Assessing the Effects of the European Union and the Economic Integration Process on the Rhineland Model of Capitalism: a Case Study of the Structural Change in the German Telecommunication Services Sector

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Introduction

With the advent of such landmark events as the Single European Act (SEA), European Common Market and the European Monetary Union (EMU), the European Union (EU) made considerable gains in terms of political authority and respect among member countries after years of "Eurosclerosis" and lacklustre enthusiasm. The EU has not only re-emerged as a supra-national force to be reckoned with seriously in West European political decision-making, it is also beginning fundamentally to re-shape and restructure basic parameters of the economic, social and political configuration of member states. In the mid-1990s the EU seems to serve as a considerable source and in fact catalyst for policy changes in at least two different ways:

1) By forcing the participants of the EMU to meet the convergence criteria set forth in the Treaty of Maastricht (which imposes among other things strictly constrained levels of inflation and public deficit), many member states have been led to introduce austerity measures to curtail public spending and to contemplate drastic reforms of the respective social welfare system typical for continental European countries.
2) By compelling member states to open formerly tightly regulated sectors of the economy, often dominated by state-owned enterprises which maintain monopolistic or quasi-monopolistic market structures, the structure of the economy of many continental member states is modified considerably.

The EU thus seems to serve as a catalyst for deregulatory reform within continental Europe. Judging by its de facto commitment to "more market", liberalisation and de-regulation, EU policy seems to embrace more closely the normative values informing the Anglo-Saxon model of capitalism than those of the Rhineland or Alpine "corporatist" model. Does the EU thus in effect take sides in what might be deemed a clash between "Capitalism versus Capitalism" (Albert, 1993)? Will this more neo-liberal orientation which the EU seems to adopt mean an eventual shift of the Rhineland countries to a structure closer to the current Anglo-Saxon model?

In this essay, I want to attempt a preliminary assessment of change in the corporatist social and economic structure of Germany, brought about by the European unification process. The scope of this paper will be limited to the telecommunications sector. As will be outlined, this sector is a both fascinating and suitable case to study this process of market reform. I begin with a brief introduction to central underlying tenets of the German corporatist Rhineland model. I then present three hypotheses on the reconfiguration of the fundamental structure of "German Capitalism" (Streeck, 1996). In the third and final section, these hypotheses are applied to the drastically altered and newly structured telecommunication market in Germany.

I. Introducing the "Rhineland" Model of Capitalism

Traditionally, scholars of post-war (West) German society and economy have been inclined to characterise the fundamental principle of structural organisation in Germany as that of corporatist governance (Streeck 1992, Scharpf 1991). This governing principle is often seen as a keystone to the so-called Rhineland model of capitalism. The term corporatist governance industrial relations. It is characterised by close coordination between political parties, unions, industry associations and the constituents and interest groups they supposedly represent.

Fritz Scharpf provides a useful definition: "Neocorporatism implies specific organisational structures of unions and employer associations, specific types of industrial relations, and specific relationships between the 'social partners' and government policy makers." (Scharpf, 1991). Wolfgang Streeck emphasises that "widespread organized cooperation among competitors and bargaining among organized groups, conducted through publicly enabled associations", helps to generate "state-enabled collective action and quasi-public, 'corporatist' group self-government" (Streeck, 1996).

The term Rhineland model is commonly used to describe the particular brand of capitalism found not exclusively in the Federal Republic of Germany, but other continental European countries as well. Michel Albert includes Austria, Switzerland and to some extent the Netherlands, in the category of Rhineland capitalism which he defines as based on "mutuality and shared responsibilities…all countries are invited to participate in company decision-making: shareholders, employers, executives and trade unions alike cooperate…to achieve a unique form of joint management". He points to the principle of co-determination (*Mitbestimmung*) which encompasses this mutual decision-making process (Albert, 1993). Notably, he does not include France or Italy in this list, even though "the similarities between France and Germany are important…for [a] debate about the…viability of the Rhineland model" (Davidson, 1997). But other scholars emphasise such differences and would prefer to place France in between the Rhineland and the Anglo-Saxon model of economic governance (Woolcock, 1996). France does indeed seem to have a slightly differently organised economy, even though a history of centralised planning, "plannification", and a proactive role of government (Grosse and Lüger, 1994; Adams and Stoffaës, 1986) obviously betrays a certain ideological affinity towards the spirit of the Rhineland model.

Austria constitutes a more strictly corporatist model than does Germany (Heinisch, 1998, Scharpf 1991). In using the term Rhineland model, a clear distinction is being made between the underlying economic structure of most of continental Europe and the Anglo-Saxon countries.

Woolcock (Woolcock, 1996) emphasises the different means of obtaining capital employed by companies. This is done through equity finance in Anglo-Saxon countries and less speculative and more committed long-term bank loans in the Rhineland countries (though this may begin to change (Marsh, 1996)). This subsequently means a more short-term profit orientation of Anglo-Saxon investors.

These fundamental differences in financing and banking systems are paralleled in industrial and labor relations. While in the Anglo-Saxon countries (and the US in particular) the level of wages is supposedly determined by market forces and more often than not by confrontational encounters between employers and unions, German capitalism stresses "co-determination" of workers by representation in workers' councils (Streeck, 1992; Katzenstein, 1987). These workers councils (*Betriebsräte*) serve as a forum in which an equal number of representatives of management and employees are included. They have to be consulted in central management decisions regarding among other issues, personnel, safety and environmental decisions (Streeck, 1992).

A higher level of job security gained through co-determination and rigid job protection laws also led to a lower turn-over and higher loyalty towards the employer. Anglo-Saxon countries are characterised by much more labor mobility within a given industry (and, in the case of the US, in the geographic sense as well), or even between several different professions.

In Germany, such drastic career changes are fairly unusual. Criticised by some for its inflexibility and praised by others for the high standards of education it fosters (Davidson, 1997), the dual-track system of apprenticeships (Katzenstein 1987, 1991) and polytechnic do not offer guaranteed employment after successful completion, most do extend job offers to the young people in whom they have invested a considerable amount of money.

The unique structural form of German society and economy becomes clearer when one considers the emphasis on compromise, consensus and “co-determination” in political decision-making. This paper argues that this element of political culture partially owes its existence to two very different ideological complexes in German history. On the one hand, let us briefly consider the Bismarckian introduction of the first elements of a modern social welfare state following the rapid process of industrialisation in the second half of the 19th century. These reform measures, which Bismarck implemented after 1884 (Katzenstein, 1987), provided a system of health insurance, retirement schemes and insurance programs covering work-related accidents. Politically, they were clearly aimed at subduing and appeasing the strong working class movement. By cautiously addressing some of the demands made and applying a strategy of *divide et impera*, some of the pressing relevance of the Social Democrats’ political agenda had been taken away. From this it can be seen and understood that even an authoritarian and conservative government with little sympathy towards the working class per se felt the need to lend an ear to some of the voices from the lower end of the socioeconomic strata. The policy measures enacted laid the foundation of the modern welfare state in Germany. They clearly constituted a **compromise** between the more radical demands of leaders within the Social Democratic Party (SPD) on the one hand and on the other, what Bismarck deemed to be in the interests of the ruling class, notably composed of the Ruhr area industrial bosses and his own class, the East Elbian agrarian aristocracy.

Secondly, we must consider the compromise and consensus instituted into the post-war West German constitution and political system. This was not least a reaction to the experience of an extremely authoritarian and highly centralised Nazi regime. The Nazis had quickly abolished the Weimar federal system, with its power distribution among several layers of the polity. Thus, one of the central lessons learned from the experience of the Third Reich was to decentralise and disperse political power[1]. The idea was to institute a firm network of federal states (*Länder*)and local governments (*Kommunen*), which would be granted a substantial amount of leverage in political decision-making. Subsequently, both *Länder* and *Kommunen* would be able to limit the power a federal government could exert. Political power was more widely dispersed among several layers. The sphere of influence of the federal government was effectively curtailed to prevent the possibility of authoritarian abuse. In rough analogy to the US bicameral system of parliament, the German Upper House of Parliament *(Bundesrat)* was to include representatives of all 10 original *Länder* (not including Berlin - West).

The re-emergence of a multi-party system was encouraged. The process of coalition-building and in fact political decision-making within a given coalition was also to prove conducive to making compromise a principle element of political decision-making in the (West) German polity (Katzenstein, 1987).

Finally, post-war (West) Germany witnessed the re-emergence of a strong system of unions. Unions are organised by the section of industry they represent. On the level of macro organisation, an average of 39.4 percent of employees are unionised (Scharpf, 1991). The Federation of German Unions (DGB) serves as the central umbrella organisation of all unions. It helps to present a clear and unified position, supposedly incorporating the standpoints of all sector-specific unions (Katzenstein, 1991). I have described previously the principle of co-determination in labor relations; workers are supposed to be consulted in management decisions. Again, this can be seen - at least in part - as a reaction to the way in which concerns of the working class were crushed in the Third Reich. The monolithic, strictly hierarchical union *Deutsche Arbeiterfront* (DAF) the Nazis erected on the ruins of the independent unions they had outlawed was little more than a farce. It served as an additional tool in controlling and keeping in check the working class.

On the employers' side, there are three organisations worth mentioning. The German Association of Industry (BDI) is the central organisation in this regard, "representing the overall economic policy objectives of West German business" and includes about 90 percent of all firms (Katzenstein, 1987).

II. The European Union's Impact on the Rhineland Model - Three Hypotheses

In the wake of the recent acceleration of the European unification process, a central and intriguing question emerges. To what extent will the German system of corporative governance and the Rhineland model of capitalism be able to conform to the principles seemingly underlying and informing the former without losing central unique components (Streeck, 1996)? Will Germany indeed fit into a unified European economy? This question becomes more pressing when we consider the fundamental economic principles which seem to shape and determine the European Union (EU) in the sum of its economic policy. For reasons which cannot be examined in great length within the scope of this paper, the economic policy which the EU seems to endorse betrays the spirit of the global neo-liberal advocacy of more "market". The Common Market is supposed to be a "free" market as well. Its points of emphasis are on deregulation, market liberalisation and a much larger degree of competition than traditional continental European countries have allowed for.[2] Such principles are in stark contrast to the traditional form of economic ideology embraced by the Rhineland countries. According to the adherents of the so-called convergence hypothesis (Streeck, 1984; Windolf, 1989), the external pressures of outside competitors will force the Rhineland countries to modify the fundamental structure of their economy and industrial relations. The corporatist model is not well enough prepared to resist the pressures of these market forces. Is this thesis an accurate prediction of future developments? In this paper, three hypotheses in regards to the transformation of German Capitalism are being developed and then applied to the case study of the telecommunications sector.

1. Hypothesis: EU Does Serve as a Strong Agent of Change to Rhineland Model

The European Union, and more specifically the economic policy orientation it pursues, serves as an efficient catalyst for changes in the economic structure of its member states. It does so in two ways. In order for the member states to meet the stringent criteria for participation in the EMU as set forth in the Treaty of Maastricht, they are forced to implement a more austere approach towards government spending so as to control public spending, government deficit and the rate of inflation. This has the obvious important side effect of a reconsideration of levels of expenditure on social welfare programs and other forms of state interventionism. Additionally, member states have been privatising formerly state-owned enterprises and have radically re-conceptualised the appropriate role of government in the economy. Industries formerly considered part of the state controlled sector of the economy have been excluded from this sphere and quickly turned over to the private sector. Examples for this process can be found in the airlines industry, telecommunications and railways. They are by no means limited to Germany but include other continental European countries as well, such as France and Italy. Such measures have been regarded as useful tools in raising revenue for the state. However, this is obviously akin to "selling off the family silver" and is a one-time benefit only . On a more abstract level, such measures enhance the confidence of "the market", or rather the increasingly highly mobile foreign capital, in a given national government.

More specifically, the EU also introduces a more deregulated and competitive market environment in the economies of her constituents by the direction she pursues in her concrete directives and broader guidelines, the "White" and "Green" Papers. Competition is almost inevitably conceived of as a beneficial process which breaks up economically inefficient structures in the member states. In encouraging more competition and being opposed to structures and principles which have been a fundamental part of the identity of the economic model of some of the member states.

Key elements of the Rhineland model are in grave danger of being swept away. Some of the central tenets of this form of capitalism can easily be portrayed as distortions to the concept of a free market. Two examples will be cited.

We have seen how the notion of a consensus-based approach to decision-making is of pivotal importance in the Rhineland model. Employees are well organised within their individual sector-specific union which is part of a greater umbrella union organisation. The employers' side has an equally impressive system of institutional representation through the three key employers' interest associations. A system of co-determination through the institutionalised workers' councils allows for the inclusion of workers' concerns and voices in the final decision-making of individual companies (Katzenstein, 1987; Streeck 1992). Collective bargaining within individual sectors determines wages for the entire sector. Such a consensus-based system of industrial relations could be perceived as an unfair trade advantage - obviously wages are not determined by pure market forces alone. This Rhineland approach provides for a much higher level of leeway in setting the level of wages: unions might voluntarily agree to a wage freeze so as to avoid lay-offs or to receive higher wage increases in the future.

The current status of German banks allows them to conduct business in all branches of banking; they are not limited to certain sectors as in most Anglo-Saxon countries (Albert, 1993). This provides the advantage of companies raising their capital for new investment through bank loans rather than the more speculative short-term gain oriented stock exchange (Davidson, 1997). Rhineland banks are interested in a long-term profit from the loans they provide. They thus take a less hasty approach towards judging whether or not a company is worthy of credit. They are more likely to encourage the pursuit of avenues which promise higher benefits in the long run, but which may not lead to profits immediately. Bank representatives also often serve as advisers in business decisions or even sit on the board of directors of companies they support with loans (Albert, 1993; Smyser, 1992). This all-round status of Rhineland banks and the advantages which companies derive from it could also conceivably be portrayed as an unfair trade advantage and come under scrutiny from the EU.

2. Hypothesis: Public Perception of Costs over Benefits is Important

In the case study of the telecommunications industry examined in the course of this essay, public perception of benefits over costs plays an important role. More generally speaking, the way in which the trade-off between the two will be regarded by the public will become crucial towards an acceptance of a more competitive and less corporatist economic structure in Germany. It has been argued above that the EU serves to introduce a more market oriented environment. Below the point is made that acceptance of this transition will depend on the extent to which the changes will affect the fundamental social contract of German society.

More economic efficiency, which a deregulated "free entry" market environment promises, also makes the claim of providing lower costs to the consumer.[3] More specifically, the transition is one from a state-owned monopoly - which is free to determine the level of its service charges and indeed extent of customer service on its own - to a market environment of several competing firms. Such enterprises naturally will have to be concerned about staying competitive vis-a-vis others and thus will provide better customer services and lower service charges (Soltwedel, 1986).

However, these benefits to the consumer do come at a certain cost. In the traditional economic structure of Rhineland economies the state was able to deliberately choose to maintain a high level of personnel in the state-controlled sector. A considerable amount of social benefits and job security was extended to these civil servants. Indeed, the civil service sector was sometimes used by the government to counteract the impact of recessive business of job security, a promotion scheme more often based on seniority than merit, and a pension plan guaranteed by the federal government. This is not the stuff of which revolutionaries are made. In fact, though represented by a union (the German Federation of Civil Servants) civil servants were not allowed to go on strike (Katzenstein, 1989). Under such arrangements, the foundation for a stable, loyal and reliable middle to upper-middle class was established.

It is practically inevitable that lay-offs will be made as a result of the reforms of the state sector. In order to be both economically competitive in an open market and attractive to the ideological principles of potential investors, it will no longer be possible to uphold the principles outlined in the previous paragraph for a privatised company. It will also no longer be economically nor "ideologically" viable to do so.

Turning towards a more general level of analysis, let us consider in somewhat more detail the implications of this ideological changing of the guard. The corporatist ideal of *audiatur et altera pars* ensured that all constituents of society felt as if they had some impact in political decision-making beyond the more abstract exercise of power in voting. In the German case, Bismarck's introduction of social welfare measures can be somewhat cynically regarded as an attempt to placate and buy off the working class. However, the post-war arrangements which allowed the working class a bigger role in political decision-making stemmed from a genuinely more idealistic motive - or at least served to that effect. The strong position of unions, the principle of "co-determination" of employees through a system of company councils (*Betriebsräte*) and the re-emergence of a vocal Social Democratic Party all contributed to that same goal. The concerns of the lower end of the socioeconomic strata were thus substantially guaranteed.

In moving away from the traditional model of economic organisation, this emphasis on co-determination and compromise is waning. As long as public perception of the benefits of this process (in their most tangible form consumer benefits, greater choice of products , lower prices) exceed the costs of it, a relatively smooth transition of the economic structure of Rhineland capitalist states and Germany more specifically will continue.[4] However, this scale may eventually tip in a direction less in favour of more market, and for a variety of reasons: populist resentments, lower level of consumer benefits than expected, and soaring levels of unemployment. It is bound to do so if the reform process begins to attack and subvert the fundamental pillars of German social structure. German society is presently based on majority consensus and the inclusion of the various layers or classes in society (Geißler, 1996). Exclusion or marginalisation of the lower socioeconomic strata can also be conceptualised in economic terms. Those left behind economically are no longer able to participate fully in all aspects of life in a Western materialist society. The cuts in social welfare provisions in order to curtail public spending might have exactly this effect. Such cuts are currently considered as a solution to the problem of rising public debt in Germany. To the extent that such individuals will feel excluded from the political decision-making process, or more generally speaking, from participation in society as an autonomous actor, strong discontent and even civil unrest might be the result. A departure from the egalitarian Social Democratic welfare system would certainly constitute a step into the unknown, the consequences of which can only be speculated upon. Comparisons with Anglo-Saxon countries seem somewhat problematic given the unique political and historic configuration of the German welfare state (Albert, 1993).

3. Hypothesis: The Neo-liberal Group within Germany; Liberalisation as the price to pay for EU membership

The movement towards market deregulation, liberalisation and the privatisation of former SOEs is endorsed by only a small group of supporters within Germany. It is partially for this reason that it seems all the more appropriate to ascribe a fundamental role to the EU in inducing such changes. To talk about a "coalition" of adherents of the neo-liberal model of market organisation would clearly be a generalisation.

The small circle of "movers and shakers" who would like to break up the current economic structure in favour of a less regulatory and more market-driven environment are largely confined to a minority within the Free Democratic Party (FDP) and the German Association of Industry (BDI). The FDP has traditionally represented the upper-middle class, high-ranking civil servants, independent business owners and the self-employed (Zimmer, 1997; Katzenstein, 1989)[5]. Since its change of alliance towards the conservative end of the spectrum following the 1982 federal elections, it has endorsed a less-interventionist role for the state in the market. In practice, this has translated into support of tax cuts as well as an at least rhetorical commitment towards less regulation and privatisation of some of the enterprises within the state sector. Within the BDI, the concern about Germany's high level of wages and added labor costs (wage surcharges for health and social security schemes; *Lohnnebenkosten*) has given rise to some thought about an end to the current practice of collective bargaining between employers' associations and unions (Feld and von Furstenberg, 1989). Instead, market forces would be responsible for determining the appropriate level of wages (Stehn, 1994). However, within the FDP and BDI these individuals do not constitute a substantial majority. Moreover, there is very little inter-communication and, consequently, no neo-liberal "network" is likely to emerge in the near future. In fact, as revealed in this analysis, there is also no coherent reform plan which might be implemented by an equivalent to a German Thatcher - a figure also conspicuously absent from the scene. Rather, a patch-work of largely immature policy recommendations are being put forward.

The larger party within the current government coalition, the Christian Democratic Union (CDU/CSU), is very unlikely to alter radically its fundamental policy orientation and adopt a more neo-liberal course. As a successor to the Catholic Center Party (*Zentrumspartei*), the CDU/CSU is committed to Christian moral and humanitarian values. The party draws support from various different levels and classes of society (*Volkspartei*). Though it has traditionally been more closely associated with the interests of big business and the upper-middle to upper class, it also represents the traditional "Christian" conservatism of the lower-level civil servants and the agricultural sector. With such ideological roots and the relatively high level of electoral support in the more conservative southern *Länder* it comes as no surprise that the CDU displays quite a bit of commitment to retaining some level of egalitarian social welfare programs.

Chancellor Helmut Kohl and his government have traditionally displayed a rather half-hearted and mainly rhetorical commitment towards "more market - less state" (the slogan was heralded during the 1982 elections which swept a coalition of FDP and CDU into office). It may come as a surprise then, that this general policy orientation was dramatically reversed when it came to approaching the problem of dealing with the decrepit Eastern economy. On one level, though, "business as usual" prevailed in the expansion - perhaps premature - of the West German welfare system to the East. Similarly, West German unions helped as "missionaries" to introduce West German collective bargaining to the East. The collectively negotiated increases in wages for one entire industry might also have been less than suitable in an environment where - unlike the West - dramatic differences in levels of productivity between individual companies prevailed.

However, more importantly, following re-unification, a program of fairly radical privatisation was implemented in East Germany. The *Treuhandanstalt* ministerial agency in charge of privatising the formerly state-owned and managed enterprises sold these off to the highest bidder (Czada, 1996), often far below their market value. Another problem was the strategy of Western companies of taking the cream of the crop while the less competitive or less attractive companies, facing competition from the West, were bound for bankruptcy. This policy led to massive unemployment and an effective "de-industrialisation" of the East compete on equal footing with Western market players, East German industry collapsed. Among other reasons, this encouraged the resentment contributing to the considerable level of electoral support of the successor party to the East German Socialist Party PDS.

The negative experience with more market experimentation notwithstanding, a considerable amount of change to the corporatist structure of German economy and society is currently being introduced regardless, as a result of European economic integration.

The main hypothesis in accounting for this phenomenon is based on Chancellor Kohl's foreign policy orientation. More liberalisation, competition, de-regulation and more "market" in general is accepted by Kohl as the price to be paid for European unification. To this goal, which he has characterised as a "question of war and peace" (*Financial Times*), he sees no alternative option (Michelmann, 1997). He considers the aim of integrating and tying Germany into a unified Europe as the only possible and sensible policy orientation for the new millennium (*European Voice*).

In part, this orientation is shaped by the concern that any alternative approach would be perceived abroad - and could, in fact, turn into - another erratic and irrational return to German ultra-nationalism (*Sonderweg*). Very briefly, succumbing to changes brought about by outside forces and a gradual divergence towards the Anglo-Saxon model of capitalism might not least be the result of the lack of creativity a 16-year old government displays. The unwillingness even to lead a public discussion on the future of basic economic policy orientation might be one symptom of the exhaustion of creative capability.

III. **A Case Study: The Telecommunications Services Sector in Germany**

The radical transformation of the telecommunications service sector in Germany over the course of the last few years presents a fascinating opportunity to test and illuminate the three hypotheses about the impact of EU legislation on the German Rhineland model of capitalism. The pivotal role of the European Union in bringing about changes in the German domestic economic system will be highlighted, the thesis that such changes are perceived as a threat by the public will be elaborated upon, and, finally, it will be demonstrated that liberalisation and de-regulation is accepted - by the Kohl government at least - as the "price to pay" for German integration into the European Union.

Within roughly 15 years, the organisational structure of the telecommunications sector changed from being completely controlled by a "PTT-style" government ministry and having the status of a state-owned enterprise to becoming a liberalised market environment in which several competitors to former monopolist Deutsche Telekom are emerging.

In other words, a section of the economy traditionally considered a natural monopoly and domain of the state was radically altered in its fundamental structure (Schneider, 1997, Schneider and Werle, 1991). So central was the notion of provision of telecommunication services and devices being a natural duty of the state that such obligation was implemented in the German Basic Law (Schmidt, 1996). The Deutsche Bundespost, which controlled telecommunications, postal services and even offered banking services, was an almost classical example of a corporatist SOE. With a level of unionisation of 80 percent and a vocal Postal Union (Humphreys, 1992), worker co-determination was well enshrined. All employees enjoyed the status of federal civil servants (Gentle, 1997), providing a considerable degree of job security. Having the somewhat peculiar legal status of "extraordinary federal property" (*Sondervermögen des Bundes*) Deutsche Bundespost was not expected to generate a profit. Should profits be made, these were to benefit the federal budget, but the budget was drawn up without a reliance upon such revenue (Schmidt, 1996). Cross-subsidising between the more profitable telecommunication sector and the postal service which operated at a loss came almost naturally.

The transformation took place in three major steps.[6] First, the PTT Ministry for which controlled the telecommunications sector Deutsche Telekom. Secondly, in turning over 49 percent of the shares to the stock exchange and private capital, Telekom can no longer be considered a fully fledged SOE.

Thirdly, and perhaps most importantly, the structure of the German telecommunications sector was radically altered by the liberalisation of the market as of 1 January 1998. Competing companies are now allowed to enter the market on equal footing with the incumbent former monopolist. The first few months of experimenting with market liberalisation have been a success story. There is a large number of new market entrants [7] and a high demand among customers to switch alliances.

The first hypothesis about change brought to the corporatist model by EU legislative activity seems by and large validated in the case of the telecommunications sector. The formerly almost classical corporatist Deutsche Bundespost has been dissolved and the new market player Deutsche Telekom looks quite different in some important ways.

The most notable change is the loss of influence of the formerly mighty German Postal Union (DPG). Though the level of unionisation has remained constant, it seems fairly obvious that any union which was unable to prevent partial privatisation - and all its adverse effects on employment - has lost considerable political leverage. The Postal Union failed to elicit enough sympathy among the SPD to support its agenda and its resistance to change in parliament.

Adding to the argument about a declining union role in the Rhineland German case, the DPG has not been able to prevent the abolition of civil servant status for fully one half of all Telekom employees (Schmidt, 1996). This is a momentous change in status. It will enable the company to reduce considerably its staff size - currently the largest in EU telecommunications (Gentle, 1997; European Commission, 1997).

The move towards liberalisation also means a diminished role of the state in the economy and even in society. The state no longer controls an increasingly vital industry and its sphere is beginning to shrink considerably. The state loses an important means of directly influencing the economy in a bastardised Keynesian fashion.[8] It also abandons important ways of providing social welfare elements. The civil servant status mentioned previously provided for an important tool to “suck up” labour market excess. By extension, it also guaranteed some degree of social stability. German civil servants were not allowed to strike (Katzenstein, 1987). Moreover, in setting prices which were artificially deflated - or at least not at market rates - the government could use SOEs to pursue a social agenda. It should be noted in passing that the dramatic transformation of the state sector is simultaneously occurring in other continental European countries such as Italy and France. It is also by no means limited to the telecommunications sector; the railways and airlines industry are other visible examples.

The European Union is a catalyst, introducing competition, liberalisation and de-regulation to continental Europe. Germany, France and Italy are the paramount examples of this. The EU thus serves as a herald of free-market ideology as vividly illustrated by the case example of telecommunications. Legislation on de-regulation and privatisation within Germany was implemented parallel to legislation on the EU level (Schneider, 1997; Humphreys, 1992; Sandtholz, 1993). The impetus for change was informed by a perceived threat of extra-EU legislation. Though there was some internal debate within Germany for modest change as early as 1981 (Monopolkommission, 1981). Real change did not come about until the 1987 Witte Report and the EU Commission Green Paper (Commission of the EC, 1987) which led to structural reformation of Deutsche Bundespost after legislative changes in 1989. While this meant, arguably, that changes on the EU level occurred merely simultaneously with changes within Germany, a clear causal relation can be established in more far-reaching reforms. In 1993 the EU Commission (Commission of the EC, 1993) demanded the opening of markets to outside competitors as of 1998. Germany followed suit with a legislative change in this direction in 1996 (Schneider, 1997). Clearly, Germany would have not gone this far without the outside impetus of the EU.

This paper's second hypothesis concentrates on public perception of the economic reform process. It is contended that hostile public opinion agitated by massive lay-offs, high unemployment, cuts in social welfare and lower consumer benefits than expected might pose a threat to social coherence. However, in the case of telecommunications such negative public perception is not to be expected in the short run. The public will not perceive this particular aspect of neo-liberal reform as detrimental to their interests or as a fundamental threat to the structure of society.

There are several reasons for such an emphatic stand towards reform in telecommunications. Most crucially, the perceived level of benefits is higher than the level of costs associated with it. German consumers grew increasingly dissatisfied with the high level of charges (Soltwedel et al., 1986) and "the traditional introverted imbued mentality of German officialdom" (*Economist*) manifest in Telekom's poor level of customer service. High service charges for installation and per-item billing, for example, were the signs of monopolist inflexibility. Telekom's hugely unsubtle attempt to "cash in" on its monopolist position (by raising prices for local calls by as much as 150 percent in November 1996 (*FAZ*)) was intended to raise profits and thus, in the process of partial privatisation, look more appealing to potential investors. If this was not bad enough for customer relations, Telekom tried to declare this "reform" of charges a price cut in its advertising campaign.

On top of a fair amount of customer dissatisfaction with Telekom and euphoria over lower charges (*Der Spiegel*) public approval of reforms can be explained by the fact that the bulk of cuts in personnel has yet to occur. Telekom comprises the largest workforce in telecommunications in the entire EU. Every third telecommunications employee in the EU works for Telekom (European Commission, 1997). This will surely change, but there is some indication that cuts in personnel will occur gradually and perhaps in combination with such enticements as early retirement schemes (*sozialverträglich*). In fact, according to a European Commission study (European Commission, 1997) some if not all of these job losses will be compensated for by growths in employment among competing companies. As classical economic theory would have it, the deregulation of a monopolist structure will actually increase employment, especially when drawing into consideration so-called spill-over effects into other sectors of industry. There is at least some reason to subscribe to a fairly optimistic prediction for development in employment.

In the short term, perceived benefits will outweigh costs and thus public approval of neo-liberal reform will prevail. This result of this analysis is however based on the assumption that cuts in personnel will indeed occur gradually, or even become more than compensated for by net job growth. Though there is reason to agree with this optimistic prognosis, an alternative scenario is not completely impossible.

The third hypothesis emphasises the fact that liberalisation of markets and neo-liberal reform more generally speaking is accepted as the "price to pay" for German integration in a unified Europe. Chancellor Kohl and, in fact, the majority of the opposing SPD see no alternative to this policy orientation. Though the supporters of a truly neo-liberal model in Germany are largely confined to minorities within the Free Democratic Party (FDP) and within one of the employers' association (BDI) *nolens volens* a course towards more market liberalisation is accepted. It is perhaps, as suggested, more of a gradual process than a proactive one. The EU seems to provide a default position of "more market" which is quite easy to adopt, given the lack of any internal alternatives. There is no public debate about broad future economic orientation and whether converging the Anglo-Saxon model upon the Rhineland model is desirable, whether it is the only alternative available or whether this is even feasible.

Consent on the desirability of reforms in the case of telecommunications was small sections of the corporate economic and political network of Germany objected to disassembling the state monopolist and liberalising the market structure. In fact, the SPD accepted the telecommunications reform after some internal debate (Schmidt, 1996). Some objections were voiced about the inherently antisocial character of market forces, and concerns surfaced over unemployment. Some arguments relating to the former were placated by the current Universal Service Obligation of Telekom which mandates universal provision of telecommunications services (*Der Spiegel*). Whether Telekom will voluntarily maintain discounted tariffs to the elderly, handicapped and those below a certain line of income (*Sozialtarife*) is uncertain as yet.

In the end, the Social Democrats accepted this bitter pill as the price to pay for European unification, to which they raise no fundamental objections.

Some criticism came from the Green Party which reiterated concerns over the antisocial effects of the free market as well as questions of employment. The Greens did not accept the reform measures. However, this is clearly in line with their general reservations about a unified Europe from which only big business and the rich will profit.[9]

The most vocal resistance came from the Postal Union, since it had the most to lose from telecommunications reform (Schmidt, 1996). For them and their clientele this was not so much a question of consenting to European unification as one of job security and survival of the institution. The failure to form an effective alliance with the parties of the left can certainly be seen as a sign of institutional weakness. However, it is questionable to what extent Germany could have realistically resisted pressure from the EU, regardless of the level of organised domestic dissent.

Conclusion

In this paper, changes in the corporatist Rhineland model of Germany introduced by the European unification process have been analysed. After an introduction of basic features of the Rhineland, three hypotheses were set up. First, it was contended that EU economic policy, which seems to endorse a more free market-oriented ideology serves to subvert and even slowly break up the corporatist "German Capitalism". Secondly, it was pointed out that such changes in economic and social structure will be acceptable as long as the public perceives the benefits to outweigh the costs. If, however, more liberalisation and de-regulation results in rises in unemployment, drastic cuts in social welfare provisions and relatively little consumer benefits the German consensus-based model might seriously come under attack. Such perceived threat to fundamental pillars of German society, coupled with political or economic marginalisation of sections of society, will not be taken lightly by a populace used to the amenities of a continental European welfare state and "co-determination". Thirdly, it was argued that reforms of the domestic structure are not the result of a strong group of internal neo-liberal advocacy. Rather, a more market-oriented approach is accepted by Chancellor Helmut Kohl and his government as the price to pay for European unification.

These hypotheses were then applied to the case study of the newly liberalised telecommunications market. It was found that the EU served as a catalyst to bring about drastic change in the structure of the German market. EU-level and German legislation proceeded largely parallel to each other, with the EU clearly serving as the causal factor. It was contended, that, in the short term, perceived benefits from lower consumer charges outweigh costs in the form of concern over future job reductions. Finally, in the debate surrounding the liberalisation of the telecommunication market, the "bitter pill" was swallowed even by the Social Democratic Party. Generally, market liberalisation is deemed an adequate price to pay by both the government coalition parties and the SPD. Sustained opposition came only from the Postal Union for reasons unrelated to the EU and European unification as such. The Green Party's opposition, on the other hand, is consistent with a generally critical attitude towards European unification.

Rhineland capitalism has sustained considerable attack from outside forces. The European Union is serving as a catalyst of change to which there seems to be little domestic opposition, at least in the German case. In many ways, this slow disintegration of the Rhineland model is ironic because it is unclear whether this in fact an intended effect of EU legislation. Also, there are actually very few neo-liberal supporters within Germany. It might turn out to be a more drawn-out process which no one really wanted, but which no one quite resisted by proposing superior alternatives.

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Endnotes

[1] Let me mention in passing that this was not the only motive in introducing a federal system. A century-old tradition of a weak if not absent central power and influential regional feudal overlords certainly contributed. This regionalist tradition helped to install a federal system of governance.
[2] I will readily admit that such measures as the endorsement of "Euro-champions" (Tsoukalis, 1997), the Common Agricultural Policy (Rieger, 1996) and the Regional Funds (Allen, 1996) present interesting examples of a quite different policy orientation at the EU level. There is obviously some schism here. Still, I would argue that the overall impact of neo-liberal policies outweigh that of the state-interventionist elements.
For an excellent analysis of EU Social Policy see Lange, 1992.
[3] For a critical scrutiny of neo-liberal economic theory, see Bosenquet, 1983.
[4] For the advocacy of such transition see Fels and von Furstenberg, 1989.

[5] Peter Katzenstein offers a convincing characterization of the FDP: "Its social constituency embraces a middle-class ideology of individual self-help and civil liberty, a belief in market competition, and a secular world view. …in the early 1980s economic liberals gained the upper hand over the social liberals." (Katzenstein, 1987, p. 14)

[6] For a good account of this break-up see Schneider, 1997; Schmidt, 1996; Humphreys, 1992.

[7] 50 so far, according to Der Spiegel, 29.12.97. See also Newsweek 12.1.98

[8] For the argument that Keynesianism was only very sporadically used in the Federal republic see Allen 1989 and Scharpf 1991. For a discussion of principles and theory of the German social market economy see Peacock and Willgerodt, 1989.

[9] A declared goal of the Green party is to prevent an Europe in the interests of the super-rich and major corporations, an *Europa der Bonzen und Konzerne*).