

Working Paper

The Strange "Return" of the Interventionist State in Germany: Increased Mercantilism internationally combined with Harsh Neoliberalism at Home?

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Introduction

In 2019 the German Ministry of Economic Affairs and Energy (BMWi) unveiled the “National Industrial Strategy 2030” (NIS 2030) which was soon followed by a joint “Franco-German Manifesto for a European Industrial Policy” launched by the BMWi and its French counterpart. The NIS 2030 has been described as a “paradigm shift” – indeed even a break with the ordoliberal economic policy and liberal foreign trade tradition of the Federal Republic of Germany. Furthermore the NIS 2030 as well as the Manifesto for a European industrial policy, have been interpreted as an attack on EU competition policy (Schneider, 2020, 2023a), indicating “a state-interventionist turn”, that is breaking with certain aspects of the market-liberal paradigm that has shaped European Integration since the neoliberal turn (Abels & Bieling, 2022). From a regulation theory perspective Bieling (2024) poses the question if the renaissance of industrial and infrastructure policy in the EU heralds a “state-interventionist mode of regulation”.

In the case of Germany, the question arises if it is justified to speak of a paradigm shift regarding the deployment of (vertical¹) industrial policy. Schneider (2023b) has comprehensively demonstrated, that even though the term industrial policy “does not have a good reputation” (Bardt et al., 2019, 97) in Germany and German officials always adhered to ordoliberal rhetoric the country can indeed look back on a long tradition of vertical industrial policy. Nevertheless, German industrial policy was fundamentally characterized by a 'horizontal' and 'technology-open' orientation, though with varying intensity over time (Gerlach & Ziegler, 2015). It focused primarily on supporting basic research and, unlike France, largely refrained from the targeted promotion of specific sectors or technologies—or was coy in doing so (Zettelmeyer, 2019, 4). At the European level, however, the German federal government proved less flexible. From the late 1980s onwards, the Federal Republic of Germany acted— in alliance with Great Britain and in opposition to France— as the main advocate of a neoliberal competition policy in the EU (Buch-Hansen, 2011), that drastically reduced the space for industrial policy at the national level while it also, from the outset, set very narrow limits on the development of an independent EU industrial policy at the supranational level (Pianta et al., 2016, 18).

In this article, I briefly outline two main phases of European industrial policy - the first during the era of embedded liberalism (1950s to 1970s) and the second following the neoliberal turn (1980s to mid-2010s) - and retrace Germany's changing stance and influence on EU state aid and competition rules during these two phases before focusing on the third and current phase: industrial policy after the “state-interventionist” turn. This overview helps to better understand the current, third phase of industrial policy marked by an erosion of the neoliberal consensus in Germany and the EU and a growing acceptance of “market-direction” instead of “market-creation” (Seidl & Schmitz, 2024). Whereas in the postwar era industrial policy constituted a central pillar of the economic order, embedded in the Fordist production regime and Keynesian-oriented macroeconomic policies (Bulfone, 2023, 27), the new wave of state intervention is primarily directed at strengthening the competitiveness of national export industries within a transformed geopolitical and geoeconomic landscape (Schneider,

¹ While vertical measures selectively support certain industries or technologies (and consequently disadvantage others), horizontal measures, in principle, only set framework conditions such as infrastructure or basic research, without intervening in the market.

2023b). This development is gaining urgency as the question of whether the predominantly ordoliberal economic policy orientation - according to which the state should confine itself to constituting a capitalist property and competition order, supplemented by a flanking, non-interventionist political practice (Bieling, 2024, 267) - pursued in the EU during the neoliberal era has been inferior to China's interventionist approach, and to what extent China's reliance on vertical industrial policy has enabled it to surpass Europe, is becoming increasingly pressing (Eder & Porak, 2025, 13). Focusing on Germany's growing acceptance of the reconfiguration of EU competition rules - which points to an erosion of new-constitutionalist (Gill, 1998) arrangements, long taken for granted in critical European integration studies (Schneider, 2023a) - is crucial because progressive and solidary alternatives to the dominant crisis policies of the EU in recent decades have above all failed due to Germany's market-fundamentalist economic policy approach (Schneider, 2023b, 28).

I conclude this article by reflecting on how the renewed turn to interventionist policies in Germany and the EU affects working people and the welfare state, while linking these considerations to the ongoing debate over the trade-offs posed by rising military expenditures ("guns versus butter"). Much like Schneider et al. (2023b, 261) I argue that the emergence of post-neoliberal tendencies is "by no means, in any way progressive simply because they are non-neoliberal". On the contrary: the return of the state is being accompanied by new neoliberal reforms and a new deregulation agenda which pose a serious risk to welfare state achievements. Drawing on insights from regulation theory I conclude that the established export-led regime of accumulation in Germany and the EU is in crisis (Frauenlob, 2024) and the "Grand Coalition" in Germany as well as the European Commission are trying to use recipes from the late "1990s to address the challenges of the 21st century" (Kaczmarczyk, 2025, 46). Indeed, the reemergence of industrial policy signals a fundamental reconfiguration of how competition among capital groups and sectors is regulated, reflecting the growing reliance of capitalist production on state intervention. At the same time, the regulation of wage relations—which includes wage bargaining systems, working time rules, workforce training, the institutionalization and level of the minimum wage, employment protections, and social security—may once again become a focal point of crisis management strategies.

Similar to the notorious "Agenda 2010" of the early 2000s, which undermined established industrial relations and welfare state arrangements to enhance the competitiveness of German industry, Friedrich Merz's "Agenda 2030" promises a "real policy shift." Particularly catering to the export sector, the CDU aims once again to improve conditions for businesses through measures such as corporate tax cuts, deregulated working hours, and caps on non-wage labor costs. In the EU 25 years after the Lisbon Strategy, the issue of (lacking) competitiveness has gained new virulence with the influential Draghi Report. The EU Competitiveness Compass—building on the Draghi Report, the related Omnibus proposal, and the proposal for a "28th legal regime"—all risk increasing regulatory competition among Member States, potentially eroding labor, insolvency, tax, and corporate law protections, and watering down corporate sustainability reporting (Raza et al., 2024, 59). What is emerging is a policy of "internal devaluation" that combines subsidies for companies with austerity measures for the majority. Thus, certain elements of neoliberalism are being thrown overboard, while others persist under changed conditions - following the motto "new sails, old course" (Bieling & Guntrum, 2019) and possibly leading to "something contradictory only in appearance: increased mercantilism internationally with increased neoliberalism at home" (Milanovic, 2024).

Germany's market-liberal self-conception

Even though their actual significance should not be overstated, ordoliberal principles remain to this day central ideological points of reference in economic debates and struggles over economic policy orientations (Pühringer & Ötsch, 2019). Similar to Anglo-Saxon advocates of laissez-faire, ordoliberals are strictly opposed to the state tying the hands of "the market." However, ordoliberalism holds the

belief that entrepreneurship and “absolute competition” do not develop spontaneously. Therefore, economic policy has the responsibility to establish and uphold a constitutional framework within which market forces can operate “freely” and efficiently (Ptak, 2009, 102). Consequently, at the center of the ordoliberal ideology lies the conviction that the state has to play a critical yet closely circumscribed role in economic life: a strong state establishes an economic regulatory framework and prevents the concentration of market power but does not intervene in competition. Accordingly, interventionist industrial policy is fundamentally rejected by ordoliberal economists as an impermissible interference in the market process. Its necessity is categorically denied, and “industrial policy actions are sometimes viewed as a step towards a command economy” (Hepperle, 2004, 2).

The history of capitalism in the Federal Republic of Germany, however, corresponds only marginally to ordoliberal principles or to the tenets of a “textbook model” of the free market economy. Industrial policy measures have been part of the Federal Republic’s economic policy repertoire since its founding, even if, in past decades, they were not necessarily labeled as such (Rehfeld & Dankbaar, 2015; Zettelmeyer, 2019). Ordoliberal positions were reflected only in the dissolution of large cartels—when it came to industrial policy interventions, ordoliberal notions of “perfect competition” had little influence (Schneider, 2023b, 153). After the Second World War, as in all other capitalist countries the development of industry in Germany was deliberately shaped through extensive interventions - since the late 1940s, both federal and state authorities have exerted considerable influence on the scope and structure of the secondary sector (Grabas & Nützenadel, 2013, 93).

Certainly, official Germany consistently adhered to ordoliberal rhetoric. At the same time, it displayed demonstrative skepticism toward France’s economic policy, which, through dirigisme and planification, pursued the active industrial promotion of specific sectors in a particularly consistent manner. Germany’s actual economic practice, however, did not stand in diametrical opposition to French dirigisme (Neumann, 1986). “Planning” was by no means a foreign concept and – as in most countries - the economy took the form of a “mixed economy” with strong state influence (Schmidt, 2013, 418). Even though officially the self-regulating free market constituted the common economic order as well as the basis for all industrial policy, similar to most other Western European countries, industrial policy in Germany was characterized by an ambivalent dual approach (Grabas & Nützenadel, 2013, 39). At the European level, however, the German federal government proved less flexible and, from the late 1980s onward, intervened against an “market-distorting” industrial policy. Broadly speaking, the FRG’s influence on European industrial policy can be divided into three phases.

Germany’s negligible influence on European competition policy in the phase of Embedded Liberalism

The industrial policy of the Federal Republic of Germany thus already featured vertical elements at an early stage in the sense of strategic and selective promotion of specific technologies and industries. Overall, the first phase of German industrial policy fits into the global context of “embedded liberalism” (Ruggie, 1982) and, at the European level, into the “Monnet integration phase” (Ziltener, 1999). The ideology of economic liberalism — the belief that all developments could be left to free markets — was largely discredited following the Great Depression of 1929. In the words of Karl Polanyi there was an attempt to re-embed the expansive tendencies of liberalism within society to protect it and to limit the destructive effects of expanding market mechanisms. This configuration was characterized by a commitment to free trade and a gradual, but steady, liberalization of trade, combined with the fundamental freedom of individual states to independently determine their national economic policies.

The German ordoliberal influence on European competition and industrial policy during this phase was limited or did not catch on. German ordoliberals had to come to terms with interventionist and planning-oriented concepts from France (Goldmann, 2025, 330). Germany’s representatives played an

active role in shaping the provisions on competition policy that were included in the Treaty of Rome as they had also adopted their national competition law in 1957 and Germany also provided the first Commissioner for Competition (Jäger & Reiner, 2018, 60). But although German diplomats succeeded in negotiating ambitious competition rules into the Treaties of Rome, there “was ample scope to interpret their content both in terms of substance and in terms of procedure” and overall “the attempt to forge an European Economic Union based on an ordoliberal-inspired competition policy remained theoretical” (Warlouzet, 2019, 82f.). On the one hand, the Commission regarded a wide range of state aid policies as legitimate; on the other hand, member states rarely complied with state aid rules or found “creative” ways to circumvent them (Blauberger, 2009, 721; Kassim & Lyons, 2013, 7). Likewise, cartel law was applied only cautiously, as cartels and processes of economic concentration were not generally considered problematic, given their potential for economies of scale and for strengthening European corporations in global markets. According to Buch-Hansen and Wigger (2011, 12) constraint of the EEC remained extremely limited due to the fact that national industrial policies were “all-powerful in this era of embedded liberalism.”

By and large the interest of the founding states of the EEC in an ordoliberal model project and the commitment to the development of the free market was highly restrained. The implications of European integration in this phase were rather moderate, and designed in such a way that the national structures of the mixed economy and welfare state regimes were hardly affected but rather strengthened (Ziltener, 1999, 123f.) The liberalization of services and capital markets remained very limited, with non-tariff trade barriers still in place. Conversely, national governments—often in cooperation with business associations, employers’ organizations, and trade unions—retained relatively extensive scope for macroeconomic, fiscal, industrial, and infrastructure policy-making, as well as for welfare state and employment regulation (Bieling, 2009). In the European Economies this was reflected in the industrial and infrastructure policy activities, which were oriented towards Keynesian concepts of an “inward-looking state intervention” (Bulfone, 2023, 5). The legal, institutional, and financial leeway was utilized by governments to strategically modernize the models of capitalism according to national priorities. This was done through the establishment and expansion of a material and social infrastructure tailored to industrial structures, as well as through vertical industrial policies. The sectors to be promoted were therefore politically determined and financially and regulatorily supported by numerous instruments (Abels & Bieling, 2022, 436). Ultimately industrial policy constituted a central pillar of the economic order underpinned by the Fordist production regime and Keynesian-oriented macroeconomic policies (Bulfone, 2023, 27).

Phase 2: Germany's influence on the neoliberal turn and the EU’s prolonged “industrial policy winter”

In this first phase of European integration, the Federal Republic of Germany was largely unsuccessful in imparting an ordoliberal character to the EEC. Instead, what prevailed was an “emerging compromise between French dirigisme and German ordoliberalism” (Warlouzet, 2019). From the late 1980s onward however Germany played a decisive role in the “neoliberal deformation” of the EU (Huffschmid, 2007) and in the subsequent decades, Germany has succeeded in projecting its economic policy priorities and strategies onto the European macro-regional arena, with the Bundesbank and the Ministry of Finance acting as key promoters of neoliberal restructuring in Europe (Cafruny & Ryner, 2003, 204). The decisive rupture that brought post-war industrial policy to an end was the crisis of the Fordist accumulation regime, which unleashed a series of interlinked dynamics undermining the institutional foundations of state-led economic steering (Moraitis, 2020). These included (Bulfone, 2023, 27): the shift from Keynesian macroeconomic management to inflation targeting by independent central banks, coupled with the weak performance of many state-owned enterprises—whose losses increasingly burdened public finances in a context of low growth (Bianchi & Labory, 2006), the internationalization and restructuring of value chains, leading to the ascent of new

centers of economic power, most notably China (Oqubay, 2020) as well as the anti-dirigiste turn (Clift, 2013) in European integration, exemplified by the Cassis de Dijon judgment that cleared the path toward the Single European Act (SEA) and the realization of the Single Market project (Scharpf, 2002).

Yet within this broader context, Germany played a considerable and proactive role in advancing a paradigm shift at the European level, thereby helping to consolidate what has been described as the EU's prolonged "industrial policy winter" (Renda, 2021). From the late 1980s onwards the FRG—aligned with the United Kingdom and in opposition to France—acted as the central advocate of a neoliberal competition policy that was intended to severely restrict the scope for active-strategic, vertical industrial policy both at the level of the member states and at the EU level (Buch-Hansen, 2011). The "end of industrial policy" was elevated to a "West German priority" (Dubois, 2024, 178): the Federal Republic criticized the integration of industrial policy into the Single European Act and intervened against the objective of creating a "technology community." Especially the Federal Ministry for Economic Affairs and the Ministry of Finance sought systematically to counteract the logic of financing and steering private projects through public decision-makers. Due to German and British reservations, the term industrial policy was ultimately even removed from the Maastricht Treaty (1992) - the Commission revised its central terminology to "policy of industrial competitiveness" (Ziltener, 2001, 34) - and the EU's role was reduced to creating the "necessary conditions for the competitiveness of industry" (Dubois, 2024, 178ff.). According to Bianchi & Labory (2020, 608) the term was no longer used due to its "association with the interventionist and selective policies of the past" and subsequently gave way to a new approach articulated by the German Commissioner for internal market and industrial affairs Martin Bangemann (Free Democratic Party) in 1990, in which policies supporting structural change in industries were redefined as "competitiveness or enterprise policies".

Ultimately the consolidation of competition policy was deemed to be the most appropriate formula for European industrial policy which should limit itself to paving the way for innovation "in the absence of barriers, state aids, and any other form of "vertical" economic support capable of altering competition" (Felisini & Paesani 2024, 11). As neoliberal ideas of economic governance gained ground in Europe market-directing industrial policy came to be viewed as interventionist, partly even "proto-socialist" economic policy that was seen as undermining efficient and self-regulating market allocation (Eder & Schneider, 2018, 109). According to Bangemann creating and completing the single market represented "industrial policy par excellence" (1992, 36). Key expressions of the neoliberal turn included, in particular, the stricter enforcement of antitrust law, the introduction of rigorous state aid control, and the adoption of the Merger Control Regulation, which tied the assessment of merger impacts solely to economic criteria (Jäger & Reiner, 2018, 60). Bangemann, together with the British Competition Commissioner (and close confidant of Margaret Thatcher) Leon Brittain, advanced the prohibition of state aid (such as the system of steel quotas). At the same time, the German Director-General of the Directorate-General for Competition Claus Dieter Ehlermann resisted French and Italian demands to exert political influence over European merger control in order to promote the creation of industrial "champions." From then on, merger control followed a strictly competition-oriented approach, such that industrial, regional, or social policy considerations could no longer play any role in EU-level merger review procedures (Dubois, 2024, 179; Schneider, 2023b, 179). In terms of industrial and infrastructure policy, the revised European provisions had far-reaching consequences.

At the national level member states' leeway for industrial policy became increasingly circumscribed by both competition and fiscal policy constraints: through competition law provisions—namely the prohibition of state aid and cross-subsidization in the affected enterprises—the process of privatization in the member states advanced further, all the more as Economic and Monetary Union encouraged

fiscal consolidation and thereby the generation of privatization revenues (Abels & Bieling, 2022, 438). The privatization of large state-owned enterprises resulted in the extensive closing down of capacity, foreign takeovers and greater market concentration as governments increasingly delegated the direction of economic development to “markets – that is, to large multinational firms” (Pianta et al., 2016, 18).

The Single European Act, signed in 1986 and entering into force in July 1987, set the objective of creating a Single Market in the European Community by 1992, through the removal of trade barriers, regulatory disparities, and by opening public procurement. While envisioned as a driver of efficiency gains—greater competition, economies of scale, and lower prices—market integration triggered industrial concentration, undermining production diversity and reinforcing oligopolistic structures in a majority of industries. Public procurement was liberalized, and regulatory harmonization dismantled national preferences, reinforcing a new consensus that confined the state to the role of regulator rather than producer. Sector-specific industrial and technology policies were abandoned in favor of the belief that markets could best determine which firms and industries would thrive. Ultimately at the national level, what remained were policies stripped of selectivity, limited to “horizontal” mechanisms such as broad tax incentives for R&D, investment in machinery, or subsidies for certain goods. This led to a general weakening of policy influence over industrial change and development in Europe, and in most countries to a substantial loss of industrial activity (Pianta et al., 2016, 18f.).

The best industrial policy is the one that does not exist

National scope for industrial policy was severely curtailed while at the European level “good” industrial policy came to be understood primarily as a blend of competition policy and horizontal measures to enhance overall competitiveness (Seidl & Schmitz, 2024, 2148). In 1990, the European Commission stated that sectoral and interventionist industrial policies were “not an effective instrument to promote structural adaptation (...) failed to make industry competitive (...) led to grave misallocation of resources and exacerbated problems of budgetary imbalances” (European Commission, 1990, 19). Instead of vertical industrial policy from the 1980s until the late 2000s (“the liberal phase”) (Landesmann & Stöllinger, 2020, 627) a tightened competition law and the deepening of the single market, flanked by state support for innovation and investments in human capital, were chosen as a sufficient industrial strategy. Industrial policy subsequently lost significance and was increasingly reduced to innovation policy (Schneider, 2023b, 348).

Taken all together over the course of the 1980s and 1990s, the Monnet-style phase of integration gave way to a neoliberal phase of integration (Wissel, 2015, 89), which ushered in a period of “industrial policy winter” (Renda, 2021). The integration projects of this era—the European Single Market, Economic and Monetary Union, and the Lisbon Strategy—no longer aimed at safeguarding national development trajectories. Priority was given to the creation of an integrated European economic area, within which competitive and reform pressures on individual national economies were to be intensified. By means of labor market flexibilization, the deregulation of national markets, and an economic and monetary policy oriented unilaterally towards macroeconomic stability, the international competitiveness of the European economy as a whole was to be strengthened. As a consequence, nation-states were placed in direct competition with one another, while “market-distorting” or state-interventionist industrial policies were curtailed in line with the idea of a “level playing field” for entrepreneurial activity. The EU has focused on promoting and safeguarding the processes of neoliberal competition-oriented modernization (Bieling & Deppe, 2003) and Bieling (2024, 267) concludes that: “one could gain the impression that the German variant of neoliberalism - namely ordoliberal thought, according to which the state should confine itself to constituting a capitalist property and competition order, supplemented by a flanking, non-interventionist political practice—has gradually been generalized within the EU”.

However, as Bulfone (2023, 27) demonstrates, the decline of post-war industrial policy did not mean that state intervention ceased to be an important engine of growth altogether. Instead of consigning industrial policy to the past, the liberalization, market integration, and privatization processes of the 1980s and 1990s prompted a reconfiguration of state intervention, marked by the rise of new actors and instruments. The objective shifted from protecting domestic markets against foreign competition towards managing the incorporation of national firms, industries, and sectors into regional and global capital and value chains in ways that advantaged specific insider groups. The dominant trend, however, was a shift towards horizontal measures (Abels & Bieling, 2022, 438). As horizontal industrial policy gained ground—favoring tax cuts for private companies, regulatory restraint, and public-private partnerships (PPPs)—the scope for social shaping was simultaneously curtailed. This was reflected in the collapse of production capacities, job losses, deteriorating working and pay conditions (Pianta, 2014, 280) and - as already mentioned above - a substantial loss of industrial activity in most countries (Pianta et al., 2016, 18f.).

Germany: the leading agent and boundary maintainer of disciplinary neoliberalism

The Federal Republic of Germany's influence at the European level was decisive in at least two areas for the establishment of an economic policy elevated to constitutional status, referred to as "neoliberal constitutionalism. (The strategy of hardwiring neoliberal economic principles and imperatives into legal or constitutional arrangements, thereby shielding them from democratic oversight and constraining the scope for discretionary economic policymaking.) (Gill, 1998). On the one hand, and as described above, the FRG was the main advocate of a competition policy that bears central features of new constitutionalism as it embeds neoliberal economic principles by restricting the space for discretionary industrial policy within a supranational mix of hard and soft law, largely insulated from democratic accountability.

On the other hand, the Bundesbank and the federal government succeeded, through the Maastricht Treaty and the Stability and Growth Pact (1997), in imposing their extremely restrictive concepts of monetary and fiscal policy on the other EU member states. The treaty not only enshrined strict deficit rules but also prohibited any form of public refinancing. Since then, member states have been barred from borrowing either from central banks, other EU states, or the EU itself, and from assuming liability for one another (Huffschmid, 2007). As a result, their public spending policies have been subjected to permanent consolidation pressures, primarily on the expenditure side. In line with a logic of "governance through numbers," (Menéndez, 2022) financial markets were expected to discipline governments by raising interest rates on sovereign bonds whenever they failed to pursue sufficiently austere fiscal practices (Oberndorfer, 2021). Balanced budgets were given top priority, and a rigid set of fiscal rules blocked regional and social redistribution policies as well as investments in socio-ecological transformation.

Thus this tight economic policy corset (circumscribed by both competition and fiscal policy constraints) and the underlying consolidation of market-radical ideologies not only contributed rising social inequality (Huffschmid, 2007). A result was also that policymaking impact on the direction of industrial change and development has diminished across Europe (Pianta 2010) —precisely at a time marked by radical technological transformations and intensifying ecological crises. Both European competition law and fiscal discipline within the EU functioned as key levers for enforcing and institutionally entrenching the neoliberal turn in economic policy. This economic policy orientation during the "euphoric" phase of market faith was not only democratically problematic and produced a massive shift in power from the working class to capital (Soukup, 2019, 14). Even by its own benchmark—the Lisbon Strategy adopted in 2000, which aimed to make the EU "the most competitive and dynamic knowledge-based economy in the world" by 2010—it proved ineffective (Eder & Porak, 2025). The

institutionalization of neoliberal dogmas instead resulted in low growth rates and weak productivity gains across most countries (Raza, 2025, 13).

Although the Federal Republic of Germany was never in a position to unilaterally impose its interests on the rest of the EU (Freudlsperger & Jachtenfuchs, 2021) it nevertheless succeeded in the longer term in shielding a neoliberal “economic constitution” from the demands of other states and interest groups. Already in the 2000s, interest in a more proactive industrial policy grew as a response to deindustrialization from offshoring and outsourcing. By the 2008 economic crisis, industrial policy in the EU experienced a renaissance as industry was rediscovered as a central driver of innovation (Eder et al., 2018). However, a lasting economic policy paradigm shift did not occur until the mid-2010s. The EU competition policy largely maintained its neoliberal orientation, with only some moderate modernization measures—such as regarding public aid for R&D—while continuing to restrict the scope of vertical industrial policy (Wigger & Buch-Hansen, 2014). The decisive factor was, alongside the British position, especially the German federal government’s strict opposition to loosening EU competition rules (Meunier & Mickus, 2020)

Phase 3: The State-interventionist turn and the Crisis of New Constitutionalism

Since the late 2010s, however, a manifest crisis of neoliberal constitutionalism and the emergence of a new phase of European industrial policy that signals a move away from the neoliberal focus on “neutral” market governance have become increasingly apparent. Just as decisive as Germany’s influence on the onset of the industrial policy winter was its role in shaping the third phase of European industrial policy (Abels & Bieling, 2022; Bora & Schramm, 2025). According to Bora & Schramm (2023, 14) an official from the Directorate-General for Competition in an interview explained that “Germany has been the “swing state” between liberal and interventionist countries”. In the view of Di Carlo & Schmitz (2023) the gradual re-emergence of EU industrial policy became possible only once a new consensus on the need for stronger economic activism at the European level had been forged. This shift occurred when, in the wake of a major wave of Chinese acquisitions of German firms, Germany realigned with France in support of pro-EU industrial policy positions.

In 2019, German Economics Minister Peter Altmaier launched the “National Industrial Strategy 2030 (NIS 2030)”. Alongside business-friendly demands, it also set out industrial and trade policy strategies that are quite remarkable in their overall scope. In clear contrast to previous industrial strategies, it endorsed targeted state support for key technologies and called for an expansion of investment screening in order to prevent foreign takeovers in strategically relevant industrial sectors (Germann, 2023). Shortly thereafter followed a “Franco-German Manifesto for Industrial Policy,” which called for a comprehensive adjustment and loosening of EU competition and state aid law in order to create room for a more active industrial policy (Schneider, 2020). Germany’s largest business association, the Federation of German Industries (BDI), stated: “We cannot rest on the alleged certainty that our model of a [...] liberal and social market economy will, in the long run, generate overall economic advantages over the Chinese system” (BDI, 2019, 8).

As early as 2014, China overtook the EU as the world’s largest exporter. And although the EU has been tireless in emphasizing the importance of the green transition, green growth in recent years has taken place primarily in China. Also, over the past twenty years, technological leadership in green industries has shifted from European (and German) to Chinese companies (Eder & Porak, 2025). Today, the EU is highly dependent on green technology goods imported from China (Raza, 2025). Meanwhile, the United States secured its position as a competitive location for digital technologies through research and development investments almost 50 percent higher than those of the EU, and with the Inflation Reduction Act it openly entered the global race for green technological leadership. The mercantilist and protectionist reorientation of the former transatlantic partner under Donald Trump,

along with escalating trade confrontations, further intensified calls within in the EU and Germany for greater “economic sovereignty” (Schlager & Soder, 2020). This shift is also embodied in the EU’s commitment to “open strategic autonomy,” a concept that signals an evolving approach to trade policy and geopolitical challenges. Although deliberately vague this orientation reveals the increasing geopoliticization of industrial and trade relations (Schmitz & Seidl, 2023). The upgrading of industrial policy in the EU and in Germany has thus taken place in recent years in the context of a 'geodirigistic turn' (Seidl & Schmitz, 2024).

Bringing the State Back in?

While the revival of industrial policy among G20 nations signals a move away from the neoliberal focus on “neutral’ market” governance toward more state-interventionist and geopolitically driven approaches (McNamara, 2024) it is evident, first of all, that neither Germany nor the EU displays a deliberate or strategic departure from neoliberal concepts. However after decades of skepticism toward the state and the rollback of state responsibilities—accompanied by a disastrous wave of liberalization and privatization of public infrastructure—the state is once again regarded as a guarantor of prosperity (J. Becker & Reinke, 2023). This is fundamentally a welcome development. The diagnosis of a sudden return of the state is, however, misleading. With each cascade of crises (financial crisis, coronavirus pandemic, Ukraine war), state activity has intensified in recent years, reflecting the increased dependence of the capitalist mode of production on state intervention. A comprehensive industrial policy design of the economy was practically excluded – however, when it came to rescuing banks or (fossil) corporations (such as European aviation companies), legal rules were set aside and billions in aid were provided.

Especially ten years ago, during the height of the previous crisis, analysts similarly asserted that the collapse of the “self-regulating” financial market marked the comeback of big government and industrial policy. Van Apeldoorn & De Graaff (2022) put it concisely when they note:” So, if the “state is back, it seems as if it has been back already for a while. In fact, the capitalist state is always there, and not just in the background, and necessarily so.” Likewise, it is important to emphasize that, in the neoliberal era, the state was transformed in a class-specific and selective manner (L. Becker, 2023a) but was by no means absent and advantaged specific insider groups (Bulfone, 2023). However much evidence suggests that we are currently witnessing a shift away from “ad hocery” — understood as short-term, crisis-driven interventions — toward a fundamental realignment of the relationship between businesses, markets, and the state (Prausmüller, 2023, 28). In Germany and the EU, against the backdrop of the USA's dominance in digitalization and China’s leadership in green technologies, as well as challenges in defense capability, preparedness, and resilience, there is a historic shift occurring from “market creation” toward “market direction” (Seidl & Schmitz, 2024).

German and EU Industrial Policy after the state-interventionist turn

The EU’s renewed industrial policy since the late 2010s is marked by significant ambivalence regarding its scope and objectives. The numerous documents and initiatives rolled out across various levels and to varying degrees make it difficult to maintain a clear overview. There is a multitude of initiatives but a lack of coherence and long-term strategic vision. Policymakers have responded to successive crises with specific measures, creating many new programs and adapting existing ones. This crisis-driven approach affected the European Green Deal—originally a coherent policy framework focused on climate goal which benefited from emergency funding like the Recovery and Resilience Facility - but whose priorities have gradually shifted toward geopolitical aims such as supply chain resilience, strategic autonomy, and technological sovereignty (Raza, 2025, 33). Social and redistributive policy instruments are rather marginal. The Clean Industrial Deal (CID) promises a just transition, but social aspects appear only as marginal notes. There is no reference to the European Pillar of Social Rights. Commission proposals like the "Union of Skills" and the "European Fair

Transition Observatory" come across more as declarations of intent than as well-developed programs for social protection and job security (Soder & Hilpold, 2025). Implementation prospects are also lacking for the climate cash payment announced in the German coalition agreement (Banhierl et al. 2024). The record of the German traffic light coalition government and the Green Deal is also moderate in this context, as Becker (2023b) notes: "The "new state intervention" does not primarily rely on strengthening domestic demand through wage increases and social policy measures, unlike classical Keynesianism. Instead, it aims at direct state subsidies to enhance the international competitiveness of the domestic export industry in a new phase of imperialist competition and confrontation."

Increased Mercantilism internationally combined with Harsh Neoliberalism at Home?

The one-sidedness of the state's return is evident – post-neoliberal industrial policy primarily focuses on the interests of private-sector actors and hardly takes social considerations into account. Smoldering crises and intensifying global competition compel a strengthened role for the state through regulatory and financial instruments. The neoliberal dogma of free global markets that condemned any distortion of competition has been set aside, effectively marking the abandonment of the Washington Consensus (Fisahn, 2019). "Neoliberalism as we knew it—or at least "the long-lasting phase of hegemony of the neoliberal promise of globalization within the (old) capitalist centers" (Decker 2024)—is coming to an end. Neoliberal competition policy, in the sense of a "race to the bottom" concerning labor markets or social policy, however, is by no means a thing of the past. A policy of "internal devaluation," which combines subsidies for businesses with austerity for the majority is beginning to take shape (Wigger, 2019). Unlike in the United States, Germany did not implement economic or industrial policy measures to strengthen the incomes of lower-income groups (J. Becker & Reinke, 2023). Moreover, while the US government— under the Biden administration—has been able to impose comparatively strong social conditionalities to its industrial policies (Bulfone et al., 2024, 15), Germany and the EU have often failed to tie state interventions and subsidies to social (or ecological) conditions (Coffman, 2023). On the contrary, both in Germany and in the EU, the return of industrial policy is accompanied by a neoliberal offensive and a renewed passion for the issue of competitiveness.

Insights from regulation theory

A regulation theory framework provides a useful lens to understand why the fact that neoliberalism as "we knew it" is now passé does not necessarily entail the emergence of a socio-ecological awakening. The political shift long awaited by progressive forces after decades of neoliberalism is not a socio-ecological project but ushers in a new phase of military rearmament and post-neoliberal location policy (Decker 2024). The "new state intervention" differs from the Keynesian interventionist state of the post-war period which reflected "the wider class compromise between organized labour and industrial capital fractions of the mixed economies in Europe" (Buch-Hansen, 2011, 8). A regulationist framework for analyzing industrial policy in Germany and the EU helps move beyond simplistic generalizations of either "neoliberal stagnation" or a global convergence toward a generic model of state capitalism (Karas, 2024, 1). It helps to explain why state-interventionist or "mercantilist policies must not necessarily be accompanied by policies of greater domestic state control and regulation" (Milanovic, 2024) or why "state intervention without alignment to corresponding societal power relations and public shaping capacity lacks leverage for progressive change" (Prausmüller, 2025, 53).

The French Regulation Theory (FRT) is a historical economic theory that interprets capitalist development through Marxist concepts (Brenner & Glick, 1991). However, it departs from the classical Marxist view by rejecting the notion that capitalism is perpetually crisis-prone, instead offering a more nuanced understanding of capitalist dynamics. It emerged in the 1970s as a framework to explain why capitalism was stable for decades before the crisis of Fordism, and why it subsequently entered into

crisis (Becker, 2009). According to the FRT capitalism can achieve periodic stability by adopting a specific regime of accumulation, which is maintained and governed through an accompanying mode of regulation. According to Becker (2009) there are three axes of accumulation and four modes of regulation (also called “structural forms”). The axes of regulation distinguish between whether (1) productive or financial capital drives accumulation, (2) the choice between extensive or intensive growth, and (3) the degree of reliance on the global market. The interaction of the three accumulation axes gives rise to a specific “regime of accumulation,” which is temporarily maintained through a supporting mode of regulation. The modes of regulation are (1) the “regime of competition,” which governs relations between different capital groups and economic sectors (2) the “monetary constraint,” encompassing monetary and fiscal policies; (3) the “wage relation,” referring to the institutional framework shaping industrial and class relations and (4) the ecological constraint which refers to the different levels of access, exploitation and commodification of nature. Eder (2021, 2022) has illustrated how a regulation approach can be applied to examine the institutional and contextual conditions of industrial policy and contends that industrial policy seeks to reshape the accumulation process of a region or regional bloc, aiming to guide it toward a more productive and intensive development path. Furthermore, Eder (2021, 333) argues that especially the analysis of structural forms provides a useful way to study industrial policy.

The reconfiguration of the structural form of competition

As mentioned in the introduction, the established export-led regime of accumulation in Germany and the EU is in crisis, “for which no consensus on a solution has yet been reached” (Frauenlob 2024, 63). In a similar vein Karas (2024, 4) contends that “the German model of export-led growth, which is promoted by the EU for all its member states, shows structural signs of exhaustion. Yet, neither the EU Commission, nor the governing elites in Germany, France, Italy or Scandinavia seem to be willing to endorse “any alternative model of capitalism(s) for the continent” (Karas, 2023). It is against this backdrop that the evolving approach to industrial policy in the EU and Germany must be understood. First of all, it is crucial to look at the reconfiguration of the structural form of competition (1) which regulates relations between different groups of capital and economic sectors. Key areas include, on the one hand, competition policy (dealing with cartels, market dominance, and mergers and acquisitions), and, on the other hand, industrial, innovation, and technology policy (for example, the allocation and scope of state aid and subsidy policy), as well as trade policy (Schneider, 2023b, 67).

Both in Germany and in the EU the shift towards more state intervention and the shift from “market creation” toward “market direction” (Seidl & Schmitz, 2024), moving beyond the ordoliberal consensus, can be understood as an effort to reshape the structural form of competition in order to maintain export competitiveness in an environment increasingly shaped by the green transition and intensifying US–China rivalries (Frauenlob, 2025, 69; Karas, 2024, 4). The narrow, market-liberal strategies of competitiveness, consolidated since the neoliberal turn, appear increasingly inadequate for strengthening the position of German and European firms in the global contest over market shares and geoeconomic control. In view of the escalating competition with the USA and China, especially the power blocs of France and Germany are pushing for a “flexibilization” of EU merger control in order to build European large corporations for global market competition, for a loosening of EU state aid rules to establish industrial alliances in strategic technology sectors with extensive subsidies, and overall for a weakening of the Commission’s competition policy to regain room for strategic industrial policy (Sablowski et al. 2025). Amid the crisis of the German export model — shaped above all by China’s ascent and the looming threat of Germany’s production system losing its position within the international division of labor — export-oriented industrial capital, backed by trade unions and pushed by industry associations, is pressing for a more interventionist industrial policy. In response, the federal government has shown growing readiness to move beyond the established ordoliberal consensus (Frauenlob, 2025; Schneider, 2023b). This is also reflected in the new subsidy policy—for

example, Germany's multibillion-euro state subsidies for building an Intel chip factory in Magdeburg (Grobys & Müller, 2024). Industrial sectors that play a prominent role in geopolitical competition are being strategically strengthened. The goal of boosting competitiveness and securing domestic value chains is increasingly framed within a "security-sustainability nexus" (Riofrancos, 2023). Global rivalry increasingly assumes the form of geoeconomic competition, manifest in trade and industrial policies where economic benefits are bound up with military and geopolitical logics. States engage in strategic statecraft to secure territorial and market control over supply chains in "green" industries and critical infrastructures, with China's dominance in clean-energy chains transforming economic competition into a question of national security for the West (Brand et al., 2025, 4).

Overall, it remains uncertain whether the expanding use of industrial policy instruments and the growing acceptance of state interventionism in Germany and the EU will amount to a full-fledged and consequential "state-interventionist mode of regulation" (Bieling 2024). I agree with Frauenlob's (2025, 69) assessment that "the new approach to industrial policy now exists in a contradictory space" – as noted above the EU's renewed industrial policy is marked by ambivalence in both scope and objectives as numerous initiatives across different levels lack coherence and coordination (Raza, 2025, 33). Put simply, the EU and Germany's current efforts to reconfigure the structural form of competition—driven by the dominance of foreign big tech firms and mounting pressure from Chinese competitors—and their newfound willingness to channel resources into strategic sectors and technologies, a stance that would have seemed improbable only a few years ago (Seidl & Schmitz 2024, 2161), do not necessarily mean that their governance structures are capable of successfully implementing this geo-dirigiste turn.

One major obstacle lies in the neoliberal legacy: the EU inherited from the 1980s both a competition policy apparatus and the dogma of fiscal and monetary austerity, which, despite the reform efforts described above, continue to constrain sector-specific industrial policies essential to safeguarding European export competitiveness (Karas 2024, 5). In a similar vein, Staab et al. (2025, 64) argue that Germany's pursuit of technological sovereignty is limited by national and EU regulatory frameworks prioritizing austerity, risk aversion, and market-based policy solutions. Public capacities eroded during the neoliberal era, combined with a mode of state interventionism that is "entangled in the institutional legacy of ordoliberalism" (Staab et al., 2025, 64) and either builds upon established market-liberal practices or merely seeks to mitigate the crises they have generated—without fundamentally altering the structural dynamics that reproduce those crises (Bieling, 2024, 276)—may significantly constrain the scope for effective "economic statecraft". While key elements of European economic governance are indeed undergoing a process of reprogramming (Schneider 2021), the emergent forms of state interventionism risk remaining not only one-sided—given the absence of any concerted effort by European incumbents to forge a broader class compromise, as in the US (Karas 2024, 6)—but also too limited and ineffectual to secure the valorization interests of industrial capital and stabilize Europe's export-led accumulation regime.

The reconfiguration of the structural form of wage relations

After examining the reconfiguration of the structural form of competition that has been taking shape in recent years, it is, secondly, instructive to turn to the ongoing reconfiguration of the (3) structural form of wage relations, which goes hand in hand with new forms of state interventionism. The mode of regulation which shapes industrial and class relations is also called "wage-labor nexus." It essentially encompasses the regulation of the vertical conflict between labor and capital and includes wage bargaining systems, working time rules, workforce training, the institutionalization and level of the minimum wage, employment protection and, most importantly for this article forms of social security and social policy (Aglietta, 2015, 111ff.). Furthermore it is closely connected to the development and formation of trade union organization as an institutionalized channeling of class struggle (Schneider,

2023b), and to the position of trade unions within the configuration of social forces (Aglietta, 2015, 190ff.).

While the revival of industrial policy—however immature—certainly marks a break with the previous neoliberal mode of regulation, the reconfiguration of the structural form of wage relations is easier to assess, since many of the proposals essentially stem from the 1990s and 2000s and have already been “field-tested”. This holds particularly true for the German crisis management of their export-led accumulation regime. With his “Agenda 2030,” chancellor Friedrich Merz and the CDU promises a “real policy shift” intended to lead the German economy out of recession. In particular, in the interest of the export sector, the CDU seeks to once again improve conditions for businesses in order to boost profitability. The name deliberately echoes the notorious “Agenda 2010” under Gerhard Schröder which launched a sweeping wave of labor market and welfare state liberalization (Hummel, 2025).

As Nachtwey (2018) has demonstrated, following the Hartz labor market reforms, which were introduced in 2002–2005 as part of the Agenda 2010 program, the number of working poor nearly doubled, and Germany became increasingly marked by a dualized labor market: a core of unionized workers and an expanding peripheral precariat characterized by precarious and flexible employment. (In the industry, collective bargaining coverage fell from 80.3% in 1995 to 50.4% in 2013.). This comprehensive offensive by capital to undermine the existing systems of industrial relations and established welfare state arrangements aimed, against the backdrop of a comparatively strong rise in unit labor costs after reunification, to reverse wage trends downwards and thereby boost the price competitiveness of German industry (Schneider 2023b, 168). As a result, on the eve of the 2007/08 crisis, the “German model” displayed a revitalized export industry that coexisted with deepening social fragmentation and institutional erosion (Lehndorff, 2012) shaped by incisive neoliberal reforms and a corporatist framework increasingly unfavorable to organized labor and characterized by declining social inclusiveness. Furthermore, in the course of the neoliberal shift, Germany’s export dependency deepened further and between 2001 and 2008, export excess contributed approximately three quarters to real GDP growth while domestic demand contributed only a quarter (Priewe & Rietzler, 2010, 64).

From a regulation theory perspective, the Federal Republic of Germany secured its position as global export champion partly by a profound reconfiguration in the regulation of wage relations, undermining existing industrial relations and welfare state systems, and thus transitioning from German Fordism to a new post-Fordist development mode (Schneider, 2023a, 245). In light of the current crisis facing Germany’s export model, many incumbent politicians appear willing to double down on this trajectory, as clear parallels emerge between Agenda 2010 and the Agenda 2030: deregulation, weakening of workers’ rights and unions, cuts to public services, and above all social welfare reductions—while simultaneously implementing tax cuts for corporations and the wealthy paired with protection of the German export industry, particularly the automotive, chemical, and mechanical engineering sectors (Hummel, 2025). Merz has stated that the welfare state is no longer financially sustainable. In coordination with employer associations, he advocates for a period of “comprehensive reform”. At the same time, Vice Chancellor Lars Klingbeil (SPD) has recently expressed support for Gerhard Schröder’s Agenda 2010 reforms and spoke out in favor of “comprehensive welfare state reforms” (Hirschel, 2025). It appears that the regulation of wage relations may once again become a central focus of crisis management efforts, despite the fact that the challenges currently confronting the German economy differ markedly from those of the early 2000s.

Following the increasing calls for radical “structural reforms” could thus not only lead to further social and institutional disintegration and fragmentation of the “Modell Deutschland,” thereby further weakening domestic demand (Truger, 2025) and fostering what Germann (2021, 5) called a “socially regressive

but competitive form of capitalism”. What is more is that orthodox neoliberal strategies, introduced over 25 years ago, now increasingly appear inadequate for addressing the multifaceted global challenges such as U.S. President Donald Trump’s tariff wars, high energy prices or increased competition from China. It is difficult to envision how policies focused on tax reductions for corporations and high-income earners, coupled with cuts to social welfare benefits and efforts to reduce bureaucratic obstacles, can effectively enhance competitiveness in the face of China’s strategic, state-led economic planning and coordinated industrial policy.

The same holds true for the European Union. Firstly, Karas (2024, 3), in comparing US and EU industrial policy initiatives, concludes that while the Biden administration has pursued a “shift toward wage growth objectives”, the EU continues to adhere to “stable wage repression objectives.” Secondly, in terms of social security, 25 years after the Lisbon Strategy, the issue of competitiveness has gained new virulence with the influential Draghi Report and – similar to Germany’s Agenda 2030 - risks reinforcing an outdated neoliberal reform agenda. Draghi initially rejected the old program of internal devaluation and wage cuts, insisting that competitiveness should be enhanced not through greater labor market flexibility or wage compression but through productivity gains achieved via upskilling and reskilling—an approach that may be described as “sustainable competitiveness.” On the hand however this narrows the role of social policy to the provision of skills to the economy further sharpening the existing division between *social protection* expenditure and *social investment* expenditure (Karamessini, 2025).

On the other hand, while Draghi himself did not call for internal devaluation, the EU Competitiveness Compass which builds on the Draghi Report does indeed risk intensifying regulatory competition among Member States (Raza et al., 2024, 59). Especially the related Omnibus proposal and the initiative for a “28th legal regime,” as part of the EU’s new deregulation and simplification agenda, can be seen as a concerted effort to reconfigure the structural form of wage relations in order to close the “innovation gap” with China and the US. The proposed “28th legal regime” is presented as a means to simplify rules for innovative firms and to reduce the costs of failure in areas such as insolvency, labor, and tax law. Yet rather than delivering clarity, it risks generating new legal uncertainties—not least concerning the relation between national frameworks and the optional EU regime—and may in practice undermine established protections in core domains of social and economic regulation (Raza, 2025, 59). Similarly the Omnibus proposal - framed as a broad initiative to boost competitiveness by streamlining regulation - risks blurring existing legal frameworks and weakening established social and labor standards, as its deregulatory thrust prioritizes business flexibility over social protections (Kalpadakis, 2025).

The reconfiguration of the structural form of the monetary constraint

The final structural aspect to consider in analyzing the new industrial policy approach and state interventionism in the EU and Germany is the (2) structural form of monetary constraints, which encompasses macroeconomic policy and lending conditions (Aglietta, 2015, 328ff.). It plays a crucial role in industrial policy by shaping the financing options and access to credit available for its implementation. As outlined above, both the reconfiguration of the structural forms of competition and wage relations remains fragmented and lacks the potential to drive progressive change. This critique also applies to the reconfiguration of the monetary constraint in Germany and the EU.

The challenge of securing financing for various initiatives related to industrial development in the EU is well established (Frauenlob, 2025). Although numerous regulations and initiatives are being advanced, amid public sector austerity and limited fiscal resources – “and little effort (...) made to overcome the harsh austerity rules implemented within the architecture of the EU” (Frauenlob, 2025, 62) - the success or failure of EU industrial policy will largely hinge on the extent of private investment

mobilized. Two major funding instruments—the European Fund for Strategic Investments (EFSI) and its successor, InvestEU—constitute the principal financial frameworks intended to support (green) industrial policy initiatives within the EU, employing a “de-risking” approach to leverage private sector investment (Skyrman, 2024). This approach aims to crowd in private finance by reducing uncertainty and making projects more appealing to investors who might otherwise avoid them (Gabor & Braun, 2025). It has been described as a “cheap and attractive financing initiative under Europe’s austerity framework” (Skyrman, 2024, 6) and criticized by the critical academic literature as both insufficient (Raza, 2025, 53) and furthermore as a strategy where the state tries to attract private capital to investment ventures by assuming most of the economic risks (Wigger, 2025). Proposals such as establishing a golden rule for green investment or creating a permanent EU investment fund (Heimberger & Lichtenberger, 2024) have not been implemented. Furthermore, it appears unlikely that the Recovery and Resilience Facility (that was established in the context of the Covid-19 pandemic and represented a departure from long-standing German taboos, as it relied on deficit financing and mutualized bonds with a pronounced transfer component) (Ryner, 2021, 6) will be extended in the near future.

The reconfiguration of the structural form of monetary constraint in Germany is similarly marked by contradictions and insufficiencies. On March 18, 2025, the German Bundestag approved a reform of the debt brake, overcoming years of entrenched fiscal conservatism. However, while fiscal limits on military spending have been effectively removed, the budget for (green) industrial policy remains severely constrained. The reform introduces special funds (*Sondervermögen*) that provide for deficit-financed expenditures totaling 400 billion euros for infrastructure and an additional 100 billion euros for green investments over the next twelve years (Weber & Krebs, 2025a). Nonetheless, the annual allocation of 8.33 billion euros for investments in green technologies is widely regarded as insufficient to catalyze robust growth (Angelos & Nöstlinger, 2025). Overall, such financial parameters fall short of what is required to realize a truly ambitious industrial strategy. Moreover, the government’s commitment to prohibiting transfers from the regular budget to these special funds paradoxically intensifies the fiscal pressure on climate-related expenditures. The regular budget continues to operate under austerity constraints, offering minimal fiscal flexibility for transformative investments.

In addition, both Europe and Germany are planning to invest significantly more in military armament. Within the EU, the source of funding remains ambiguous despite the European Commission’s initiative to establish a €150 billion loan facility through the “ReArm Europe” program. Germany has relaxed its debt brake for defense spending, enabling the creation of a dedicated special fund of 500 billion euros for military investments without an upper limit on defense expenditure. This institutional adjustment effectively channels fiscal space predominantly towards armament, while budgets for social welfare and public services remain bound by austerity constraints. While unlimited military spending is permitted, social benefits and parental leave subsidies are already under threat (Weber & Krebs, 2025b). The reallocation of resources in this manner risks undermining essential social provisions, reflecting trade-off often framed as “guns versus butter.” However, this is not an economic inevitability but a result of strategic fiscal prioritization in the absence of broad-based reforms such as progressive taxation or expansive social investment funded through alternative borrowing. Consequently, the expansion of military budgets, while constitutionally permitted, intensifies the structural tension between defense imperatives and the sustainability of the social state. This dynamic exemplifies the contradictory reconfiguration of the structural form of monetary constraint in Germany, where fiscal leeway is granted selectively, privileging military expenditure at the potential cost of social and ecological investments.

Within the European Union, the shift towards the “Rearm Europe” initiative entails unprecedented increases in military and security expenditures, which will inevitably compete with social spending

priorities. Although the European Council has authorized the activation of the national escape clause under the reformed Stability and Growth Pact to accommodate increased defense budgets, this mechanism does not eliminate the competition with social expenditure. This is particularly pertinent given that not all member states—especially those burdened with high borrowing costs—are likely to utilize this fiscal flexibility. Moreover, countries facing excessive deficit procedures will continue to experience fiscal consolidation pressures that restrict social spending (Karamessini, 2025). Consequently, despite the reshaping of the structural form of monetary constraint that expands nominal fiscal space, this expansion cannot be leveraged to meet urgent challenges such as the strategic reinforcement and indispensable green transformation of the EU's industrial base.

Conclusion

The analysis of Germany's shifting role in European industrial policy reveals that the proclaimed "return of the interventionist state" is neither a straightforward break with neoliberalism nor the advent of a progressive alternative. Instead, it reflects a contradictory reconfiguration of state functions within a global context marked by intensifying geoeconomic competition, ecological crises, and mounting security imperatives. Germany and the EU are clearly moving beyond the ordoliberal consensus by loosening competition rules, endorsing sectoral subsidies, and embracing elements of "market direction." Yet, these measures remain selective, fragmented, and primarily geared toward safeguarding export competitiveness and national champions rather than fostering socio-ecological transformation. Unlike the Fordist interventionism of the postwar decades, which was tied to welfare expansion and rising mass incomes, the current turn is detached from broad redistributive commitments. Today's state activism privileges competitiveness and fiscal discipline while leaving social security systems under pressure from austerity and deregulation.

From a regulation theory perspective, this development underscores the fragility of the export-led accumulation regime. The reconfiguration of the structural forms of competition, wage relations, and monetary constraints demonstrates that while industrial capital has secured expanded state support, the welfare state and organized labor remain exposed to renewed pressures of austerity and deregulation. The revival of industrial policy is thus accompanied by an agenda that risks entrenching internal devaluation, social fragmentation, and regressive reforms, even as geopolitical rivalry necessitates heightened state activism. In this sense, the new paradigm embodies "new sails, old course": mercantilist intervention abroad coupled with neoliberal discipline at home.

Whether this emergent configuration can stabilize European capitalism remains uncertain. The erosion of neoliberal constitutionalism has created space for experimentation, but the absence of a new class compromise or robust social conditionalities limits the transformative potential of current initiatives. Crucially, the neoliberal legacies of fiscal austerity, risk aversion, and weakened public capacities may render European industrial policy not only socially regressive but also strategically insufficient to compete with the more coherent state-led approaches of China and the increasingly protectionist (and erratic) customs and trade policy in the United States. Without a deliberate rebalancing toward social investment, ecological priorities, and redistributive mechanisms, the return of the state may deepen rather than resolve the contradictions of the European growth model. Ultimately, the current trajectory highlights a central paradox: state intervention has returned, but largely in the service of international competitiveness and military build-up, leaving unresolved the fundamental question of how to construct a sustainable and socially inclusive post-neoliberal order.

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