiting as a valuable attempt to be completed for the sake of further research. Secondly, well-planned field work with supporters of AfD would provide with insightful dimensions behind the success of the party. Due to the physical and financial constraints, this study was not able to benefit from fieldwork experience.

#### **1.4. Outline**

Chapter 2 presents a detailed and critical analysis of German Unification, which left relentless effects on Germany's political, economic and social structure. Even in today's Germany, differentiation between the East and the West still maintains its relevance especially in economic and social realms. Given that AfD received its significant amount of support from the East Germany, East/West division inevitably requires further attention. Furthermore, the unification not only united two countries but also introduced the market regime to the Eastern Germany in line with neoliberal essence of Kohl's governance; therefore, a historical analysis of neoliberalism in Germany has to be traced back to German Unification. In this respect, the chapter starts with analyzing historical and political conditions preparing the German unification. After elaborating on international context prior to unification; political, economic and social impact of German Unification on East/West division will be scrutinized through focusing on its neoliberal character. Overall, the chapter

aims to indicate the historical roots of both neoliberalism and the gap between two regions of Germany, which constitutes one of the important factors in AfD's mass support in the Eastern Germany.

Chapter 3 critically reviews the political economic structure of Germany after the German Unification. The chapter begins with critique to institutional analyses which attribute special and distinguished characteristics to German political economy based on institutional structure of 'social market economy'. The core of this analysis relies on the fact that Germany's political economic structure is not compatible with neoliberalism due to path-dependent characteristic of institutions of social market economy which are seen as the basis of social reality. Conversely, I argue that neoliberal transformation of Germany formed by social forces under German capitalism led the so-called distinguished 'German model' and its institutions to be restructured and transformed in line with neoliberalism. Therefore, I put forward that path-dependency arguments are not able to grasp the neoliberal transformation in German political economy. Within this framework, the chapter analyzes how neoliberalism moved into a new phase under SPD-Green coalitions led by Schröder in parallel with neoliberal notions of competitiveness and labor market flexibility. In doing so, I also analyze the historical and ideological transformation of German social democracy to understand how it restructured itself in accordance with the principles of Third Way. Lastly, I analyze the positions of The Greens and Party of Democratic Socialism (PDS)/ The Left Party (Die Linke) in order to indicate the absence of strong left-wing alternative in the German political structure. Overall, the chapter aims to show that how different variants of left politics in Germany moved from class-based politics to identity-based politics under neoliberalism.

Chapter 4 focuses on the impact of European integration and the EU on neoliberalisation of Germany. In addition, the chapter looks at the Eurosceptical position of AfD and locates it in the context of legitimacy crisis of neoliberal EU. I argue that starting from the SEA and Maastricht Treaty, European integration process has faced a neoliberal turn which gradually brought retrenchment of the welfare state and its neoliberal restructuring process. Specifically, the Economic and Monetary Union (EMU) created a framework in which every single measure is specifically designed for investments of business

while other segments of society are both economically and politically excluded. The most powerful social forces behind this process was the transnational segments of European capitalist class in pursuit of increasing its competitive power in the context of globalization. As a consequence of demise of welfare state in line with the premises of Maastricht Treaty and other neoliberal policies, European labor including Germany has lost its historically gained socio-economic and political rights, resulting in growing discontent towards European project. I claim that this 'business as usual' aspect promoted by the EU has been experiencing a legitimacy crisis in a way that European project is hardly able to get consent of the masses due to its exclusionary and anti-democratic nature especially in the realm of governance of the EMU. Despite the fact that this discontent is recognized by the EU, the problem has been regarded as the pitfall of neofunctionalist understanding of integration. In this regard, various initiatives were taken such as promotion of common European identity and strengthening the power of European Parliament. However, these attempts did not see the sources of the discontent and the problem of legitimacy in association with neoliberalism. Conversely, I claim that neoliberalism faces an ongoing legitimacy crisis at both the EU level and in Germany. Especially after 2008 Eurozone crisis, the legitimacy crisis of neoliberalism and the EU got deepened which enabled AfD to reach already discontented masses towards the EU in the absence of meaningful political alternative.

## 2. GERMAN UNIFICATION: NON-CLOSED GAP BETWEEN THE EAST/WEST GERMANY UNDER NEOLIBERALISM

“I think to some extent it is fear of loss, when you have built up a lot and experienced many radical changes in your life”<sup>6</sup>  
– Angela Merkel on the success of AfD in East Germany

German Unification which officially took place on October 3<sup>rd</sup>, 1990 has been one of the most important events in 20<sup>th</sup> century in terms of not only reflecting a watershed in German politics but also in the international political order. On the one hand, it is possible to assert that accession of German Democratic Republic (GDR) into the territory of Federal Republic of Germany (FRG) brought to an end to the real existing socialism in East Germany, but on the other it was conceived as a crucial moment towards dissolution of the socialist system and Soviet Union. Suffice it to say that this process was not merely about merging of two German states as an outcome of the famous slogans; *Wir sind das Volk!* (We are the people!) and *Wir sind ein Volk!* (We are one people!) but rather the process was a consequence of specific historical circumstances, which this chapter aims to shed light on. It is necessary to point out that German unification still matters for German politics even it has been passed 3 decades because it created inexorable events for the country’s political, economic and social structure. Even though the two countries got united under political-legal, economic and social umbrella of FRG, the most obvious irreversible notion brought by the formal unification is the East/West divide, which has remained as an indispensable social fact in German politics. Put differently, it would be more reasonable to deem the German

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<sup>6</sup> ‘Angela Merkel warns against east-west division over AfD rise’  
<https://www.dw.com/en/angela-merkel-warns-against-east-west-division-over-afd-rise/a-40757989>

unification as an ‘institutionalization of the imbalance’ between the West and the East (Dennis and Kolinsky 2008, 14). In this regard, the argument of this chapter is that the rise of extreme right in Germany in case of Alternative Für Deutschland (AfD) is also needed to be scrutinized by taking East/West divide into account given intensification of the party’s mass support in today’s Eastern part of Germany. This is the first reason why the pivot theme of this chapter revolves around the German Unification.

Second reason highlighting the significance of the unification stems from the fact that mainstream arguments in the literature accentuate the idea that rise of ‘right-wing populist’ parties pose a threat against liberal democratic order, thus establishing a mutually exclusive relationship between the two. Contrary to this conventional wisdom, I argue that it is not plausible to isolate the rise of extreme right in today’s Germany from its liberal democratic structure. Given that the unification introduced West Germany’s liberal democratic system to the East, it can be pointed out that West/East division has been both operationalized and institutionalized under the rubric of liberal democracy. The last pitfall of the same line of argument is its attempt to separate politics from economic sphere, meaning that transition from socialism to well-functioning market economy as a prerequisite of liberal political order is left out from their analysis. In other words, establishing an adequate relationship between the rise of extreme right and capitalism has turned into a ‘black box’. By the same token, restructuring of state-market and state-society relations in light of neoliberalism following the formal unification and their impact on the East/West divide still need to be brought back in the analysis. Therefore, based on this framework, it is highly essential to scrutinize the impact of German Unification on Germany’s political economic structure and how it have played a pivotal role in today’s rise of extreme right in the exemplar of Alternative für Deutschland.

Considering the framework above, first section of this chapter will illuminate historical conjuncture prefiguring the necessary conditions for transition to neoliberalism in Germany during the second half 1970’s under Social Democratic Party of Germany (SPD)-Free Democratic Party (FDP) ‘social-liberal’ coalition. Later, I discuss how it has reached its pinnacle during the era of CDU/CSU-FDP coalitions. In this respect, main characteristics of transformation of state-society/market relations in FRG which then paved the way for

German unification in line with neoliberal principles constitute the main object of inquiry under examination. In addition, changing relationship between state, capital and labor is going to be addressed in order to understand how it later impacted the unification process. Second section takes a closer look at political and economic developments of German unification. The section investigates how neoliberal economic recipes were implemented in the New Länder with its important consequences such as privatization, de-industrialization and high level of unemployment. While referring to these economic policies, it is also be stressed that political-legal agenda of German unification was invoked under the supremacy of West Germany, resulting in the discard of political, economic and social demands of East German citizens. Lastly, the problem of societal integration after the unification is focused based on social exclusion of East German citizens from political, economic and social structure of the country, which inevitably has exacerbated to the East/West division in united Germany.

### **2.1. Transformation of Political Economy of Germany Before Unification: Historical and Political Conditions**

To understand the nature of German unification under the principles of neoliberalism, it is first required to assess the historical and political conditions preparing the ground for transformation of state-society and state-market relations in FRG. This transformation has played a crucial role in the process of German unification as well. For that reason, political economic transformations which had occurred in West Germany during 1970s/80s should be laid on the table for grasping better the true nature of German unification.

Given the importance of timespan above, 1970s could be seen as the signal of a turning point in the international economic order. Albeit nuances in terms of its application, Keynesian strategies were more or less the dominant paradigm, which in a nutshell attributes an important role to state in economy. In Keynesian understanding, as Topal puts forth (2012, 433), creation of ‘full employment’ requires ‘planned actions by state’ to increase the demand, that is, increase in consumption; as a consequence, economic growth would be

accomplished. Hence, it is not coincidence to observe the important emphasis on social securities and benefits provided by the state during the era of welfare states (Topal 2012, 433). However, with the beginning of 1970s, the collapse of Bretton Wood System together with the end of fixed exchange regime, the increase in price of oil also known as ‘OPEC crisis’ and high level of inflation in the advanced capitalist countries brought about the discussions regarding the future of Keynesian model. At any rate, it can be argued that the role of state in economy and its ‘interventions’ under Keynesian model was presented as the cause of the crisis of 1970s (Yalman 2008, 3). In light of this framework, it is possible to put forward that the context which gave birth to neo-liberalism was the crisis of the world economy towards the end of the 1970s (Topal, 2012, 423). Given the idea that Keynesian principles could not resolve the crisis, it was believed that the ideal way to cope with the crisis was based on restructuring state-society and state-market relations in favor of the interests of the capital (Topal 2012, 423). In fact, it is possible to see the reflections of the abovementioned arguments in case of Germany as well given the country’s encounter with economic recession and stagflation during the late 1970s. According to Leaman (2009, 12), the period before Kohl’s neoliberal era was portrayed by pro-neoliberals as both ‘demotivation of entrepreneurs’ due to high labor costs and ‘demotivation of employees’ because of social benefits provided by the state. This argument has been evidently shown by the empirical data (see Table 1.1 and Table 1.2) which indicates that proportion of wages in national income gradually increases while the profit ratio falls down (Leaman 2009, 11,16). In this regard, exemplar of Germany is not exception of the aforementioned framework in the sense that nature of the relationship between state, capital and labor relations has started to be gradually transformed in favor of capital gradually during late 1970s and 1980s in line with neoliberalism.

This transformation also referred to what Leaman (2009, 12) calls a ‘paradigm shift’ in the economic policies of Germany, meaning a move from Keynesianism towards neoliberalism. It can be said that this ‘paradigm shift’ manifested itself with Kohl’s coming to power in 1982 and it was supported by a ‘consensus’ involving Christian Democratic Union of Germany (CDU)- FDP coalition, Bundestrat, Bundesbank and the Council of

Economic Experts (Leaman 2009, 12). As Leaman conveys based on the 1978/79 annual report of the Council of Economic Experts, new supply side agenda is proposed as a remedy

Table 2.1 Gross Wages Ratio in West Germany in 1960-1980 (in percentage)<sup>7</sup>

	<b>1960</b>	<b>1970</b>	<b>1979</b>	<b>1980</b>
Gross Wages Ratio in percentage (unadjusted)	60.1	68.0	71.5	73.5
Gross Wages Ratio (structurally adjusted)	65	68	68.5	70

for the ongoing crisis of Keynesianism and it reflected the ‘paradigm shift’ in German economic policy (Leaman 2009, 13). In the report, the ‘paradigm shift’ were accentuated by the following themes; demising the state’s role in providing ‘social transfer payments’ and ‘public goods’; the need for diminishing the level of state ratio in gross national income together with increasing proportion of ‘private companies’ and ‘private households’; necessity of increasing profit rates of private sector via ‘deregulation’ through which ‘efficiency’ and lower cost in providing services to people can be accomplished (Leaman 2009, 13). In addition, it is noteworthy to say that Keynesian notion of ‘full employment’ was not supported by neoliberal consensus in the way in which unemployment was not only regarded as ‘natural’ but also ‘natural rate of unemployment’ have been found essential to decrease the level of inflation (Topal 2012, 433-434). In this sense, ‘natural rate of unemployment’ was also regarded as important in terms of lowering the costs of employers and creating ‘capital-friendly supply-sidism’ (Leaman 2009, 14). In sum, the whole logic behind the ‘paradigm shift’ both observed in the world and in Germany starting from 1980s was creation of a “functional distribution of income from labor to capital” to enhance economic growth and employment (Leaman 2009, 15). Put differently, while the ‘paradigm shift’ created a favorable condition for business, the situation of labor both politically and

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<sup>7</sup> Source: Leaman (2009)

economically turned into a disadvantageous one, which ultimately paved the way for a new era for social struggles between the labor and capital as well. To illustrate, the shift in the taxation policy could be read as an example of this. As Table 2.2 indicates, while the tax burden on wages gradually increases, the burden on ‘profits and income from wealth’ significantly declined. Moreover, the impact of post 1980 neoliberal period can easily be seen with regard to the decline of tax burden on ‘profits and income from wealth’.

Table 2.2 Burden of Taxation and Social Contributions on Gross Wages and Salaries and Profits in Germany 1960-2000<sup>8</sup>

	<b>1960</b>	<b>1970</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
Tax burden on gross wages and salaries	6.3	11.8	15.8	16.2	19.3
Burden of social contributions on gross wages and salaries	9.4	10.7	12.8	14.2	16
Tax burden on profits and income from wealth	20	16.1	15.3	9.8	7.9
Burden of social contributions on profits and income from wealth	3	2.9	3.9	3	3.5

At this point, it is also necessary to say that privatization was one of the most important policy tools in Germany during Kohl’s era. As Leaman (2009, 66-67) indicates, the ratio of ‘federal share’ in major companies in Germany such as VEBA AG, Lufthansa and Volkswagen gradually decreased through landing their assets to the private hands. Here, it is worth asserting that Single European Act (SEA) and preparing the ground for Single

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<sup>8</sup> Source: Leaman 2009,18.

Market in Europe had also major impact on the privatization policies as the key tenet of them was bringing competition to many service areas in the European Community. In short, it can be argued that state-market and state-society relations in Germany started to be changed through ‘taxation reform, deregulation and privatization’ in Kohl’s era for the sake of proposing a remedy against the ‘mistakes of the 1970s’ (Leaman 2009, 69). All the notions discussed here radically effected the relationship between state and society/market relations under the premises of neoliberalism and the transformation of this relationship was led by restructuring of state in line with neoliberal premises. Consequently, one important outcome of this transformation has been gradual attenuation of the power of organized labor in Germany.

In sum, it is my thesis that this political economic structure of Germany is essential to comprehend the process of German unification. In other words, the changing nature of the relationship between state and society/market in West Germany especially during Kohl’s era was also implemented in the former East German territories. Hence, one should read the unification not only as merging of two distinctive countries but also as the extension of neoliberalism to the new Lander. In the next section, I analyze international factors which paved the way for the unification process and discuss GDR’s own conditions towards German unification.

## **2.2. Political Developments Prior to German Unification: International Factors and The Condition of GDR**

It is worth repeating that German unification has been an important climax in the international political order as well. During the Cold War years, Germany’s position was always crucial in terms of not only its geographical position and frontier role but also its symbolic value which divides the world into two ideologically opposite camps. For that reason, path towards unification along with the fall of the Berlin Wall had a symbolic meaning since the process itself was represented as the struggle between ‘free world’ vs. ‘totalitarianism’ or ‘capitalism’ vs. ‘communism’. In this regard, Ronald Reagan’s famous

speech in Berlin in 1987 before the fall of the wall falls down is important to reflect the aforementioned antagonistic patterns and international character of the unification process itself:

“ [...] We come to Berlin, we American Presidents, because it's our duty to speak, in this place, of freedom [...] Behind me stands a wall that encircles the free sectors of this city, part of a vast system of barriers that divides the entire continent of Europe [...] Today I say: As long as this gate is closed, as long as this scar of a wall is permitted to stand, it is not the German question alone that remains open, but the question of freedom for all General Secretary Gorbachev, if you seek peace, if you seek prosperity for the Soviet Union and Eastern Europe, if you seek liberalization: Come here to this gate! Mr. Gorbachev open this gate! Mr. Gorbachev tear down this wall! [...]” (Reagan 1987)

From Reagan's speech, one should also note that there is an implicit reference to Gorbachev's glasnost (openness) and perestroika (restructuring) policies which were regarded as important attempts at making the country more 'democratic' and economically more 'efficient' (Childs 1999, 11). Here, it is also necessary to point out that policies of glasnost and perestroika by the Soviet Union could not find a considerable support by GDR's governing party SED (Socialist Unity Party of Germany) based on the ground that there was no reason to implement these policies in the GDR (Childs 1999, 12). In this regard, SED's stance should be read as a critical rupture based on the close relationship between the GDR and the Soviet Union during their entire history. Nonetheless, as Childs states (Childs 1999, 12-13), GDR was not totally autonomous in taking its initiatives, rather its situation was mainly conditional upon desire of the Soviet Union. Here, it is my contention that Gorbachev's reform policies intentionally or unintentionally accelerated dissolution of both the Soviet Union and Eastern bloc in due course, and resistance of SED regime was neither supported by Soviet Union and nor it was not enough to halt this process given contrariety between two countries. Put differently, the unification process was mostly circumscribed by external factors which 'makes impossible for the regime to persist' (Offe 1996, 135). Contrary to the common stance which accentuates influential role of 'mass protests' in 1989 on the fall of the Berlin Wall and German unification, my argument here is on the same line with Offe. As he puts it, rather than existence of long-term endogenous conflicts and challenges on socialist regime, 'economic, political and international affairs' structurally

played a role in the dissolution of the GDR since the role of ‘domestic opposition’ is not too much in East Germany and it usually consisted of intellectuals and some fractions of the Church (Offe 1996, 135,141). Even if it is presumed that internal opposition was effective in the process, ‘reformist socialists’ constituted the main body of the opposition who mostly demand a better GDR rather than calling for an end of it (Offe 1996, 150; Dahn 2007). Even many scholars emphasize the repressive and authoritarian character of the GDR regime, the main factor behind the relatively weak opposition in the former East Germany stems from the regime’s capability to create adequate standard of living for its mass populations (Offe 1996, 141), and this was the most important source of its ‘socialist legacy’ (Dennis 2000). More concretely, it has been a well-known fact that GDR was the ‘most advanced economy of The Council for Mutual Economic Assistance (COMECON) (Leaman 2009, 101) “supplier” of technology to other COMECON countries (Baylis 1986, 381) and ‘success story’ with regard to its high level of ‘economic integration’ (Offe 1996, 140).

Even after the unification, this legacy of the GDR in terms its economic capability continued to resonate in people’s mind which constituted one of the strongest components of East/West divide in the united Germany.

### **2.3. Political-legal, Economic and Social Imprints of German Unification**

Although the term ‘unification’ officially refers to the dissolution of the GDR and its full accession to FRG on October 3<sup>rd</sup>, 1990, the course of actions during the process in fact included more complex and multilayered elements. In this process, the fall of Berlin Wall was firstly followed by Economic and Monetary Union (GEMSU) to be enforced on July 1, 1990, which introduced economic, monetary and social system of West Germany to the GDR then ended with the full accession agreement. In addition, the whole process was managed by Kohl’s government in accordance with his neoliberal policy agenda. The German unification did not take place on equal basis, meaning that West German supremacy was all accomplished in each and every part of the process (Dennis and Kolinsky 2008 ; Quint 1997;

Offe 1997). In other words, even before the beginning of the formal process, East/West division was a latent decisive component on the political agenda of West Germany in drawing general framework of the unification.

According to Quint (1997, 47) there were mainly two options regarding formalizing the political-legal framework of unification and these options basically consist of either implementing Western rules and regulations directly to the East or drawing a legal framework which can also make the West Germany responsible for implementing them. While the former one refers to extension of the German Basic Law to the East, the latter one requires creation of a new constitution (Quint 1997, 47). Furthermore, it is needed to add that Article 146 of Basic Law during the time of unification says, “This Basic Law will lose its validity on the effective date of a constitution that has been chosen by the German people in a free decision” (The Basic Law of the FRG 1949). As Quint puts forth (1997, 49-50), this article implies that the path to German unification requires a new constitution which makes the participation of both West and East Germany necessary, thereby providing a democratic environment in which political-legal ideas of both parts can be voiced at the table. However, this possibility was not actualized by the West Germany. Instead, political-legal framework of the unification process was drawn upon Article 23 of the Basic Law before unification, which says:

“For the time being, this Basic Law shall apply in the territory of the Laender Baden, Bavaria, Bremen, Greater Berlin, Hamburg, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, SchleswigHolstein, Wuerttemberg-Baden and Wuerttemberg-Hohenzollern. It shall be put into force for other parts of Germany on their accession.” (The Basic Law of the FRG 1949, 6)

In light of this article, as Quint touches upon (1997, 51-52), it was implied that West Germany will always continue to exist politically and legally while the East Germany eventually will have dissolved itself; hence, there is nothing left from GDR’s own practices and history under this legal provision. By not following this path, one important incentive of CDU/CSU coalition here was that they were able to eschew providing the elements which were inherently owned by the GDR or demanded by the East German citizens such as ‘a right to employment or living space, or increased plebiscitary elements’ under a new constitution

(Quint 1997, 51). In this regard, it would be more plausible to approach to the unification as an “administrative route of transferring Western institutions, structures, intentions and policies to the East” rather than “a process of mutual adjustment” (Dennis and Kolinsky 2008, 3). At the first instance, an important element of this ‘transfer’ was to introduce West Germany’s neoliberal prescriptions of CDU/CSU-FDP coalition to the territories of former GDR starting with the Currency Union, which left irreversible imprints on division between the East and the West Germany.

#### **2.4. Transition to ‘Free Market’: East Germany Meets Neoliberalism**

As Pickle states (1992, 1), there are simply two ways of transition from socialist economy to market economy: ‘shock therapy’ or ‘gradualist strategy’. In this sense, transformation of GDR’s economy into a market economy could be regarded as an obvious example of ‘shock therapy’. On May 18, 1990, the treaty which establishes economic, monetary and social union as a primary step towards German unification was signed by FRG and GDR and it was put force on July 1, 1990. It legally uprooted the socialist economy of the GDR in one night to be supplanted by Federal Republic’s ‘social market’ which is based on “ownership of land and means of production by private investors” (GEMSU 1990). The most important outcome of the treaty was the introduction of Deutsche Mark (DM) as the common and single currency of the two countries. While the conversion rates between East German Mark and Deutsche Mark were assigned as 1:1 for ‘wages, salaries, grants, pensions, rents and leases’; the rates were decided to be 2:1 for debts and other liabilities (GEMSU 1990). As Münter and Sturm (2002, 187) put, pre-unification conversion rate between the two currencies was East German Mark 0.23 DM. Therefore, what Currency Union did bring about for the GDR was overvaluation of East German Mark, which seriously hit the economy of the country and caused inexorable socio-economic problems in the East Germany.

As the ‘most advanced country’ among the other socialist Eastern European countries, the GDR had the ‘most industrialized’ economy with Czechoslovakia among the

COMECON (Baylis 1986, 384; Offe 1996, 139). Given the impact of the Currency Union on overvaluation of GDR's currency, it can be said that one natural outcome was the disruption of East German export market regarding its trade with other COMECON countries<sup>9</sup>. As Münter and Sturm (2002, 188) point out, the trade between the COMECON countries was based on 'administered prices'; as a result, overvaluation of East German currency after Currency Union meant that trade partners of the GDR were no longer able to purchase the traded East German products due to their high prices. In addition, circulation of West German products into the new Lander also led to a decrease in competitiveness of East German products, meaning that domestic market of the GDR was seriously affected as well. Overall, the process culminated in the significant amount of decrease in industrial production and de-industrialization of GDR economy, which subsequently constituted the main source of mass unemployment in the East Germany. As Akerlof et al (1991, 6) show, industrial output in East Germany decreased by more than fifty percent from January 1990 and December 1990. Moreover, this was accompanied with the decrease in employment in industrial sector. According to Leaman (2009,113), there was approximately 36% of decrease in the level of employment in industrial sector including mining, manufacturing and construction between 1989-1991 in the East Germany.

It is possible to claim that the problems of de-industrialization of GDR's economy and emergence of mass unemployment were the natural results of the implementation of neoliberal prescriptions in the East Germany. Given that one of the central tenets of neoliberalism is the "redistribution of national income from labor to capital" (Leaman 2009, 10), privatization was an indispensable policy tools of Kohl's neoliberal agenda during the 1980s to accomplish the previously stated premise. In this regard, as pointed out earlier in this chapter, German unification also reflected this continuity with the establishment of *Treuhandanstalt*, which was the institution responsible for privatization of the GDR's state enterprises and assets. The main motivation of this institution stems from the two ideological assumptions made by the West German policy makers. First, ownership of means of production by the private hands is regarded as utmost crucial freedom of individuals in liberal

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<sup>9</sup> Here, it should be noted that GDR was not officially dissolved after the Currency Union but rather it continued to exist until the formal accession treaty's putting into force on October 3<sup>rd</sup>, 1990.

democracy. Second, structural incompatibility of East German industry and products *vis à vis* the West German ones required either total elimination of East German state-led industries or making them more productive and competitive via privatization. Furthermore, one of the most important problems of East German economy was identified as ‘low productivity’ as a result of ‘intensive overstaffing’ (Münter and Sturm 2002, 186); thereby, they all contributed to the justification of privatizations made by *Treuhandanstalt*. According to Pickel (1992, 179) around 3000 GDR’s state enterprises were privatized by *Treuhandanstalt* until the end of 1991. Concomitantly, ultimate result can be said that of an increase in the level of mass employment in the East Germany, which was not prioritized by West German authorities given their adherence to ‘natural rate of unemployment’ as a prior motive to enhance economic growth. Finally, *Treuhand*’s motto “return of property first, compensation second” resulted in an increase in the level of discontent of East German citizens, thereby turning the image of *Treuhandanstalt* in the East Germany into *die grosse Plattmacherin* (the great bankrupter) due to East German’s state assets being sold at minimum prices to private investors (Offe 1996, 153; Flockton 2000, 66).

It is this conjuncture when transfer payments for the East Germany came into effect. As Münter and Sturm (2002, 181) argue, the role of transfer payments was regarded necessary to ease the negative socio-economic effects of the unification. Besides, additional funding mechanisms such as German Unity Fund was also established based on the same incentive. However, regardless of how much additional source was created and spent for the East Germany, these attempts were not enough to close the gap between the West and the East Germany. Two factors should be taken account here. First, transfer payments such as health and unemployment benefits together with pensions are augmented through payments of working force including both business and labor under the rubric of ‘social insurance systems’ (Münter and Sturm 2002, 181). It should also be recalled that proportion compensated by labor on social expenditures are much greater than that of the proportion paid by the business (see Table 2.2). Second, it is not plausible to assert that those transfer payments were able to foster long-term employment in East Germany but rather they were spent on ‘consumption’ (Münter and Sturm 2002, 182) (see Table 2.3 and Table 2.4).

All in all, the problem of the material gap between the East and West Germany continued to constitute one of the central problems of united Germany in the aftermath of German unification. It is noteworthy to say that all the aforementioned economic problems faced by East Germany were naturalized in the way in which the sources of these problems were totally grounded on the pitfalls of GDR's socialist economy. The Bundesbank, as an important component of the neoliberal hegemony in Germany, did not only pay attention to the problems such as de-industrialization and mass unemployment in Eastern Germany (Leaman 2009, 112) but also left no room for questioning the applicability of the neoliberal policies in the new Lander:

[...] introduction of Deutsche Mark was accompanied by the fact that output and employment in the new Lander declined dramatically after the middle of 1990. This, however, is by no means the "price" of the introduction of the DM, but rather is due to the mistakes made under the old system: owing to government pricing, relative prices on the goods and factor markets failed to conform to the conditions of scarcity. This distortion, which was further exacerbated by the government job guarantee, resulted in disincentives to work and consequently in overmanning in large areas of both east German industry and public sector [...] (Bundesbank 1991, 22-23)

Table 2.3 Priorities of Transfer Payments (in percentage)<sup>10</sup>

	<b>1991</b>	<b>1993</b>	<b>1995</b>	<b>1997</b>	<b>1999</b>
Social infrastructure	12.4	8.6	13.0	13.2	12.6
Subsidies to companies	2.5	7.6	8.0	6.3	5.8
Social expenditures	45.4	54.4	49.5	49.7	51.4

<sup>10</sup> Münter and Sturm 2002, 183.

Other	39.7	29.4	29.5	30.8	30.2
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It is my thesis that so-called ‘wrong policies’ implemented by GDR such as ‘government pricing’ and ‘government job guarantee’ in reality constituted the strongest sources of legitimacy of the socialist regime in the East Germany. Despite repressive characteristics of the old regime, high standard of living and job security were only possible to be accomplished under the socialist economic model, thereby resulting in a high-level legitimacy of GDR in the minds of East German people. On the other hand, these were not only mere economic policies of the former regime but also historical and social reality of East German citizens who lived for forty years under the real existing socialist regime. Therefore, while Bundesbank neglects its own responsibility on the high costs of its neoliberal ‘shock therapy’ prescriptions, it concurrently denied the socio-cultural and historical past of East German citizens. However, this does not change one obvious reality that the high cost of introducing neoliberalism to the East Germany led to the emergence of a “permanent divisions between ins and outs” (Pickel 1992, 182) namely between the West and East German citizens . Meanwhile, different forms of social resistance by East German citizens against this division inevitably brought the question of the future of societal integration into the agenda of the country in the aftermath of German unification.

Table 2.4 Unemployment rate in Germany by area % (West/ East Germany)<sup>11</sup>

	<b>East (including Berlin)</b>	<b>West</b>
<b>1991</b>	N/A	N/A
<b>1992</b>	N/A	7.7
<b>1993</b>	N/A	8.9
<b>1994</b>	14.8	9.6
<b>1995</b>	13.9	9.4
<b>1996</b>	15.5	10.4
<b>1997</b>	17.7	11.4
<b>1998</b>	17.8	11.1
<b>1999</b>	17.3	10.5
<b>2000</b>	17.1	9.6
<b>2001</b>	17.3	9.4
<b>2002</b>	17.7	9.8

<sup>11</sup> Source: Statistisches Bundesamt

2003	18.5	10.5
2004	18.4	10.5
2005	18.7	11.7
2006	17.3	11.0
2007	15.0	9.0
2008	13.1	7.8
2009	13.0	8.1
2010	12.0	7.7
2011	11.3	7.1
2012	10.7	6.8
2013	10.3	6.9
2014	9.8	6.7
2015	9.2	6.4
2016	8.5	6.1
2017	7.6	5.7

### **2.5. Societal (dis) Integration After Unification: The Problem of Social Exclusion in The East Germany**

It would not be wrong to assert that German unification has been a project of ‘macro-social integration’ which consists of economic, political and ‘national-cultural’ dimensions and the same logic is also true for ‘macro-disintegration’ as a consequence of possible problems occurred in these areas (Offe 1996, 131,133). Having touched upon political and economic aspects of German unification which produced both certain level of integration and disintegration in united Germany, this section elaborates on the issue of societal (dis)integration or the ‘level of social cohesion’ (Offe 1996, 133). After the unification, the reconfiguration of citizenship, the problem of social exclusion and forms of social resistance in East Germany along with the ongoing legacy of GDR regime could be defined as the main challenges against the social integration of the country. I argue that the problem of societal integration has constituted an important source of East/West division even in today’s Germany, thereby necessitating a closer look to its historical roots, that is, German Unification again.

As I already stressed earlier, German unification in all aspects was accomplished under the leading position of West Germany which consequently led priorities and demands of East German people to be out political agenda of the German Unification. While political-legal and economic union aimed at introducing institutional structure of the West Germany

in light of the neoliberal policy agendas to the new Lander, it is noteworthy to say that socio-cultural integration of the two countries was not an exception to the same reasoning. That is to say, societal structure of the West Germany has been taken for granted to be directly implemented to the East Germany. By the same token, the division between the East/West has also been one of the determining factors behind the process of societal integration. In this regard, reconfiguration of citizenship in the East Germany turned into a challenging attempt given the priority of the West Germany's social structure to be transferred to East German society whose historical past radically differs from the West.

According to Berdahl (2005, 193-194), as for GDR's high level of industrialization, the notions of 'prosperity' and 'production' were highly interdependent on each other; therefore, the core of 'socialist citizenship' in East Germany was mostly based upon the notions of 'production' and 'labor'. Given that unification was also an extension of West German neoliberal capitalism towards the East Germany, it is possible to say that main roots of 'socialist citizenship' abruptly disappeared due to immediate de-industrialization and high level of unemployment emerged after the unification. As one of the participants of Berdahl's field study in Leipzig after unification conveys:

“Unemployment is for our understanding the worst thing that there is. We were all raised to be socialists, and we were taught that labor is what separates humans from animals. That is what we learned. Suddenly to be without work is unthinkable for us. It makes us feel subhuman” (Berdahl 2005, 244)

It is this conjuncture which necessitates the reconfiguration of the scope of new citizenship in Germany. Although it has been commonly emphasized that German Unification introduced democracy for the East German citizens based on the premise of 'right to vote' in multi-party-political environment, the qualitative characteristics of new citizenship for East Germany is yet to call for a closer attention. Besides this common functional view of democracy based on the 'free and fair elections', as Berdahl (2005, 235) asserts that the meaning of democracy was incorporated to the notion of "access to consumer goods" as an utmost requirement of "fundamental rights and democratic expressions of individualism" in a capitalist society. In other words, in addition to the legal attributions to the concept of citizenship such as expansion of Basic Law, education and social security system to the new

Lander, as for Berdahl (2005, 237), newly introduced consumerism and consumer culture of capitalism constituted indispensable characteristics of being a citizenship in East Germany. Put differently, transition to neoliberalism in the East Germany not only refers to a shift in economic structure of the country but also it brings about normative dimensions of citizenship in a capitalist society where prioritization of market dominates all the other aspects of social life. Similar to political-legal and economic aspects of unification, West German understanding of citizenship was idealized and framed as an only alternative for new citizens in the East Germany. Consequently, this undoubtedly left little room to recognize historical and socio-cultural realities of former GDR, which subsequently gave rise to the problem of social exclusion experienced by East German citizens. After the formal unification, it is ironically observed that promotion of democracy and individual liberties, which were believed as absent in the former GDR, went hand in hand with systematic exclusion of one segment of society. While introducing 'free market' and consumption to the East Germany as a requirement of individual rights and liberties, the transition period was also characterized by the extension of goods of "prosperous golden West" into a country whose economic structure was mostly portrayed as one of the "economies of shortages" in the eyes of the West (Berdahl 2005, 238). To put it another way, the discourse on imbalance between the East and the West Germany continued to be reproduced after the formal unification along with what Berdahl calls "systematic devaluing of the GDR past" which consists of selling GDR's state-led enterprises to Western private investors, deconstruction of 'socialist memorials and monuments', elimination of East German education system and so on (Berdahl 1999, 195-196). In this sense, it is quite debatable to what extent would societal integration in the united Germany be accomplished given this dissociative discourse and idealization of West German understanding of citizenship. In fact, 'societal disintegration' would be more appropriate term to define the post-unification era in Germany.

It is worth noting that one of the utmost examples of devalorization of GDR's past in the socio-cultural realm is the image of *Trabant*, a famous car directly identified with GDR. *Trabant* was produced in the GDR from late 1950s to 1980s and mostly designated with non-fancy looking, air polluting feature and technical inefficiency as compared to West German cars such as Mercedes, BMW and Audi. The car itself was not only put at central place in the

lives of East German citizens but also it has turned into one of the symbols of German unification in the way in which the image of the Trabant mostly refers to ‘socialist inefficiency and backwardness’ in comparison to its western counterparts regardless of the ‘social and historical contexts’ in which Trabant was produced (Berdahl 2000, 135). In this sense, the long waiting period (approximately ten years) for buying *Trabant* was also presented as the pitfall of socialist system compared to Western capitalism. However, its usage as an instrument of devalorization of GDR’s past after the unification showed that one-tired discourse exalting the superiority of West Germany’s social, political, economic and cultural system was by no means contributing to societal integration but rather increasing the social gap between East and West German citizens. As one of citizens of former GDR says: “People here saved for half a lifetime for a spluttering Trabant. Then along comes the smooth Mercedes society and makes our whole existence, our dreams and our identity, laughable” (McElvoy 1992, 219, cited in Berdahl 2000, 135).

As a response to the systematic devalorization of GDR after the unification, post-unification era in Germany witnessed what Berdahl calls “*Ostalgie*” (nostalgia for GDR) which can be defined as “production of counter-memories and identities” through both ‘institutional’ and ‘individual’ means by East German citizens (Berdahl 2005, 162). Put it another way, *Ostalgie* refers to continuation of social and cultural practices belonging to the state which no longer exists under the united Germany. As Berdahl (1999, 192-193) points out, many former East German citizens engaged in ‘counter commemorations’ at the anniversary date of formal German unification by dressing their GDR outfits, consuming ex-GDR products, listening to East German music in light of the common belief that there is no much to ‘celebrate’ on this day. In other words, it could be seen as the reflection of East German citizens’ turning into politically, economically and socially excluded ones in a united country. In this sense, the end result was inevitably to exalt the life in the former GDR despite all devalorization attempts. Moreover, it is also possible to read *Ostalgie* movement as an attempt to remember old values, identities and life practices in the GDR which were taken by the unification. In this regard, it is more suitable to claim that *Ostalgie* was also a kind of ‘resistance practice’ which also encompasses a protest-spirit itself (Berdahl 1999, 193)

Concomitantly, these practices were regarded as “obstinacy of East Germans” who seem to resist the transformations brought by the unification in the eyes of the West (Dahn 2007). At any rate, it is essential to put forth that forms of social resistance and ‘obstinacy’ of East German citizens is interlinked to legacy of socialist regime whose impact was more obvious especially during the 1990s. As stated earlier, the main root of legacy of the socialist regime was stemming from its ability to generate high level of living standards and social security which gave no room for East German citizens being anxious about their future. Moreover, level of employment among women was another distinctive feature of GDR regime with 81.7 per cent in 1990 while it was 55.9 in the West (Dennis 2000, 99). This was also supported by the fact that factories and other working places in the East Germany provided ‘daycare center’ for women with children to not only ease the labor participation of women but also changed the boundaries and definitions of ‘private sphere’ for women (Berdahl 1999, 194). As a result, rather than repressive characteristics of the GDR regime, its capacity to create secured working environment together with “cheap basic foodstuff, inexpensive public transport, low rents, free education and free health provision” (Dennis 2000, 99) resonate in peoples’ mind. Furthermore, empirical evidence from a survey conducted with 1,500 East German citizens in 1997 seems to reflect GDR’s economic legacy as well (see Table 2.5). Despite inevitable references to repressive features of GDR’s regime such as travel restrictions, ‘SED dictatorship’ and ‘tutelage’, the overall results show the weight of regime’s socialist legitimacy relied on creation of ‘full employment’, ‘social security’, ‘women employment’ and ‘cheap foodstuffs’.

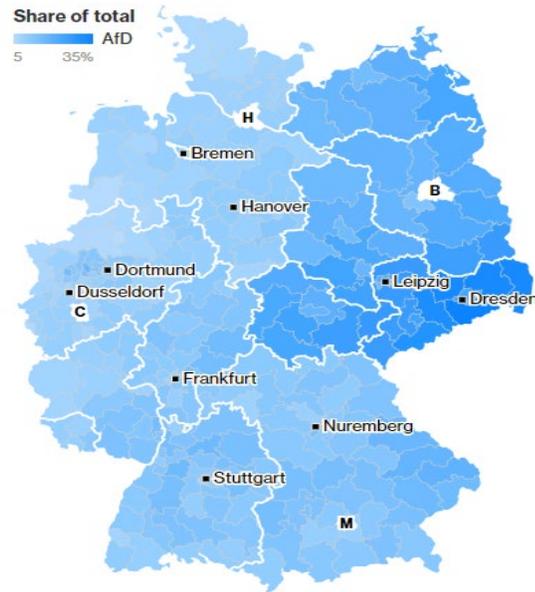
Table 2.5. Perceptions of East German citizens on the life in the GDR (%)<sup>12</sup>

Full employment	89	Disguised unemployment	13
Social security	85	Squandering of achievements	7
Women employment	84	Neglect of children	2
Cheap Foodstuffs	77	Shortage of supplies	42
State holiday provision	76	Restrictions on travel	62
Sense of well-being in the collective	65	Spying on colleagues	5
Anti-fascism	54	SED dictatorship	38
		Doping	3

<sup>12</sup> Source: Dennis 2000, 91. The data are the reproduced by Dennis relying on the original source Winkler, *Sozialreport 1997*.

Mass sport	52	Tutelage	18
Co-determination	12		

Figure 2.1: AfD’s share of votes in Germany by area (West/East) in 2017 Federal Elections<sup>13</sup>



## 2.6. AfD’s Success in East Germany

Overall, today’s success of AfD’s in East Germany cannot be thought as the direct reflection of socialist legacy of former GDR. However, this chapter emphasized the role of German Unification on the East/West gap in the united Germany. After three decades, it can be said that this gap still maintains its impact reflected itself in the form of economic and social imbalance between the two regions which cannot be analyzed separately from the impact of neoliberal policies since the unification. This unsurprisingly led Merkel to recognize the non-closed gap between the East and the West Germany. What is more

<sup>13</sup> Source: Bloomberg Politics  
‘How Germans Re-Elected Merkel While Boosting Her Opponents’  
<https://www.bloomberg.com/graphics/2017-germany-post-election-analysis/>

interesting is that AfD's vote share map resonates the Cold War map in Germany (see Figure 2.1), which I believe signifies the importance of German Unification as the main root of East/West division in today's Germany. As Figure 2.1 shows, AfD received significant amount of support from the former territory of East Germany, which is still far away from the Western Germany in many respects. Even though this does not essentially make AfD a regional party, it seems that important majority of people in East Germany got under the political influence of AfD. It is plausible to say that accumulation of serious problems caused by German Unification along with the lack of political alternative contributed to the emergence of such a picture in the Eastern Germany. In this respect, the quote by Merkel on the party's success in Germany still refers to the same effects despite almost three decades have passed after the German Unification.

### **3. DEEPINING OF NEOLIBERALISM IN GERMANY THROUGH SOCIAL DEMOCRACY: GLOBALIZATION, THIRD WAY AND SITUATION OF THE LEFT**

This chapter aims to take a closer at developments in German political economy in the aftermath of Kohl's era. Having already touched upon the implementation of neoliberal policies during CDU/CSU/FDP coalitions under the leadership of Helmut Kohl in light of the notion of 'paradigm shift' being dominant in political economic governance of Germany, I argue that neoliberalisation of German political economy continued and entered a new phase with SPD-Greens coalitions under Schröder's era. In this new phase, the premises of Third Way, which initially emerged in Britain and was identified with Tony Blair's new policy outlook for his Labor Party, played an important role for almost all social democratic parties in Europe. In case of Germany, it is possible to see the imprints of the Third Way approach in the transformation of SPD in line with the doctrines of *Neue Mitte (New Center)*. It is my argument that premises of Third Way reflects an important rupture in terms of classical ideological stances of social democracy and it is an obvious recognition of supremacy of neoliberal hegemony. In the following sections, I will indicate how neoliberal 'paradigm shift' and Neue Mitte have common stances on transformation of welfare state and pursuing a 'supply side' strategies in line with the interests of German capital in the era of global capitalism. In addition, I will point out that acceptance of supremacy of neoliberalism is not only reflected in the transformation of SPD but in Green Party's position as well. In other words, ongoing neoliberalisation of Germany with SPD-Green coalition necessitates having a closer at the ideological position of the left in order to better grasp changing dynamics in the country. Whilst the Party of Democratic Socialism (PDS)/The Left Party (Die Linke) seems only political actor opposing to neoliberalism, the party was not able

to consolidate its electoral support and to create an organic link between working class due to its activist-laden character. All in all, one obvious result of this process was gradual attenuation of class-based politics together with increase in prioritization of identity-based politics, which I believe have played a pivotal role in the rise of extreme right in today's Germany in case of AfD's forging ahead in the German politics.

While aforementioned transformations and changes occurred in the country, there has been a constant reference to Germany's 'social market economy' in terms of whether it was able to maintain its impact in the process of neoliberal turn that the country has faced.<sup>14</sup> Due to the fact that social market economy was perceived as an institutional rigidity of the country, important changes and transformations occurred in the country were also tried to be grasped within the institutional characteristics of the system. In any case, detailed historical discussion on the feature of Germany's capitalist development constituted an important source in understanding the neoliberalisation of the country. Given that both neoliberal 'paradigm shift' and premises of *Neue Mitte* have their own stances on the role of the state, state-society-market relations and state-capital-labor relations while constantly referring to the discussion on social market economy in Germany, an analytical outlook on the issue is essential to understand the nature of change in the country.

In the remainder of the chapter, I will first start with analyzing Germany's social market economy with its historical and material roots. In doing so, I will indicate the predicaments of institutional analysis in understanding the transformations and changes of Germany in light of neoliberalism. Secondly, I am going to provide a detailed analysis of *Neue Mitte* in Germany by both referring to its ideological sources and its practical impacts under Schröder period with SPD-Green coalitions. In doing so, I will indicate how mainstream left-wing politics and the Greens in Germany accepted the supremacy of neoliberalism in Germany while leaving class-based politics and promoting identity-based politics together with incapability of The Left Party consolidating its electoral support. All in all, the aim of this chapter is to show how neoliberalisation of Germany got accelerated

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<sup>14</sup> See Hall and Soskice 2001; Yamamura and Streeck 2003 ; Streeck 1997

and reached a new phase under the leading position of German social democracy, which left inexorable impacts on German politics especially on today's rise of AfD.

### **3.1. Understanding the 'German model': Social Market Economy and Problems of Institutional Perspectives**

Social market economy in Germany has constituted the most important explanatory factor in post WW-II success and reconstruction of the West Germany. In a nutshell, it can be defined as a regulated market economy which mainly relies on a corporatist structure consisting of strong labor unions, business associations and state. The post war economic success of the country was mostly regarded as an outcome of this model based on production and exportation of high value-added products with high labor wages (Streeck 1997) According to Yamamura and Streeck (2003, 11-12) social market economy is a 'consensus economy' created by a 'compromise between liberalism, social democracy and social Catholicism' along with the comprise between capital and labor. Such a comprise, as for Streeck, became possible through 'a set of distinctive socioeconomic institutions' of the model (Yamamura and Streeck 2003, 12). In this respect, Streeck sees all the components of these models such as 'markets, firms and the post-war German state' as 'the economic institutions of postwar German capitalism' (Streeck 1997, 34-36). Hence, there is a direct linkage between institutional structure of the country and its economic outlook. As for all type of institutionalist analyses, the ultimate concern is utmost prioritization of institutions as the core of all social reality, which naturally ignores the fact that the same institutions are the outcomes of social relations under the capitalist mode of production (Bruff 2011, 482). In parallel with this, Yamamura and Streeck (2003, 2), important adherents of institutionalist perspective, assert that there is an overlap between 'institutional change' and 'economic change', and 'political-economic change' is necessarily 'path-dependent' on the old institutional structures. Furthermore, following the same line of argument, institutionalist perspectives put 'path-dependent' institutions as rigid institutional structures which always

maintain their impact without abandoning its essence despite any possible paradigm shift or macro changes (Bruff 2011, 482). Following almost same line of argument, Schulz (2000,41) tries to trace the sources of social market economy to Bismarck's *Sozialstaat* in terms of its generous insurance and pension system. In this regard, the argument is based on state's intervention's crucial role in drawing the framework of *Sozialstaat*, which is also seen as the antecedent for social market economy (Schulz 2000, 41). In any case, primacy of institutions in explaining political economic tenets of the country maintained its dominance in the institutionalist literature.

In this literature, Germany's social market model and its institutions are regarded as distinguishing system which differs from Anglo-Saxon countries such as Britain and US. (Hall and Soskice 2001; Yamamura and Streeck 2001). As preferred conceptualization, the literature known as 'varieties of capitalism' (VoC) uses the distinction between 'Liberal Market Economies' (LMEs) for Anglo-Saxon countries and 'Coordinated Market Economies'(CMEs) for continental European countries (see Hall and Soskice 2001). Similarly, Yamamura and Streeck (2001) prefer to use 'liberal economies and 'nonliberal economies' in light of the same reasoning. In both literature, corporatist elements consisting of labor unions and business associations together with the state are seen as peculiar characteristics of German model which differentiates it from Anglo Saxon countries. As a result, both literatures claim that given the 'resilient' and 'path-dependent' institutions in CMEs / nonliberal economies, it is not possible to convergence of these countries into the liberal and unregulated Anglo-Saxon model (Coates 2014, 21; Hall and Soskice 2001; Yamamura and Streeck 2001, 5). In this respect, despite the neoliberal transformation that Germany has undergone since Kohl's period, as Menz (2005b, 196-197) argues that VoC approach maintains their claims that German business continues insisting on 'high wage' and high value added production as an outcome of 'institutionalized coordination' brought by social market economy. As an important contributor to the same literature, Wood (2001, 266-273) claims that despite the neoliberal essence of Kohl's period, tripartite coordination mechanism did not get effected due to adherence of German employers to the institutional structure of social market economy. Furthermore, although Streeck (1997, 44) acknowledges that Germany's 'consensus model' is under threat due to the impact of possible 'exhaustion'

of social market model, German unification and the impact of globalization, he later states that ‘complementary institutions of consensual bargaining’ still maintains its importance as a part of institutional structure of Germany (Yamamura and Streeck 2003, 17). This in turn implies that primacy of institutions is still the decisive factors in this literature while acknowledging and explaining the changes in the country.

It is my thesis that such an institutionalist perspective creates certain impediments for making sense of transformation and change that Germany has experienced. To the extent that social market economy is merely scrutinized based on its rigid institutional structure, historical-material conditions and social relations which lay the foundations of the same institutions are ignored. In this respect, powerful labor unions as a crucial element of social market economy are not strong and effective due to institutional settings of the model. Rather, their strong position stems from their own history of struggle for taking their labor-inclusive rights. It was this material and historical reality which led social market economy to lean on labor in its institutional structure. Secondly, corporatist tripartite composition of the model enabling high wages, expansive social insurance and labor-inclusive elements of the system is not solely success of the institutional distinctiveness of social market economy. Instead, one of the most important decisive facts of these components of model directly stemming from strong legacy of real existing socialism and existence of Soviet Union as the powerful guarantor of the socialist system. In case of the West Germany, the strongest exemplar of real existing socialism in the Eastern Europe, that is, GDR was the main influence of labor-inclusive character of the social market economy. As I already indicated the sources of socialist legacy of GDR in the previous chapter in detail, the regime’s explicit position on governing on behalf of the working class constituted strongest roots of its legitimacy. It was this basis that social market economy as a form capitalist mode of production essentially had to be labor-inclusive in order to eliminate any possible socialist threat coming from the working class. This is the reason why West Germany’s social market economy was tried to be regarded as successful example not only of West German capitalism but success of capitalism in producing wealth and prosperity in general. That said, it is my contention that nature of social market economy was drawn by historical-material and social realities under post war conditions of capitalism. In this sense, relying on institutions in explaining the

model does not only neglect these realities but also creates obstacles in making sense of any possible change and transformation which necessarily affect the same institutions. While to some extent accepting the changes and transformations, an important predicament of institutionalist analysis is their continuous attempt to understand them within the realm of ‘institutional change’, ‘institutional resilience’ or path-dependent character of the institutions. This ‘institutional reductionism’ (see Bruff 2011) I argue creates a detrimental effect on understanding the nature of neoliberalisation of Germany starting from 1980s, which resulted in inexorable impacts on both functions and essence of existing institutions in Germany.

Here, my arguments are totally in line with Menz (2005b, 197), who tries to analyze the issue by not putting ‘institutional persistence’ or ‘institutional change’ at the center of the analysis but rather focuses on the ‘processes’ and ‘outcomes’ occurring within institutions. Put differently, changing nature of social relations in the process of neoliberalisation of Germany also laid the basis of changing nature of the same institutions. In this respect, existing of the same institutional structure such as tripartite structure cannot be served as an indicator of primacy of institutions and their path-dependent continuity. Rather, as Menz puts it, same structures can also produce neoliberal policies, thus resulting in ‘functional convergence’ (Menz 2005b, 197; Menz 2005a). This means that existence of the same institutions does not necessarily require them to be path-dependent and resilient. In other words, without an abrupt destruction of tripartite structure and its institutional components, a neoliberal turn became possible in Germany mainly starting from Kohl’s era. My analysis in the previous chapter revolving around the notion of ‘paradigm shift’ is also an empirical indicator of neoliberal turn in the country within the existing institutional structures such as Bundesbank and Council of Economic Experts. Therefore, rather than paying too much emphasis on institutions themselves, identifying the historical-material conditions shaping both agencies and changing nature of the institutions is able to provide more ample analysis.

As I previously stated in the previous chapter, neoliberalism gave birth as a response to world economic crisis during the late 1970s which was regarded as a direct outcome of interventionist Keynesian welfare policies. Given decreased rate of profits especially of industrial capital, neoliberalism in fact offered a new capital accumulation strategy which I

claim constituted the main root of 'paradigm shift'. This process continued and entered a new phase with globalization and the fall of Soviet Union and Easter-bloc countries. As Petrella states that one of the prominent effects of globalization is reorganization of capitalism through 'global markets' which took primary position of 'national capitalism' in "organization and management of the production and distribution of wealth" (Petrella 1998, 45). The primary feature of globalization is an increase in 'capital flows' in the forms of foreign direct investments, monetary and financial flows and portfolio investments' (Petrella 1998, 50) . Germany is also not exception to this phenomenon. As Petrella (1998, 53) indicates, the flow of FDIs mainly is mainly intensified among the USA, Western Europe and Japan in the form of 'triadization'. Concurrently, imprints of the globalization on German political economy finds its reflection on *Standortdebatte* (Germany as an attractive location for investment). As Menz (2005b, 198) argues, the core idea behind *Standortdebatte* was that high level of wages along with contributions to the social insurance system by the business create heavy costs and obligation for the business, thus creating an impediment for further investments and these were voiced by one of the influential business associations called BDI. The discussions and demands were mainly dominated by the export-oriented big business (Menz 2005b, 200) and flexibility and more liberalization constituted the core of the demand of capital in light of these debates (Schulz 2000, 47). In other words, the premises of social market economy were seen incompatible by German capital with the context of globalization and competitiveness. The situation was elaborated by the head of BDI, Huntz, as such: "Societal consensus has cost us millions of jobs" (cited in Menz 2005a, 43). On the other hand, Streeck (1997, 53) still prioritizes institutions in his explanation in the way that he sees globalization is more compatible with the USA and UK given their 'private-contractual economic governance'. As for German model, he claims that institutional setting and rigidity of social market economy is what made it incompatible with the premises of globalization (Streeck 1997, 53). In this respect, economic and political changes are explained by either "various degrees of endogenous institutional adaptation" or "varying degrees of exogenous shock" (Coates 2014, 21) rather than paying attention to the foundations of 'institutional change'.

It is my claim that historical-material conditions and social relations which produced social market economy of Germany changed and took a new form especially with 1980s. Obviously, welfare state in Germany's social market economy was a capitalist state and its institutions were mainly outcomes of social relations shaped under capitalist system in Germany. As Jessop states that 'creating, maintaining and restoring' appropriate conditions for capital accumulation is what makes state a capitalist state. (Jessop 1990, 116) Furthermore, existence of capitalist state 'as a form of capitalist social relations' is dependent on 'reproduction of capitalist social relations' (Holloway 1994, 28). In this regard, capitalist state in social market economy 'as a form of capitalist social relations' was also preparing essential conditions for capital accumulation in Germany. Given the neoliberal change and transformation of Germany with globalization, it is not appropriate to accept that institutional structure of social market is able to continue to persist since there occurred a change in capitalist social relations in the world and Germany. In this regard, even if some institutions of social market economy in Germany still exists, their forms and functions moved towards neoliberal agenda (Menz 2005b). It is also this condition which brought about further retrenchment of welfare state through restructuring of the state to 'reproduce capitalist social relations'. This restructuring process was also consequence of changes in the form of capitalist social relations and formations. This is the reason why I claim the situation cannot be solely expressed as 'institutional change' or 'institutional adaptation' given that they are the reflections of social relations of capitalism. At any rate, the ultimate result has been the transformation of Germany in light of neoliberal premises, which cannot be explained by the notions of path-dependency or institutional resilience of social market economy.

Within the framework above, neoliberalisation of Germany continued and got accelerated under the SPD-Greens coalitions. The crucial point here is that social democracy in Germany fully accepted the hegemonic position of neoliberalism. The traditional ideological sources of social democracy started to be abandoned in light of premises of Third Way, which found its reflection in Germany as *Neue Mitte*. One of the most important results of this period is gradual but continuous attenuation of class-based politics, meaning that power of organized labor decreased both economically and politically. In return, different segments of identity-based politics got strengthened and found voice in political atmosphere

in Germany. Furthermore, retrenchment of welfare state politics was gradually put place based on the notions such as labor flexibility and competitiveness. On the other hand, this does not mean that all these developments were accepted without any discontent. Especially, Party of Democratic Socialism (PDS), as more democratic and reformist offshoot of SED, increased both its power and visibility in public, which enabled the party moving from a regional power to more mainstream actor of German politics under the name of Die Linke (The Left). In the following sections, I will elaborate and analyze all the aforementioned points in detail in light of neoliberalisation process of Germany.

### **3.2. German Social Democracy Tastes Neoliberalism: Historical Transformation of Social Democracy and SPD under *Neue Mitte***

The aim of this section is to indicate how neoliberalisation of Germany entered a new phase under the leading position of SPD by accepting the hegemony of neoliberalism in light of the premises of Third Way. In doing so, presenting historical and ideological roots of social democracy and SPD along with its nature of transformation could be beneficial for understanding its neoliberal transformation.

Throughout its history since the end of 19<sup>th</sup> century, ideological roots of social democracy have been exposed to multiple transformations and change. In this respect, as Saraçoğlu (2012, 377) asserts, despite its reformist characteristics, social democracy in the end of 19<sup>th</sup> century was strongly caring its anti-capitalist and class-based rhetoric while being adherent to achieving socialism in a democratic manner; later the emphasis on socialism was put at second plan in light of Keynesianism, which aimed to restore capitalism rather presenting an alternative to it. Rather, the idea that capitalism inevitably produces problems such as ‘poverty, inequality, unemployment and social discontent’ and the solution of these problems is possible within the capitalist system through initiating certain ‘reforms’ became the central tenets of social democratic parties (Saraçoğlu 2012, 364). At the final stage, social democratic parties fully recognized the hegemony of neoliberalism in light of the premises of the Third Way.

It is also possible to observe the same evolution in ideological preferences of SPD. When it was formed in late 19<sup>th</sup> century, the party was in fact an anti-systemic platform which brings working class, anti-capitalists and socialist intelligentsia together (Saraçoğlu 2012, 368). The important Marxist revolutionary intellectual figures such as Rosa Luxembour, Clara Zetkin and Karl Kautsky were important names who constituted revolutionary wing of the party while revisionism was mostly identified with Eduard Bernstein. Even in the reformist arguments in the party, problematization of capitalism, formulating possible solutions against it together with the ways to achieve socialism with reference to working class (although not strong) remained significant (Saraçoğlu 2012, 370). In time, the party gradually abandoned its anti-capitalist position whose primary source was working-class and became mostly identified with promoting Keynesian solutions which was also capitalist by nature. In this regard, SPD's Godesberg Program in 1959 was regarded as important not only in terms of party's recognition and satisfaction with Keynesian welfare state capitalism but also its turning into a 'catch-all' party (Pautz 2009, 131-132; Saraçoğlu 2012, 374-375). This was expressed in the program in such a way that "From a party of the working class the Social Democratic Party has become a party of the people" (SPD 1959, 12). Furthermore, in the Godesberg Program, the following statements on SPD's position on state and economy were important in terms of reflecting its rigidified position within capitalism:

"Free choice of consumer goods and services, free choice of working place, freedom for employers to exercise their initiative as well as free competition are essential conditions of a Social Democratic economic policy [...] The Social Democratic Party therefore favours a free market wherever free competition really exists. Where a market is dominated by individuals or groups, however, all manner of steps must be taken to protect freedom in the economic sphere. As much competition as possible – as much planning as necessary." (SPD 1959, 5)

Although it is not easy to say that this shift in ideology and discourse of the party directly created a gap between the party and its roots in working class and trade unions, Godesberg Program constituted a watershed in terms of party's apparent acquiescence of capitalism.

In what follows, The Berlin Program in 1989 was also conceived as distinctive with regard to party's new concerns such as ecology and different social movements consisting of peace, women and democracy movements (Pautz 2009, 132-133; Dahm, et al. 2013, 113).

Even though it is claimed that the Berlin Program was carrying more leftist tones than Godesberg Program regarding its references to working class (Pautz 2009, 133), it had several internal controversies and inconsistencies. While stating “repairing capitalism is not sufficient. A new order of economy and society is necessary” (cited in Pautz 2009, 133), the program concurrently had propositions on education programs for citizens to adapt themselves to ‘flexible labor market’, which was the very first motto brought by global capitalism and neoliberalism. Rather than returning to its class-based roots, the party re-identified its position in the changing context of capitalism, which is not compatible with traditional welfare-state and its provisions. This is the reason why SPD called for a ‘qualitative restructuring of the welfare state’ in the same program (Dahm, et al. 2013, 112). In this respect, it would be more plausible to see the Berlin Program as SPD’s attempt to ‘to redefine social democracy’ (Padgett 1993, 20) to adapt itself to global capitalism and its new dynamics. The program was particularly an important step towards SPD’s recognition of neoliberal hegemony, which later found its full reflection in the *Neue Mitte*.

### **3.3. The imprints of The Third Way on SPD: *Neue Mitte***

After the end of Kohl’s era in 1998, SPD’s fifteen years in opposition came to an end with SPD-Greens coalition’s coming to power. Two consecutive coalitions between the two parties was formed under the leadership of Gerhard Schröder. After losing two general elections in 1990 and 1994 with leftist and center-oriented candidates respectively, Schröder’s right-wing orientation was apparent given its close affiliation with business and his presence ‘on the board of directors’ of Volkswagen when he was the prime minister of Lower Saxony (Menz 2005a, 43). In this regard, his candidacy was beyond a symbolic preference and was a strong signal to both German capital and to the EU in terms of SPD’s adaptation to the new conditions imposed by globalization. All in all, SPD under his leadership became a full bearer of neoliberalism albeit important internal opposition within the party. The SPD-Green coalition effectively prepared essential conditions of capital accumulation and competition in the era of globalization, which necessarily required the

demise of welfare state in many respects. Labor market flexibility, emergence of low-wage sectors, pro-business taxation policies, cuts in unemployment benefits and budget austerity were the most crucial topics which are normally regarded as impossible to be implemented under the social democratic rule. This is why this significant rupture needed an ideological, intellectual and theoretical justification (Saraçoğlu 2012). In this respect, this justification was fulfilled by the Third Way.

What I call ‘ideological justification’ of social democracy in the era of neoliberalism and globalization mostly came from Anthony Giddens’ contributions. The core ideas in his framework mainly accentuate that end of real existing socialism together with globalization and the rise of new concerns in different realm of identity politics such as ‘ecology’, ‘work’, ‘family’ ‘cultural identity’, ‘animal rights’, ‘sexuality’ and ‘consumers’ rights’ blurred the bifurcation between left/right politics (Giddens 1998). By the same token, there is a need for ‘old-style social democracy’ which was originally ‘bound up with bipolar world’ to renew itself based on the considerations above (Giddens 1998). In this respect, Giddens (1998) states that globalization led to the emergence of ‘new individualism’ as an alternative to traditional social democratic values such as ‘collectivism’ and ‘solidarity’. He finds its reflection on the SPD’s Berlin Program which he presumes posited a shift in preferences of ‘affluent majority’ from social democratic values of ‘collectivism’ and ‘solidarity’ (Giddens 1998, 17). As Pautz (2009, 131) states that this particularly brought ‘reconceptualization of social justice and welfare state’ to the core agenda of the Third Way. In this regard, in Giddens’ framework, the term ‘social inclusion’ is the new preferable term instead of ‘social justice’ in the sense that ‘social inclusion’ is presented as a remedy for unemployment by promoting participation to workforce (i.e. peoples’ inclusion to labor market) in light of the premise of labor market flexibility (Pautz 2009, 130-131). Moreover, flexibility in labor market was perceived as an important response to globalization, which eventually necessitated a reform in prevailing form of welfare-state (Pautz 2009, 134). In Giddens’ words (1998), ‘*no rights without responsibilities*’ (emphasis original) was internalized as a basis of restructuring old welfare state, which was blamed for its discouraging policy for active job search due its ‘unconditional claims’ on ‘unemployment benefits’ and causing ‘welfare dependency’ (Pautz 2009, 130) . By this way, neoliberal discourse identified with

'paradigm shift' on the unbearable costs of the welfare state and Third Way emphasis on 'welfare dependency' shared the same ground, although the term 'Third Way' is believed to represent an alternative path to both Keynesian welfare state and neoliberalism (Saraçoğlu 2012, 377). It is possible to see almost all the notions pointed out by Giddens in Schröder's *Neue Mitte* approach. In this regard, the paper written by Tony Blair and Schröder in 1998 entitled *Europe: The Third Way/Die Neue Mitte* could be regarded as a manifesto of new social democracy in Europe and particularly for Britain and Germany.

To begin with, the paper also admits that left wing/right wing bifurcation came to an end; therefore, it is pointed out that "Ideas of what is 'left-wing' should never become an ideological straitjacket." (Blair and Schroeder 1998, 3). Blair and Schröder (1998,3) claim that people living in a changing world no more demand politicians who act in accordance with their ideological presumptions, instead 'well-constructed' and 'pragmatic policies' should be preferable while addressing the problems of citizens. This is plainly in parallel with Giddens' contention on the end of both ideological and analytical leverage of left/right distinction. They further criticize the old understanding of social justice which was conceived as 'equality of outcome' and it is seen detrimental to 'creativity, diversity and excellence' (1998, 3). Moreover, the paper strongly found fault identifying social justice with 'higher level of public spending' (1998, 3). As I already stated earlier, this was one of the main concerns in restructuring the welfare state in light of the premises of the Third Way. Most importantly, labor market flexibility constituted the core of the paper in a way that it was seen as the most essential response to globalization and neoliberalism. In this sense, it should definitely be regarded as a rupture from the notion of secure work and high-wage system of German economy. Hence, flexible labor market must be seen as a correspondence to German capital's need to increase its competitiveness in the global markets. Blair and Schroeder (1998, 7) define 'flexible markets' as a 'modern social democratic aim' which seeks for turning 'product, capital and labor markets' into flexible form so that it brings openness in economy. The general tone and discourse of the paper sometimes even get sharper in promoting creation of flexible labor markets: "Having the same job for life is a thing of the past. Social democrats must accommodate the growing demands for flexibility" (1998, 4). This means that secure work and life-long job which had been important gains as outcome

of historical struggle of working class against the capital were targeted by new social democrats in order to prepare the essential conditions for capital accumulation in the era of neoliberalism and globalization. At the same time, EU's neoliberal turn based on the formation of single market supported by liberalization was also welcomed in the paper (1998, 5). In addition, implementation of progressive taxation on business was represented as a notion belonging to 'old' social democratic values, by contrast, it is stressed that 'modern social democrats' promote cuts in corporate taxes so that investment and economic activity increases (1998, 6). In return, this business-friendly tone was definitely 'enthusiastically welcomed by the BDI' (Menz 2009, 44). In a nutshell, while the core of the paper was no related to any notion of classical social democracy, it concomitantly proposed nothing new other than neoliberalism under the framework of 'new supply-side agenda of the left' (Blair and Schroeder 1998, 5)

#### **3.4. Alliance for Jobs, Agenda 2010- Position of SPD and The Greens**

High level of unemployment especially in the East Germany as an outcome of shock therapy, failure of German unification in meeting Kohl's famous pledge 'blooming landscape' and his several policy attempts conflicting with the interest of organized labor had accumulated significant amount of discontent towards his governance. This discontent took the form of Schröder's coming to power and emergence of SPD-Greens coalition given Schröder's assertive promise to cut unemployment in half (Anderson 2009, 5). In this light, Alliance for Jobs, a set of tripartite meetings, was initiated by Schröder in 1998 to tackle with the problem of unemployment. By bringing labor unions, employer associations and government representatives together, labor market flexibility and promotion of temporary-part time jobs were agreed to be remedy for long-term unemployment in the first meeting (Silvia 1999, 89-90). Furthermore, tax reliefs for enterprises to increase competitiveness and dismantling 'structural barriers' to form a new enterprise were highlighted in the twelve-point conclusion of the first talk (Silvia 1999, 89-90). The outcome and government's position were not surprising given the significant overlap between the main theme of the

Alliance for Jobs and Blair-Schröder paper based on labor market flexibility. What seemed relatively positive from the labor side was only formal reference to ‘collective bargaining’. As Menz asserts (2005, 198), the main rationale of the government was getting the consent of labor to initiate its flexible labor market measures in the Alliance for Jobs. In this respect, it is my argument that Alliance for Jobs by SPD-Green coalition was mostly a sort of labor containment strategy by enabling its formal participations to the talks. However, there is no sense of exaggerating the process as if it was an indicator of returning to neo-corporatist labor inclusive setting since the content of Alliance was not compatible with interest of the labor. In this regard, this revival of tripartite setting was more about ‘disciplining labor’ instead of regarding the labor as ‘equal partner’ (Bruff 2014, 115). Conversely, it was targeting almost all the rights historically attained by their struggles. For this reason, I claim that presence of labor in the Alliance talks was merely symbolic given that their discontent during the Kohl’s era was a decisive factor in Schröder’s coming to power. And what’s more, as Anderson (2009, 11-12) puts, since the attempt of West German unions in transferring their high-wage system to the new Lander after the unification faced with the mass unemployment in the East Germany, it significantly decreased the power of the unions: DGB’s membership fell down from 11 million in 1991 to 7.7 million in 2003, which inevitably put unions relatively weak position against capital’s pressures along with continuous drop in the real wages. This I believe partially explains the emergence of ‘consensual’ conclusion text of Alliance for Jobs despite its anti-labor nature given weakened position of labor incapable of making an impact on the talks.

In his second term of office under SPD-Greens coalition, Schröder combined Ministry of Labor and Ministry of Economic Affairs by replacing Walter Riester, ex-vice president of the trade union-IG Metall, with Wolfgang Clement who is closer to Thatcherite perspective (Menz 2005a, 45). Even this move in fact signaled that more neoliberalisation was on the way: Agenda 2010 and Hartz I-IV reforms. As Bruff (2011, 415) puts it, Agenda 2010 reforms, which was put force in 2003, was “more neoliberal than anything attempted in the post-war era”. Through these reforms, duration of unemployment benefits (for ‘upper tier’) was reduced from 18 to 12 months, and newly defined ‘lower tier’ of unemployment was heavily criticized due to its being under the real poverty line (Menz 2005a, 46).

Furthermore, it further paved the way for expansion of ‘low wage’ and ‘irregular employment’ (Bruff 2010, 416). Within these legal provisions on labor market, neoliberalisation of Germany has been formally completed by leaving inexorable political, social and economic impacts behind it.

### **3.5. The Greens**

It is noteworthy to state that aforementioned neoliberal reforms were not solely carried by SPD alone. The contribution of the Greens to this process was undeniably important as well. Similar to Giddens’ arguments, the Green Party is identifying itself as “neither left nor right” (Çoban 2012, 468). Although the party itself has always been comprised of different and heterogenous ideological stances, during the SPD-Greens coalitions, they were mostly identified with retrenchment of welfare state provisions, tax reliefs for small enterprises and supporting neoliberal austerity policies of SPD (Doherty 2002, 100). This was well-reflected in statement of one MP of the Greens: “Being responsible for the future of our children today means not racking up unsustainable public debt and thus implies budget austerity” (cited in Menz 2009, 100). Within this framework, the Greens supported Agenda 2010 and Hartz I-IV reforms. In addition, it is worth saying that the Greens are more sensitive to ‘anti-racism’, LGBT rights, feminism and other various identity-based concerns (Doherty 2002, 100). It is my contention that their sensitivity on these topics should not be regarded as a contradiction with their neoliberal outlook. It is necessary to remember that one of the crucial concerns of New Right ideology was the strengthening of free ‘civil society’ as an alternative to class-based ‘organized society’ under the leadership of labor; therefore, it is not coincidence to see the effect of this goal on separation of right based movements such as gender, woman and ecology from their class-based characteristics (Topal 2012, 429). In this regard, I argue that the Green politics in Germany also takes its roots from identity-based politics, which does not create an impediment to their support for neoliberal policies.

### **3.6. Party of Democratic Socialism (PDS) /The Left Party (Die Linke): An Influential leftist alternative?**

While these developments took place, significant resentment towards SPD-Greens coalitions inevitably emerged. This discontent took the form of an increase in the political impact of Party of Democratic Socialism (PDS) as a response to neoliberal outlook of SPD and the Greens. While the demonstrations against the neoliberal Hartz I-IV reforms got broadened to every region of the country, PDS's success in gathering around 100,000 people in the East Germany was definitely remarkable (Anderson 2009, 14). The process was followed by disengagement of left-wing and leftist trade unions from the SPD in the form of WASG (Electoral Alternative for Work and Justice) in 2004 (Soltz 2008, 10). Later, Die Linke (The Left) was formed by merging PDS with WASG. In 2005, with Oskar Lafontaine's (former Minister of Finance of SPD) joining the party, Die Linke got 8.7 percent of the votes by also increasing its votes in the West, which went beyond 'regional' essence of the party (Anderson 2009, 14). According to Patton (2011, 109), The Left Party got around one million votes from SPD together with getting approximately twenty five percent of unemployed people in 2005 general elections. The party channeled its election campaign through its platform "For a New Humane Version" by demanding 'welfare state expansion', shortening work weeks, extensive public sector, effective taxation for both national and international capital along with calling a halt to 'privatization of public services' and labor market liberalization (Patton 2011, 107). In light of the emphasis on these topics, The Left Party in turn was able to receive significant amount of support from people who were mostly negatively affected by neoliberal policies of SPD-Greens coalitions. The party was further able to consolidate and increase its votes in 2009 by getting 11.6 percent of the votes, which turned it into a constant political actor in the Bundestag. That said, a close analysis of ideological position and political impact of the Left Party is essential to locate party's rise in a broader context.

Die Linke has been often perceived as ‘radical’ or ‘marginal’ in Germany’s political party spectrum due to its anti-neoliberal character, its composition of different small left-wing organizations and its roots in GDR. Although the party seems to agree on its counter-neoliberal essence, existence of different political organizations and ideological tendencies within party make harder to identify the Left Party with clear-cut ideological terms. While the party mostly identifies itself with bearer of ‘democratic socialism’, the usage of the term still says not too much in terms of whether the party aims to replace capitalism or modify it. In this sense, in light of my reading of the party’s program, the position of the Left Party is closer to old-style social democracy which aims to ease the shortcomings of capitalism through certain reforms and regulations. The Left Party basically supports an economic system “that subjects the market regulation of production and distribution to democratic, social and ecological framing and control” in which “Business must be subject to stringent competition control”, by concomitantly favoring the role of “small and medium size entrepreneurs” (DIE LINKE 2011, 5,32). While being coherently critical to neoliberalism, the program basically proposes highly regulated capitalism in the form of ‘bringing the welfare state back in’. In this sense, my claim is that The Left party mainly fills the political lacuna left from SPD. The neoliberal turn of the social democracy in Germany under Schröder brought the Left Part to this position. Under the normal circumstances, the ideas and values promoted by The Left Party such as tight regulation on capital and extensive welfare state must have been borne by the SPD, but it has not been the case anymore. In a nutshell, it can be said that The Left Party grounds its anti-neoliberal stance by highlighting tightly regulated capitalism supported by strong welfare state. Under neoliberal SPD-Greens coalitions when retrenchment of welfare state radically impacted the masses, The Left Party’s counter-neoliberal discourse had been the main decisive factor behind its success.

The study by Ingar Solty (2008) which analyzes the historical significance of the rise of The Left Party in Germany made a further claim on the electoral success of the party. He contends that The Left Party’s ability to get supports of working class and unemployed also prevent ‘fragmented and declassed working class’ from turning towards ‘right-wing populism’ or ‘right-wing extremism’ (Solty 2008, 3). Although the class base of The Left Party was mainly ‘white-collar’, he asserts that it was able to incorporate other segments of

working class and unemployed people, which brought the success (Soly 2008, 32). Given the publication date of his article, he was indeed particularly right. The party even increased its votes by around 3 percent by getting 11.6 of the votes in 2009. Here, it is worth repeating that my argument also relates the rise of AfD to the absence of strong leftist alternative which can effectively prevent working class, unemployed and other deprived segments of society who have been negatively experiencing both political and economic impact of neoliberalism from moving towards the impact of the AfD. Today, it is a well-known fact that AfD has been able to catch these peoples' attention particularly in the East while presenting itself as an 'alternative' to other established parties.

However, while it is plausible to explain the success of The Left Party in inhibiting influence of extreme-right tendencies, after 2013 and especially 2017 with AfD's joining to German political life, the argument seems losing its validity in terms of current situation of The Left Party. Put differently, the recent rise of AfD became possible despite The Left Party still continues to exist within German political structure. This in turn means that The Left Party was not able to consolidate and increase its support after becoming visible and stronger in federal elections. As Soly points out later, the most decisive factor has been the party's incapability of creating an 'organic connection' especially with blue color workers, meanwhile the main ideology of the party remained 'activist-based' rather than class-based (Soly 2019). As he puts it, the key premise of this 'activist' approach is

“[...] to rally as many people as possible for important causes like environmentalism, antifascism, or movements defending refugees. In other words, the goal is to mobilize people who are already politically aware and who can devote time to activism outside their workplaces and day-to-day interactions.” (Soly 2019)<sup>15</sup>

It is undeniable that aforementioned topics should also be important concerns of any leftist parties. However, to the extent that these concerns are not able to be incorporated to class-based political agenda, there sometimes remains iota of difference between this 'activist' approach and identity-based politics, which took its roots from (neo)liberal notion of 'civil

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<sup>15</sup>“Talking about power: An interview with Ingar Soly” interview by Jerko Bakotin. See the full interview at <https://www.jacobinmag.com/2019/01/germany-social-democratic-party-spd-aufstehen-die-linker>

society'. I argue that this creates a gap in political representation of working class, unemployed people and others who have been exposed to negative impacts of neoliberalism in Germany. This is not to say that AfD is a counter neoliberal political party but in the absence of meaningful leftist alternative, these people easily turned their attention to this party who claims to propose an 'alternative' to other established parties in Germany's political spectrum. Even further, significant amount of AfD's support stems from peoples' resentments with other political parties which does not make that all the voters of AfD extremist or fascist. Throughout the history, extreme right and fascist parties has always existed without any conditionality. The problem here stems from their getting mass support whilst most of the people do not originally come from their ideological stance. In this regard, rather than aiming to address 'already politically aware', political representation of 'politically unaware' turns into crucial reality in understanding the mass support for AfD.

In the last federal elections in 2017, it is claimed that The Left Party lost around 400,000 votes to AfD in the East Germany and this claim was voiced by Sahra Wagenknecht, one of the leading figures of the Left Party, who now portray refugees' participation to labor market as a risk against people working in low-paid jobs.<sup>16</sup> In this light, it can be said that the party was officially divided based on the roots of the rise of AfD and immigration policy. In any case, The Left Party pays the price of its incapability in consolidating its traditional support especially in the East Germany. Furthermore, AfD seems successful in shaping the content of the political discussions given the Left Party had to reidentify its position in accordance with AfD. In this sense, Wagenknecht's arguments are not able to go beyond explaining the rise of AfD with the so called 'refugee-crisis'. However, this line of argument also belies the incapability of The Left Party in keeping mostly unemployed and blue-collar working class under its influence at the times when AfD was not even established. If the Left Party was able to follow a class-based politics rather than promoting 'activism', it might not have been the case. Therefore, it is my contention that the lack of influential leftist party who is able to create an organic link (beyond voting) especially with working class has been still decisive factor behind the rise of extreme-right in Germany.

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<sup>16</sup> 'Germany: New 'Aufstehen' movement of Sahra Wagenknecht is shaking up leftists'  
<https://www.dw.com/en/germany-new-aufstehen-movement-of-sahra-wagenknecht-is-shaking-up-leftists/a-45047762>



### 3.7. Concluding Remarks

This chapter analyzed the developments in German political economy following CDU/CSU coalitions under the leadership of Kohl in order to understand the rise of AfD by unfolding the historical and social processes behind its success. The country has been under the impact of neoliberal policies of Kohl's governance in light of the notion of 'paradigm shift' since 1980s. In what follows, SPD-Greens coalition further accelerated this process by providing legal basis of 'labor market flexibility' and 'competitiveness' with Hartz I-IV reforms. While these developments were taking place, institutionalist perspectives insist on 'resilient' and 'path dependent' characteristics of institutions of 'social market economy', which implicitly argue that full-fledged neoliberalism is almost impossible to be implemented in Germany. In contrast, my analysis emphasized the change in social formation of capitalism which subsequently either renew the essence of existing institutions or change their 'functions' to implement neoliberal policies rather than attributing autonomous power to the institutions as motors of transformation. Furthermore, I also claimed that labor-inclusive characteristics of social market economy did not stem from its institutional power but conversely it was a response to specific historical conjuncture of the Cold War: GDR's high level of socialist legacy.

After elaborating historical transformation of social democracy and SPD in Germany, this chapter analyzed the imprints of The Third Way/ Neue Mitte in terms of how it represented a rupture from traditional values of social democracy. In doing so, I argued that new social democracy fully recognized and accepted the hegemony of neoliberalism rather than presenting an alternative to it. One of the obvious examples of this recognition was Neue Mitte's critiques on welfare state and high level of public expenditures together with exalting the benefits of competition and globalization. The process was accompanied by the rise of identity-based politics, resulting in setting the topics such as gender, ecology, peace and cultural politics apart from their class-based nature in the form promotion of civil society. The only anti-neoliberal stance in this process came from PDS/Die Linke whereas it could not go beyond its relatively successful election results and the party has been mostly closer to 'activism' instead of pursuing a class-based politics. Incapability of the Left Party in

establishing an organic relationship with blue collar working class and unemployed people resulted in shifting its votes to AfD in the East. In this regard, neoliberalism not only caused inexorable problems especially for labor but also left them politically choiceless. In this conjuncture that most people became more prone to discourse of AfD which claims to propose an 'alternative' to other established parties. Overall, the current rise of extreme right could be seen as a reflection of legitimacy crisis of neoliberalism, which found its reflection in the form rising power of AfD in the absence of strong class-based left-wing alternative. The next chapter scrutinizes how the European Union impacted this process with a historical perspective.

#### **4. LEGITIMACY CRISIS OF NEOLIBERALISM/LEGITIMACY CRISIS OF NEOLIBERAL EU**

Analyzing today's rise of extreme right parties in Europe requires constant reference to the European Union (EU) and historical evolution of European integration process. This necessity is important not only in terms of their Eurosceptical and anti-refugee discourses confronting the EU's stance but also analyzing their rise as an outcome of legitimacy crisis of neoliberalism on which the EU has played a significant role as an indispensable anchor of European capitalism. So far, previous chapters analyzed how Germany experienced the neoliberal transformation especially in the aftermath of German unification and how it changed state and society relations under the supremacy of market and competition. Undoubtedly, the EU was one of the main motors in this transformation since the relaunching of the integration with Single European Act (SEA) in light of neoliberal principles such as primacy of internal market, deregulation, elimination of non-tariff barriers and competitiveness. In what follows, Maastricht Treaty and The Economic and Monetary Union (EMU) has become indispensable frameworks of implementation of neoliberal policies in Europe mainly consisting of austerity and welfare state retrenchments. These developments have been conceived as important steps towards political union in line with functionalist/neo-functional principles especially in the view of Commission and other supranational bodies of the Union. Although this premise started to be questioned in light of the widening gap between the EU and citizens, the response to the problem remained within the realm of identity-based politics in the form of promoting common European identity and citizenship or initiating certain institutional reforms. In other words, the neoliberal character of the EU has never been taken into account while analyzing the problem of legitimacy of the Union.

In this respect, it is my argument that neoliberal transformation in Germany has been closely interlinked to the neoliberalisation of the EU; therefore, the rise of AfD in Germany should be conceived both as an outcome of legitimacy crisis of neoliberalism and neoliberal EU. Here, it is possible to claim that AfD's anti-EU stance is based on four issues. The idea of federation of Europe (i.e. political union) as presumed by neofunctionalism is rejected given it requires delegation of nation state power to the supranational center; the EU is depicted as a bureaucratic organ which is lack of 'democratic accountability'; Euro as the single currency is perceived as an impediment against 'reevaluation of national currencies' by nation state policies and firm against stance on migration and asylum policies of the EU (Alternative for Germany 2016, 16-17, 57). In the remainder part of the chapter, I will critically evaluate these notions by putting the rise of AfD into a historical perspective, that is, linking party's getting mass support to neoliberalisation of Germany on which the EU has played significant role.

Based on this framework, this chapter starts with analyzing the main premises of functionalist/neo-functionalist model of integration, which still remains its impact in single market and EMU despite some modifications in other policy areas. Secondly, I will elaborate on how this model was exposed to certain critiques starting from 1990s in light of the 'legitimacy deficit' and the responses against the problem. Thirdly, I will critically evaluate European integration process from a historical perspective and how the rise of AfD in Germany is also linked to the legitimacy crisis of neoliberalism and neoliberal EU.

#### **4.1. From Economic (dis) Integration Towards Political (dis) Integration: Neofunctionalist Model of Integration**

It has been widely accepted that European integration process has continued in accordance with the main premises of functionalist/neo-functionalist model until the 1990's (Ertuğrul 2001, 148). According to this model, European integration process is regarded as "a-political", "utilitarian" and "economical" process in which it is expected that societal actors shift their loyalties towards supranational center (Ertuğrul 2001, 148). In spite of

several modifications and revisions on this model starting from 1990's, it is my thesis that presumed relationship between economic integration and political integration still remained within the boundaries of neo-functionalist premises. In other words, it is possible to see reflections on the same neo-functionalist logic in the introduction of Single European Act, Economic and Monetary Union and Maastricht Treaty's single currency promise. While all aforementioned attempts have been thought as preliminary steps towards politically integrated Europe at least in the eyes of supranational Commission, I argue that empirical reality does not coincide with this proposition, thus resulting in the emergence of what I call 'legitimacy crisis of 'neoliberal' EU'. Although the EU has accepted the problem of legitimacy ongoing for years whereas it searched the solutions in the realm of identity-based politics and institutional reform such as raising the awareness of European identity among the citizens or increasing the scope and the power of European Parliament. However, the notion of neoliberal governance of the Union has never been regarded as the main source of the legitimacy problem.

It can be asserted that functionalism constitutes an important role in the emergence of neo-functionalist theory. Although neofunctionalism introduced several revisions based on the 'political', both theories share certain commonalities in terms of starting point of the integration process. David Mitrany's famous study "*A Working Peace System*" has been conceived as the foundational piece of functionalist theory. While the theory is located under 'liberal-idealist' tradition, it is emphasized that Mitrany's approach did not have a room for normative statements; therefore, his focus on "functions of international society" rather than "ideal form of international society" comprised the main ground of functionalism (Rosamond 2000, 32). In Mitranean perspective, the most important "function of international society" should be based on meeting human needs (Rosamond 2000, 33). In this regard, nation states are perceived as incapable of fulfilling human needs and politicians are assumed to prioritize their self-interests rather than placing emphasis on public interest (Rosamond 2000, 33). This is the main reason why there is a focus on the idea that "transnational institutions" can play more effective role than nation states in fulfillment human needs (Rosamond 2000, 33). Based on this function, it is expected that institutional setting adapts itself as a response to possible change in human needs; however, the idea of "integrated end state" or politically

integrated structure is not seen as indispensable necessity of meeting human needs (Rosamond 2000, 34 ; Mitrany 1994, 78). This is the point emphasized later by neofunctionalist integration theory which aims to attribute a political character to functionalist integration process.

As Rosamond states, Mitranyan understanding of “technocratic automaticity” is not regarded as the solely motor of integration for neofunctionalist theory (Rosamond 2000, 55). “Purposeful actors” who follow their self-interest are the key agents behind the integration process (Rosamond 2000, 55). This takes place in a “pluralist political environment” and it mainly consists of “competition between different groups for input into decision-making and influence over policy outcomes” (Rosamond 2000, 55). These actors are mainly composed of “the economic technician, the planner, the innovating industrialist, and trade unionist” (quoted in Rosamond 2000, 519). Based on this framework, the notion of “spill-over” simply refers to the fact that economic integration in a given sector is expected to spread over other economic sectors which are authorized by supranational center (Rosamond 2000, 60). In this regard, the process also known as “Community method” summarizing “spill over” effect mainly includes a process as follows (Rosamond 2000, 51-52): First, two or more countries decide on working in a defined economic field. Second, a supranational authority is formed to be responsible for regulation of the given economic sector. Third, integration in one sector is assumed to create a “functional pressures” for other sectors through which integration gains momentum and the role of nation states starts to dismantle. Fourth, social interest groups start to engage in increased transactions, thus resulting in shifting of their loyalties from nation-states towards supranational center which is more capable of fulfilling human needs. Fifth, a powerful supranational center becomes necessary as a result of “deepening economic integration”. Finally, economic integration is postulated to engender political integration. In short, it is plausible to say that the ultimate point for neofunctionalism is the creation of a federal Europe.

As the shift towards political union becomes an important issue in parallel with neofunctionalist premises, citizens’ attitudes on the EU and their royal connection with the union turned into a significant issue (Ertuğrul 2001, 148). In this light, the idea that neofunctionalism already reached its saturation point, necessitating the promotion of

common cultural notions was mainly voiced especially during 1990's (Ertuğrul 2001, 149). As Ertuğrul (2001) puts forth, the EC (then the EU) had already concerns about the 'lack of popularity'. 1984 European Parliament elections with 60% participation level required the Community to focus on issues such as 'image' and 'identity' of the Community (Ertuğrul 2001, 150). Moreover, the Eurobarometer Surveys conducted during 1990s revealed an important gap between citizens and the Union. To illustrate, according to Standard Eurobarometer 47, only 5% of the EU population feel "only European"; 45 % of people identify themselves with "only national identity"; 40 % of the EU population identify themselves with "first national identity then European" and 10% of the people prefer to define themselves with "first European identity then national identity" (Ertuğrul 2001, 149-150). These empirical findings were conceived as the existence of a wide gap between the Union and its citizens and brought about the problem of legitimacy, whose reason was mostly seen as an outcome of inadequacy of neo-functionalism in the extant literature. To illustrate, Laffan (1996) argues that "Monnet method of integration" reached its saturation point, and there is an urgent need to construct a "stronger sense of community" as a requirement of political entity. Moreover, the nature of the problem of 'legitimacy and democracy' stems from "weakness of politics", "problem of accountability" and "weakness of political community" (Laffan 1996, 93-95). According to Laffan, there is a lack of 'public sphere' in the Union as a cause of "technocratic impulsion" and "intergovernmental bargaining", which are not characteristics of democracy but rather of diplomacy (Laffan 1996, 93). Moreover, the term "Europeanization" seems to be stuck at "public policy-making level", thus does not spread and encompass the realm of politics (Laffan 1996, 93). Secondly, the decision-making structure of the Union is not transparent in the sense that "The Council meets in secret and is not collectively accountable at the EU level. Informal politics, and backroom deals between the three policy-making institutions characterize the process" (Laffan 1996, 94). Thirdly, since the Union heavily focuses on the economic integration based on the common market, there is much less reference to the realm of 'political' (Laffan 1996, 95).

All in all, what is suggested here is that without introducing any new element to existing (common) market, solution of legitimacy crisis relies upon institutional changes together with building a common identity among the people in the Union. There are several

problems regarding this line of approaches. First of all, neo-functionalist model of integration assumes a linear progress both in terms of political and economic union without considering the complex and uneven nature of capitalist development. Secondly, even though it is made references to role of ‘interest groups’ in the integration process, as Apeldoorn et al. (2003, 22) point out, the power relations between different actors are not clearly defined in the way in which it is hard to detect “why some groups are more powerful than others and may thus be more successful in setting the agenda of European integration”. Thirdly, critiques to neo-functionalist model seems to be limited to institutional and decision-making structure of the EU in terms lack of accountability, transparency, and democracy due to its technocratic and bureaucratic nature. However, by putting ‘institutional’ structure of the EU at the center of the analysis, the critiques concomitantly establish an extrinsic relationship between the institutions and society. That is, the issue turns into the problem of bureaucratic and technocratic elites who stand above society separately and make autonomous decisions regarding their objectives. In other words, they seem to persist in taking institutions as the basis of social life and reality. Instead, it is essential to have a holistic approach which put the European integration process into a historical perspective by stressing social relations of forces under capitalism and its contradictions along with structural features and how it evolved to a point where neoliberalism faces a legitimacy crises at the EU level as well.

#### **4.2. European Integration, Maastricht and the EMU: Neoliberal Governance in the EU and Sources of Its Legitimacy Crisis**

The initial steps towards European integration starting from the establishment of European Coal and Steel Community (ECSC) in 1951 and later European Economic Community (EEC) with Rome Treaty in 1956 were mainly conceived as elite-driven and technocratic project under the impact of important elite figures such as Monnet and Schumann. This project presumes that economic integration among multiple nation states in one sector would eventually ‘spill over’ to other sectors, thus resulting in political union as an ultimate political goal to reach common European federal state. Despite the fact that the

role of elite figures and technocrats in shaping the political agenda of European integration, it is still necessary to have a historical and holistic perspective which would go beyond locating the European integration as merely elite project. In this regard, what I put forth is that history of European integration should be perceived as history of European capitalism as well. As Jessop (2014, 249) assert, ECSC initially consisted of different versions of ‘regulated capitalism’ of six countries which were organized through either ‘social democratic’ or ‘Christian democratic’ Keynesian welfare policies. Despite varieties in economic structure and governance of different member states, it can be said that Keynesian policies remained their impact in Europe. The creation of common market also functioned within the framework of relatively protectionist environment but customs union along with elimination of tariffs and other barriers within the Community undoubtedly increased trade and economic activities among member states and paved the way for fruitful conditions for capital accumulation in Europe (Albo and Zuege 1999). However, the crisis of 1970s brought about a ‘persistent stagnation’ in Europe together with high level of unemployment (Albo and Zuege 1999, 105-106). It is also the same period when German Bundesbank started to implement strict monetary policy to maintain Deutsche Mark strong; however, the general fall in ‘world trade growth’ inevitably affected Germany’s export-oriented economy, resulting a decline in exports and growth, ‘low profits’ and increase in unemployment in Germany as well (Albo and Zuege 1999, 106). Moreover, after the collapse of Bretton Woods system, management of different currencies in Europe turned into a central problem despite the creation of European Monetary System (EMS) aiming to prevent fluctuations of different currencies (Albo and Zuege 1999, 106). In this regard, as Albo and Zuege (1999, 107) assert that relaunching of European integration process with Single European Act (SEA) cannot be thought independent from the “impasse of European capitalism” and the context of globalization. In other words, it is not plausible to see the neoliberal turn in the European integration process with SEA as a solely success of Thatcher’s state craft (see Moravcsik 1994) but rather it is necessary to see it as a new phase of European capitalism aiming to adapt itself to the conditions of globalization.

Here, two important points need to be made regarding the European integration process before delving into the details of SEA and neoliberal turn in Europe. Firstly, despite

elitist and technocratic-laden character, different social and economic forces whose interests clash with each other have been trying to affect, stretch, use and ‘exploit’ the European integration project based on their own political-economic agenda (Jessop 2014, 249). This in turn means that integration process is closely interlinked to power relations in society rather than societal forces’ being totally directed and encompassed by autonomous institutions. In parallel with this, secondly, the most powerful and visible societal actor since the 1980s has been ‘transnational capitalist class’ from different economic sectors in Europe (Apeldoorn 2014). In this sense, neoliberalisation of Europe also went hand in hand with rising influence of globalized and transnational segments of European capitalist classes in setting the agenda of European integration process. As Apeldoorn (2014, 190) touches upon, its roots can be traced back to the aftermath of crisis of 1970s when ‘European capital’ was aiming to benefit from European market to increase its competitiveness. According to this logic, European integration already reached its saturation point in terms of its being limited to trade; therefore, a new outlook for European integration around creation of a single market was seen essential for European capital to compete with Japanese and American transnational corporations (Apeldoorn 2014, 190). It is this point where SEA provides the most comprehensive approach to creation of full-fledged internal market until 1992 “in which free movement of goods, persons, services and capital is ensured” (Single European Act 1987, 7). Elimination of non-tariff barriers along with enabling full mobility of capital, SEA was the first step towards neoliberalisation of Europe in light of “more market, less state”, which was also the main motto of Helmut Kohl’s new right government strongly adhered to principles of SEA and Maastricht (Menz 2005a, 41).

European Round Table of Industrialists (ERT) which was established in 1983 was the most important adherent of this neoliberal outlook as ‘policy-planning body’ of ‘European capitalist class’, comprised of approximately 45 CEOs and chairpersons of multinational corporations in Europe (Apeldoorn 2014, 190). The companies in the ERT was the most globalized and transnational segments of European capital and has been an important actor for articulating the interest of European capital into coherent political strategy along with its ‘agenda-setting’ character in shaping institutions of European Union (Apeldoorn 2014, 190-191). To illustrate, ERT called for the Economic and Monetary Union and single currency

even before the Maastricht Treaty was signed (Apeldoorn 2014, 192). The report published by ERT in September 1991 pushed for “an open market, based on free and vigorous competition, with a minimum of government interference” with an ‘innovative, entrepreneurial and competitive environment’ (ERT 1991, 42) General tune of the report problematizes the role of the state in an economy and prioritizes ‘price stability’ and ‘discipline on public finance’ under a single currency (ERT 1991, 47), which will later on constitute the main premises of Maastricht Treaty:

“Governments must commit themselves to the necessary pre-conditions – a firm stance against inflation, a total ban on the monetary financing of budget deficits and a steady convergence of economic policies- and they must accept binding disciplines to give credibility to these objectives” (ERT 1991, 47)

Within this framework, it is possible to see Maastricht Treaty and EMU as institutionalized form of neoliberalism at the European governance level (see Gill 1998). This institutional structure is governed by what Gill calls “New constitutionalism”, which tries to “separate economic policies from broad political accountability in order to make governments more responsive to the discipline of market forces” and concomitantly “less responsive to popular-democratic forces and processes” (Gill 1998, 5). Protection of property rights and investments along with imposing “market discipline” on state and labor to create the most suitable environment for “private investments” are the central features of “new constitutionalism” (Gill 1998, 5). By introducing tight “fiscal discipline” and signaling a single currency in Maastricht, it is aimed at increasing the “credibility to governments and confidence to investors” (Gill 1998, 8). This is where the notion of ‘independence of central banks’ came to forefront to isolate monetary policy from political process to target the inflation. However, it also brought about the problem of accountability and democratic deficit in economic policy in the sense that weight and political impact of technocrats, ‘central bankers’, mainstream economists and ‘financial administrators’ whose interests cannot encompass the interests of social forces turned into the key figures of neoliberal governance (Gill 1998, 17). It is also my argument that main sources of legitimacy crisis of neoliberalism and neoliberal EU lies on its anti-democratic character by excluding labor and other social forces while constantly producing policies in light of ‘business as usual’ logic. This

neoliberal outlook institutionalized in Maastricht Treaty can be summarized by economist Richard Cooper's (1994) own words as such:

“Maastricht...creates a body of Platonic monetary guardians, accountable to no one, to frame and execute one of the most important aspects of policy in modern economies, affecting hundreds of millions of people. This was done in the name of insulating monetary policy—and its primary objective of price stability—from political pressure, and of endowing the new European central bank with political independence” (quoted in Gill 1998, 17)

While this rationale insists on implementing austerity policies on the masses, the main concern has mostly been stability of investments of business. The fact that Maastricht Treaty put the strict criteria on public deficits of member states as being maximum 3 percent of their GDPs has been the most well-known expression of austerity policies and seen essential to create suitable environment of investments in Europe. In other words, EMU and Maastricht are also something beyond a path towards political union as neofunctionalism presumes. They mainly referred to the neoliberal restructuring of European governance by “introducing ‘marketization’ into “new areas of social life” (Apeldoorn 2009, 27).

Throughout 1990s and early 2000s aforementioned neoliberal outlook was not able to generate effective economic growth given the persistence of high level of unemployment and recession, resulting in worsening economic conditions of labor in Europe (Apeldoorn 2014, 194). In this respect, Lisbon Agenda's amalgamation of ‘social cohesion’ and ‘competitiveness’ could be seen in parallel with Third Way's symbolic emphasis on labor and as containment strategy within neoliberal outlook. The emphasis on ‘competitiveness’, ‘active employment policy’, ‘lifelong learning’ and ‘social inclusion’ were the key concepts drawing the framework of deregulated and flexible labor market (Commission of the European Communities 2002), which were also the central themes of Third Way that I analyzed in the previous chapter. In this sense, Lisbon agenda ‘repacked the old message’, which is essentially neoliberal even though labor seemed to be included in the form of ‘social cohesion’ (Apeldoorn 2014, 195). Furthermore, more liberalization (thus ‘competition’) on ‘gas, electricity, postal services and transport’ are promoted the European Council's meeting in Lisbon in 2000 (The European Council 2000). Therefore, as Apeldoorn puts (2009; 2014), ‘social cohesion’ in Lisbon aimed at adjusting labor to the conditions and requirements of

global competition. This is also what it makes essentially neoliberal rather than including the labor into the agenda. The consequence was continuing demise of welfare state and its provisions under the supremacy of supranational market in which

“[...] the only national options which remain freely available under European law are supply-side strategies involving lower tax burdens, further deregulation and flexibilization of employment conditions, increasing wage differentiation and welfare cut-backs” (Scharpf 2002, 649; quoted in Apeldoorn 2009, 26).

When aforementioned notions of Lisbon agenda were turned into constitution draft and put in front of the citizens, ‘No’ votes in France and Netherlands reflected the discontent towards the EU’s neoliberal agenda and its institutions. This also moved the discussions on ‘democratic deficit’ and ‘legitimacy deficit’ into a new phase in terms of the gap between the EU and its citizens. As Apeldoorn (2009) points out, it was an outcome and expression of ‘multi-level legitimacy crisis’ at European governance level. The emphasis on ‘social’ suppressed by ‘competitiveness’ was not able to receive the consent of labor, leading especially working population to detach from the EU and its institutions (Apeldoorn 2014, 194).

In what follows, 2008 financial and sovereign debt crisis in Eurozone accelerated the legitimacy crisis of neoliberalism in Europe. Since the details of this crisis would go beyond the limits of this thesis, its possible effects on people and relationship between the legitimacy crisis occurred at the European level will be scrutinized. Several points need to be raised here. First, 2008 Eurozone crisis is the crisis of neoliberal economic policies and governance caused by structural crisis-laden nature of capitalism. Secondly, the debt crisis observed in the peripheral countries of Europe was originally caused by ‘uneven development of European integration process’ rather than those countries’ insufficient fiscal policies (Apeldoorn 2014, 195-196). Conversely, 2008 global crisis has originated as a crisis of “free market” in advanced capitalist countries rather than as a result of state failure (Yeldan 2009, 2). Third, solutions to the crisis strictly remained within the realm of neoliberal policies, meaning that a ‘paradigm shift’ has not been observed in the process of crisis management. In this regard, more neoliberal structural reforms and austerity policies were introduced especially to the peripheral countries to ‘save the euro’ and to maintain the sustainable

environment of investments (Jessop 2014). In addition, rescue policies were formed under the influence of Germany which highly benefited from single currency as an export-oriented country (Apeldoorn 2014, 196) <sup>17</sup>. Fourth, to the extent that no alternative policy option other than neoliberal prescriptions was observed in terms of dealing with the crisis, 2008 crisis was ‘crisis in neoliberalism’ but not ‘crisis of neoliberalism’ (Saad-Filho 2011). In any case, the crisis contributed to deepening and widening of legitimacy crisis of neoliberal governance at European level given the crisis made a considerable impact on millions of people. This was also observed in public attitude on the crisis in Europe. According to the results of Eurobarometer Survey 79.2 conducted under theme of ‘Internal Market’, participants were asked to share their confidence level towards certain institutions after the financial crisis. In Germany, 57 % of people stated that their confidence towards ‘EU Institutions’ decreased. In EU level, this ratio is 55 %. In the same survey, 70% of people in Germany declared that their confidence level decreased towards ‘the Financial Industry’. At the EU level, this level is 63 %. Finally, 66 % of the people in Germany said that their confidence towards ‘Credit Ranking Agencies’ decreased, while the ratio is 54 % at the EU level (Eurobarometer Survey 79.2 2013,4). This particularly shows that there is a growing discontent towards main anchors of neoliberal governance in Europe and these actors are also conceived as the roots of the crisis.

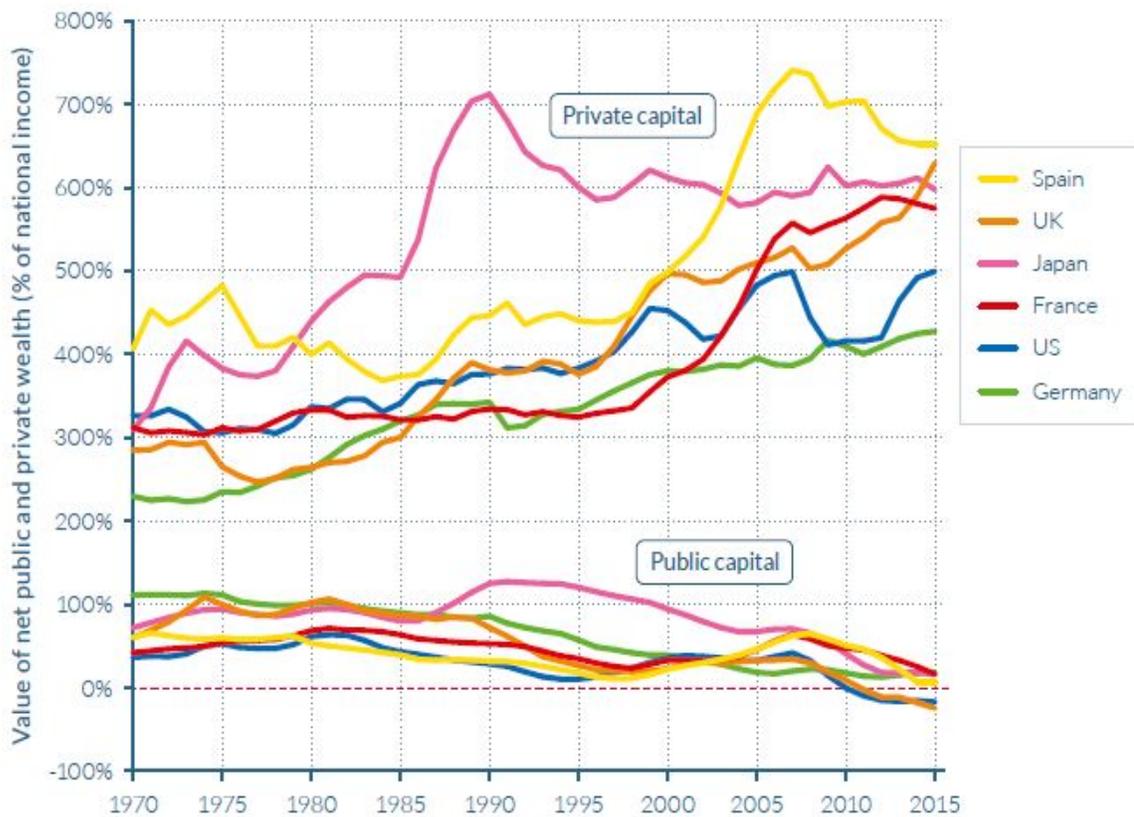
Insisting on neoliberal policy prescriptions even after 2008 global crisis based on ‘business as usual’ also found its reflection on the rising inequality among the richest and the poorer. As recently released World Inequality Report (2018) indicates that there is a widening gap between “public capital” and “private capital” and , the increase in privately own capital is understood as an indicator of rising in “wealth inequality among individuals” since it impedes government from coping with the high level of inequality especially in terms of ‘redistributive’ policies (World Inequality Report 2018, 10-11). In addition, it can also be regarded as the fall of public interest vis-à-vis the private interest. The report also emphasizes that while national wealth has significantly increased in ‘developed’ countries, the public wealth has been “negative or close to zero” (World Inequality Report 2018, 10). Even though

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<sup>17</sup> The argument originally belongs to Costas Lapavitsas who has valuable studies on financialization and Eurozone crisis. For further detail, see Lapavitsas 2012.

Germany has been usually regarded as exceptional in terms of relatively low level of income inequality, the decline in public capital from 1970s onwards in fact expresses the impact of neoliberalism and globalization on the country, which was analyzed in detail so far. This is also indicated by uneven distribution of wealth in Germany, meaning that while the poorest 50 percent of the population only share 2.26 percent of the wealth, share in wealth of wealthiest 10 percent of the population is 63.83 percent (see Figure 4.2) <sup>18</sup>.

Figure 4.1: Private capital and Public capital between 1970-2015<sup>19</sup>

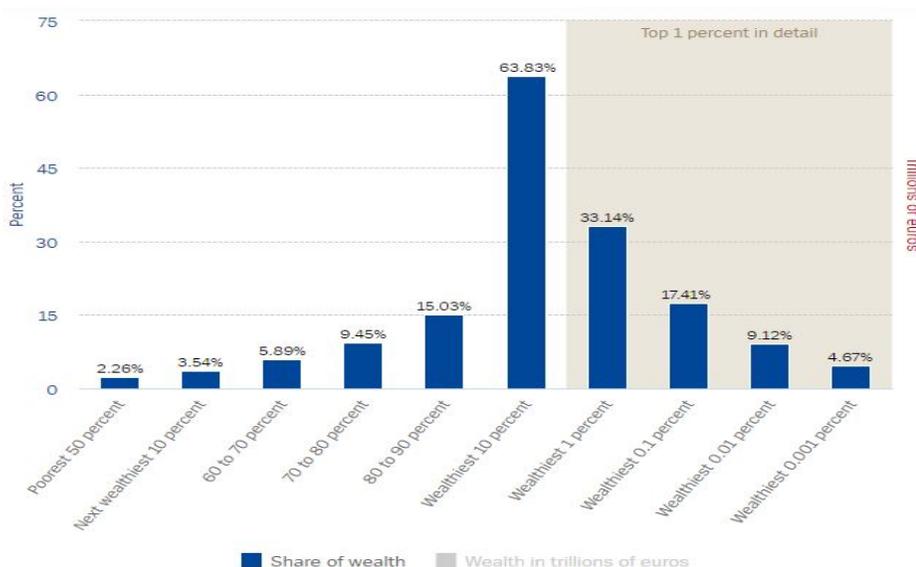


<sup>18</sup> The data is visualized by Spiegel Online based on the original data released by German Institute for Economic Research (DIW)

<https://www.spiegel.de/international/business/inequality-and-wealth-distribution-in-germany-a-1190050.html>

<sup>19</sup> Source: World Inequality Report (2018)

Figure 4.2. Distribution of wealth in Germany (2014) (by household) <sup>20</sup>



It is my thesis that these developments cannot be analyzed apart from the impact of single market, EMU and neoliberal governance of the EU on the retrenchment of welfare state. This in turn brings about detachment of the masses from the EU's policies and institutions, thus increases the probability of Euroscepticism. This constitutes the main reason why I analyze the legitimacy crisis of the EU on the basis of legitimacy crisis of neoliberal governance at the EU level. Given that implementation of monetary and austerity policies is the most sensitive policy areas effecting lives of many people, it constitutes the most intensive level of "vertical integration" namely "supranational centralization" which indicates the weight of supranational authorities of the EU on this area even though "differentiated integration" is preferred terminology to describe the institutional structure of the EU (Leuffen et al. 2013, 13-15). Consequently, it makes the EU as the most responsible political actor of neoliberal governance at the European level. However, the issues related to monetary policy or other austerity measures are the most exclusive topics on which public

<sup>20</sup> Source: Original data belongs to German Institute for Economic Research (DIW). The chart was retrieved from Spiegel Online.

'A Look at Germany's Extremely Unequal Wealth Distribution'

<https://www.spiegel.de/international/business/inequality-and-wealth-distribution-in-germany-a-1190050.html>

attitude is rarely assessed by the EU. In this sense, Haverland et al. (2018) analyze the ‘Special Eurobarometer Surveys’ conducted by the Commission in order to assess to what extent the EU’s one of the key executive organs take public opinion taken into account (Haverland et al. 2018). In this regard, they found that significant amount of Special Eurobarometer Surveys was conducted on the topics falling under the EU’s “shared competences” whereas there are only limited number of Special Eurobarometer Surveys on the topics which are under the rubric of the Union’s “exclusive competences” such as competition and monetary policy (Haverland et al. 2018, 334-335). In addition, they concluded that ‘business-friendly’ DGs are on average five times less likely to invite public opinion than NGO oriented DGs” in light of their analysis on conducted surveys (Haverland et al. 2018, 342). What these findings indicate is that citizens’ ideas and attitudes on critical components of neoliberal governance such as EMU and single market are excluded by the EU; as a result, the more citizens detach themselves from the Union’s stance, policies and institutions.

### **4.3 The Rise of AfD as an Outcome of Legitimacy Crisis of Neoliberal EU**

Transition to neoliberalism in Germany coincided with the premises of SEA, EMU and Maastricht in the sense that demise of the structure of the welfare state has been mostly taken place by restructuring of German state towards more market-based entity. Delegation of monetary policy to supranational EU with a strong emphasis on ‘independence of central banks’ also brought about strict budget control and anti-inflationary policies which do not prioritize the issue of unemployment. Furthermore, EMU’s clear-cut separation from political accountability implicitly means that ‘there is no alternative’ except implemented monetary policies, thus resulting in an increase in discontent of citizens, especially who are socio-economically deprived as a result of such policies. The wide gap between the Eastern and Western part of the Germany in terms of economic development is one of the most important factors affecting the popularity of AfD in the East Germany in the absence of a

strong left-wing politics. Here, it is not possible to say that the East German people are favoring AfD *per se* but rather the problem stems from peoples' vulnerability towards the overarching discourse of the party and citizens' growing discontent towards other established political parties.

As stressed above, even though AfD does not have an alternative economic policy which can successfully decrease the level of unemployment and inequality in the country, it succeeds in mobilizing the people by catching their attention to the other topics such as immigration through exploiting their anxieties and other sensitivities. In this regard, the party's official program clearly indicates that AfD does not propose any alternative economic model against neoliberal policies, instead the party's economic stance revolves around the notions such as 'competitiveness' and 'hallowing out of state' from economic sphere (Manifesto for Germany 2016, 66-67)

Because of the fact that since the unification almost all the governments introduced 'cut-backs' in welfare policies, which is totally in line with EMU and Maastricht, the gap between both citizens and the country/EU get widened. In this sense, while SEA, EMU and Maastricht aimed at 'economic integration' both in Germany and in the EU in line with neofunctionalism, its drawbacks significantly increased due to the contradictions and uneven nature of capitalism. Instead, uneven distribution of wealth and inequalities increased due to 'business as usual' perspective pursued by German state and the EU. This gap was tried to be resolved by either raising the 'Common European identity' or increasing the power of European Parliament without introducing any change in the logic of 'common market'. In this regard, in the absence of strong left-wing alternative, the support to AfD refers to both citizens' discontent towards other political parties<sup>21</sup> and legitimacy crisis of neoliberal governance in both Germany and the EU. Therefore, the only reason behind the success of AfD cannot be reduced to Merkel's refugee policy but rather there is the necessity of historical analysis of Germany's experience with neoliberalism starting from late 1980s. At the same time, critical political economy approach proposed in this thesis does not totally

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<sup>21</sup> Cas Mudde is correct in defining the relationship between AfD and its supporters as 'weak' since to some extent it reflects the discontent towards other mainstream parties as well.

'What the stunning success of AfD means for Germany and Europe' by Cass Mudde

<https://www.theguardian.com/commentisfree/2017/sep/24/germany-elections-afd-europe-immigration-merkel-radical-right>

exclude the impact of refugee crisis. In fact, there are arguments which designate how German business benefits from the recent influx of refugees to the country although there is still need for further research.<sup>22</sup> Hence, the recent refugee crisis is also internally linked to the continuation of neoliberal logic in the sense that Germany's low level of birth rate together with its need for skilled labor supply are main rationale behind insisting on 'Refugees Welcome' policy.<sup>23</sup> In this light, it could be argued that integration of refugees to the German labor market is also compatible with deregulated and flexible labor market with low-wage sectors which has been one of the intentional outcomes of gradual transition to neoliberal policies in the country. Concurrently, it accelerated the level of discontent among citizens who are already socio economically deprived and led them to move towards AfD in the absence of strong left-wing alternatives. Although there is no iota of difference between the party's economic proposals and neoliberal economics, AfD nonetheless succeeded in mobilizing these people while strategically manipulating the issue in its discourse.

What is more, on the recently conducted European Parliament (EP) Elections 2019, AfD maintained its power by receiving 11 percent of the votes.<sup>24</sup> Identity and Democracy (ID) group which is composed of various extreme right parties in Europe including AfD was able to win 73 seats in EP, just after the Greens having 74 seats. On the other hand, EP elections revealed that SPD (15.80 %) and Die Linke (5.5 %) in Germany continue losing power while the Greens reached 20.5 percent of the votes. Even though it is too early to make an evaluation on this political picture, what is clear is that center of the left (particularly social democracy) constantly loses its power while other non-mainstream political actors such as The Greens and AfD come to forefront in German political structure. In that regard, it can be argued that the new political situation will have inevitable implications for ongoing legitimacy crisis of neoliberalism along with the weakening of center right and center left actors, which can be an important focus for future research.

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<sup>22</sup> 'Why German Business Supports, Trains, and Hires Syrian Refugees' <https://hbswk.hbs.edu/item/why-german-business-supports-trains-and-hires-syrian-refugees>

<sup>23</sup> Ibid.

<sup>24</sup> '2019 European elections results' <https://election-results.eu/germany/>

## 5. CONCLUSION

This study provided historical and holistic approach to the rise extreme right in Germany in case of AfD. In doing so, I firstly aimed at bringing a scientific explanation which can go beyond the impact of refugee crisis on the recent success of AfD. Secondly, I problematized the stance of mainstream literature on populism locating populism as an external threat to the liberal democracy. At the same time, I eschew conceptual ambiguities in terms of finding correct adjective for AfD such as populist and neofascist. Instead, I focused on the historical, material and conjunctural reasons behind this momentum. In any case, the object of inquiry is the same for literature on populism, which constituted the main reason why I took its problematic assumptions between populism and liberal democracy as the departure point of this study.

Instead of establishing an external relationship between populism and liberal democracy, I argued that rise of AfD is an internal outcome of liberal democracy in Germany. While the mainstream approaches attribute ontologically distinguished characteristics to political and economic realm, I claimed that neoliberalism is an indispensable constituency of Germany's liberal democratic order. In today's conjuncture, I claim that neoliberalism has been facing an ongoing legitimacy crisis both at the EU level and in Germany which constituted the main source of AfD's mass support. Through a critical political economy approach, I showed that how neoliberalism has affected state and society/state-capital-labor relations in Germany starting from German Unification in light of 'business as usual' aspect. The most visible effect of this process has been the demise of welfare state and its restructuring based on the superiority of market relations. One of the consequences of this was weakening the political and economic power of organized labor along with attenuation

of class-based politics vis-à-vis enormous strength of capitalist class. Since the German Unification, impact of neoliberalism had made huge impact on people living in East Germany such as deindustrialization and mass unemployment. What is more, it ossified the social and political distinction between the East and the West, creating the long-term problem of societal integration. In the aftermath of unification, SPD-Green coalitions accelerated the neoliberalisation process through promoting labor market flexibility and competitiveness together with restructuring of the state in line with these principles. While these developments provided beneficial conditions for capital accumulation, its costs on working and unemployed people have been remarkable. All of this process has been accompanied by EU's neoliberal outlook which made an important impact on the retrenchment of welfare state. Especially governance structure of the EU after Maastricht Treaty and Economic and Monetary Union created an anti-democratic framework in which enabling available conditions for business investments turned into the main concern. This in turn means that important part of society and its democratic demands are not taken into consideration at the EU level. More importantly, the impact of EMU put the states in a position where they cannot deal with rising inequalities, unemployment and poverty due to the supremacy of supranational market. This in turn caused a growing discontent towards the EU given its explicit 'business as usual' aspect, resulting in the emergence of legitimacy problem for the neoliberal EU. Given that all the established political parties introduced constant welfare-cuts, more marketization and deregulation in line with neoliberalism, support to AfD by people exposed to negative impacts of neoliberal policies could be read as an outcome of legitimacy crisis of neoliberalism in Germany. Although the party is not anti-neoliberal stance, the mass support also refers to a sort of punishment mechanism for other main parties in German political structure. Considering the lack of strong left-wing alternative, AfD was able to mobilize the anxiety and discontent of the masses. In this respect, it is noteworthy to repeat that all of these developments occurred within the institutional and political boundaries of liberal democracy in Germany. Therefore, the rise of AfD should be read as an internal outcome of liberal democracy as well.

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