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Domestic ideas, institutions or interests? Explaining governmental preferences towards global economic governance

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Abstract

Controversies in global economic governance are strongly shaped by domestic societal forces. In some instances, however, governmental positions reflect domestic interests, while ideas influence positions in other instances. Under which conditions do ideas prevail over interests and vice versa? How do they interact with each other and with domestic institutions? I argue that governmental positions predominantly follow interests if the governance issue at stake impacts the cost–benefit calculations of specific sectors, while ideas dominate when sectoral interests are affected in a diffuse way and fundamental questions on the role of politics in steering the economy are at stake. Furthermore, governmental positions tend to be consistent with national institutions, when the global governance issue concerned refers to questions related to domestic patterns of socio-economic regulation. In enhancing the societal approach to international political economy (IPE), the article exemplifies the relevance of these arguments in case studies on the G20 and the International Monetary Fund.

Keywords

Global economic governance, domestic politics, societal approach, G20, International Monetary Fund, ideas, institutions, interests

The puzzle

Since the eruption of the global financial crisis in 2008, industrialised and emerging economies have attempted to improve the governance of the world economy through policy coordination. Existing institutions were reformed, new fora created, and new policies enacted. Most significantly, the G20 was elevated to the leaders' level of heads of state or government and instituted as 'the premier forum for its members' international economic cooperation and decision-making' (G20, 2011a). The G20 tackled a broad agenda for global economic governance, which ranged

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from coordinating national stimulus programmes, to exchange rate policy, trade imbalances, and sovereign debt. In addition, the International Monetary Fund's (IMF's) resources were sharply increased and its governance structure underwent a modest overhaul. This multilateral, post-crisis activism, however, mostly fell short of effective coordination. On most issues, participating states could not agree on a common ground. These controversies, however, did not follow the lines of international alliances such as the G7 or the BRICs (Brazil, Russia, India and China), but were rather shaped by domestic societal influences on governmental positions: global politics were domestic politics (Schirm, 2013).

In some instances, divergences were informed by the cost–benefit calculations of domestic interests, while value-based societal ideas shaped governmental positions in other instances. For example, material interests of the export sectors dominated the disputes about global imbalances. Regarding ideas, the dispute between G20 members advocating large, deficit-driven economic stimulus and other members favouring a rapid exit from deficit spending reflected different ideational foundations for national preferences vis-à-vis the virtues of either debt-driven consumption or fiscal restraint. Furthermore, the divergences between Europe and the US on the reform of the IMF decision-making rules correlated with the opposing societal ideas of inclusive decision-making versus leadership and with differences in the domestic institutionalisation of policy coordination.

The puzzle arising from these observations concerns the conditions for the prevalence of either interests or ideas in shaping governmental positions. In addition, the role of domestic institutions has to be addressed since interests and ideas as well as governmental preferences might be informed by previously created institutions. Hence, this article investigates the question of why societal ideas predominantly shape governmental positions in some instances and societal interests in others, while positions seem to be consistent with domestic institutions. Thus, the article focuses on the theoretical conceptualisation of the conditions for the influence of ideas, institutions or interests and on the empirical examination of their bearing on governmental preferences in case studies.

Ideas, interests and institutions in the societal approach

In analysing the puzzle, the article follows the societal approach to governmental preference formation (Schirm, 2009, 2011, 2013), which rests on theories of domestic politics, including the liberal theory of international relations (IR) (Katzenstein, 1978; Milner, 1997; Moravcsik, 1997) and the varieties of capitalism theory (Fioretos, 2001; Hall and Soskice, 2001). The societal approach integrates and develops these theories further. It focuses on sectoral material interests and value-based societal ideas as independent variables to explain governmental positions as the dependent variable. It assumes elected governments are responsive to societal influences because they want to remain in office. Thus, regarding IR, the societal approach maintains governmental positions express preferences originating from domestic societal influences prior to international negotiations.

In this article, the societal approach will be developed further by including domestic institutional arrangements as a third independent variable for explaining governmental positions. Institutions have causes and these causes may be found in ideas and interests. Equally plausible, however, is the historical-institutionalist argument that institutions, once created, subsequently influence societal ideas and interests, thus shaping governmental preference formation indirectly. Furthermore, domestic institutions may directly inform governmental positions through institutional complementarities, which lead to different competitive advantages in cross-country comparison. These diverging institutional complementarities might preclude governments from following the pressures of globalisation for policy convergence and foster the resilience of national capitalisms and policies (Hall and Soskice, 2001: 60). Thus, in addition to considering societal ideas and interests, this article will conceptualise and examine the role of domestic institutions in order to identify economic regulations that diverge between countries and might therefore shape diverging governmental positions about global economic governance. Hence, the extended societal approach considers ideas, interests and institutions by asking: *when does each of these three variables matter in shaping policy positions, and how do they interact with each other?*

Obviously, besides competing with one another in shaping preferences, ideas, interests and institutions can mutually reinforce each other. Thus, in addition to analysing the conditions for their prevalence, the article aims to exemplify possible interdependencies between the variables. In operationalising the societal approach, the explanatory variables shall be defined along with their sui generis characteristics in order to separate them analytically (without omitting interdependencies) for the purpose of creating hypotheses that will guide the empirical examination in the case studies:

Interests are defined as material considerations of specific domestic sectors that react rapidly to changing circumstances, that is, according to short-term benefits and costs induced by the global economy and (new) global governance initiatives. This definition is based on analyses of the interaction between internationalisation, domestic sectors (e.g. export, banking sectors) and politics, focussing on changes in the international economy that lead interest groups to pressure the government into establishing competitive conditions (Frieden and Rogowski 1996: 35; Milner, 1997: 9; Moravcsik, 1997: 528). Sectoral interests can diverge, for example, regarding the desire for protection from competition versus the demand for liberalisation.

Ideas are defined as path-dependent and value-based collective expectations about appropriate governmental policies (Campbell, 2001: 159–166; Hall, 1997: 184; Jepperson et al., 1996: 54). Societal ideas can express themselves in opinion polls and practices. Practices are defined here as long-term behavioural expressions of ideational predispositions (e.g. of savers, consumers). Practices, however, reach beyond value-based ideas and may lead to general societal interests, which are not sectoral and short-term in nature, but may cause or follow path-dependent ideas. Thus, practices may connect ideas with general societal interests and may be codified in institutions or derive from existing institutions (see below). Therefore, interdependencies among interests, ideas and institutions are to be expected in addition to their sui generis characteristics. The identification of the latter is necessary to compare the impact of the three variables individually on governmental positions.

The variable ideas in the societal approach encompass *process ideas* and *content ideas*. Process ideas are defined as expectations about the consensual versus hierarchical way (global) governance decision-making should be conducted. Opposing process ideas can emphasise, for example, 'leadership' versus 'inclusive' decision-making. Content ideas express what a society sees as the primary task of the government in a given policy area. Regarding economic policy, diverging content ideas can be, for example, 'trust in market forces' versus 'trust in governmental regulation', or 'fiscal prudence' versus 'deficit spending'.

Institutions are defined here as formal regulations, which structure domestic political and socio-economic coordination. With the variable institutions, this article includes long-term complementarities resulting from domestic regulations that might shape governmental positions towards global governance. Drawing on historical institutionalism and on the 'Varieties of Capitalism' literature (Hall and Soskice, 2001), the 'institutionalist theory of state preferences suggests that governments' positions in intergovernmental negotiations are informed by their calculations of how international rules will affect their ability to sustain designs that are the foundation of economic groups' competitive advantages' (Fioretos, 2010: 701). In addition to efficiency calculations, governmental preferences also tend to be consistent with long-term domestic institutional settings because of their path-dependent ideational legitimacy. *After all, institutions represent the codification of previous sets of ideas and interests, which may influence current societal ideas and interests*. For example, in coordinated market economies the ideational expectation for inclusive decision-making is codified in rules on collaborative interaction between employers, labour and government, while in liberal market economies coordination occurs via competing market forces and hierarchic decision-making (see case studies). This institutionalisation reinforces corresponding process ideas. Thus, ideas, interests and institutions possess sui generis characteristics, but may also constitute one other.

The extended societal approach leads to the following hypotheses:

H1. When specific economic sectors are affected directly by (new) governance and cost–benefit questions dominate, material interests will be most influential in shaping governmental preferences because lobbying will be strong.
H2. When specific interests are affected in a diffuse way and fundamental questions about the role of politics in governing the economy are raised by a governance initiative, ideas will predominantly shape governmental positions because path-dependent societal expectations will be affected and interest groups lack motivation for intense lobbying.
H3. When the global governance issue concerned refers to questions related to domestic patterns of socio-economic regulation, governmental positions will be consistent with national institutions. Consistency means that positions are either informed by institutions or not opposed to them. Institutions can in principle weaken the impact of ideas and interests on governmental preference formation that oppose institutional settings and strengthen the impact of ideas and interests that reinforce them.

These conditions for the bearing of the variables have two implications. Firstly, that – depending on the global governance issue concerned – one, two or all three will influence governmental positions. Secondly, that while interests and ideas can compete for influence (see H1 and H2), institutions are expected to influence governmental positions in accordance with interests and/or ideas. The latter supposition follows from the definition of institutions as codification of previous sets of ideas and interests, which may influence current societal ideas and interests. Examining these hypotheses requires an empirical assessment of the independent variables, that is, of specific sectoral interests (expressed in statements), societal ideas (expressed in opinion polls and practices), and domestic institutions (expressed in regulations). Thus, the empirical analysis will focus on tracing the process of global governance negotiations, on examining whether governmental positions correspond to domestic interests, ideas or institutions, and on investigating under which conditions the explanatory variables mattered.

The expanded societal approach seems best suited to comparatively examine the impact of domestic ideas, interests or institutions on governmental preferences. Systemic theories of IR such as international institutionalism and neorealism do not address the role of domestic forces in governmental preference formation and therefore cannot explain this article's puzzle. In contrast, 'partisan politics' as a second-level approach could in principle bear explanatory power for the domestic sources of governmental positions. According to this approach, changing party control over the national government should result in changing government positions towards global governance. For this article, however, partisanship seems not to matter since the respective US and German positions regarding the G20 and the IMF reform did not alter when the party composition of the government changed (see quotes by Steinbrück (SPD) – Merkel (CDU), Powell (Rep) – Lago (Dem) in case studies, and Schirm, 2009).

Case studies

The following case studies were chosen to shed light on the conditions that determine the differing impact of the independent variables. For this purpose, a qualitative empirical exemplification of the possible correlation between domestic ideas, institutions and/or interests on the one hand, and governmental positions on the other hand, seems adequate. With three variables to examine, however, no comprehensive test is envisaged. Rather, the cases shall demonstrate the conditions under which the independent variables informed governmental positions towards specific issues in global governance. The two G20 cases analyse, firstly, the attempt at coordinating national stimulus programmes and their funding through public debt, and, secondly, the controversies about common standards for exchange rate and trade policies. The IMF case involves divergences about the decision-making procedures in the Fund. Thus, the cases represent (1) the international coordination of domestic economic policies; (2) the international coordination of foreign economic policies; and (3) the negotiations on decision-making rules in international organisations.

Two countries were chosen for systematic comparison: the United States as a liberal market economy (LME) and Germany as a coordinated market economy (CME). Both show a different institutionalisation of national capitalism, different sectoral advantages and different ideational settings. While the US predominantly follows competitive market arrangements and unilateral management control over firms, Germany relies more on non-market coordination and consensual decision-making (Hall and Soskice, 2001: 8, 24, 29; Pfau-Effinger, 2005). Regarding country-selection, the adoption of a most different-setting allows for the presumption that divergent domestic characteristics might indeed have informed the international positions of the two countries' governments.

The evidence in the case studies will derive from (1) exemplary quotes from responsible politicians (finance ministers and heads of government); (2) statements of sectoral interest groups; (3) data from public opinion polls; (4) reports from specialised media; and (5) analyses by university researchers. Interest group statements focus on business associations because business and labour shared the same interests in the respective case studies, since both benefitted from government policies regarding stimulus, export promotion and protection from imports. Quotes from political decision-makers will be limited to politician's comments and exclude comments from expert bureaucrats for two reasons. Firstly, politicians are accountable to voters and, thus, presumably responsive to interest groups and societal ideas, which would not necessarily be true for bureaucrats. Secondly, the magnitude of the crisis, its domestic repercussions and the leaders' level of the G20 summits since 2008 has increased the role of governments and decreased the influence of bureaucrats and epistemic communities (Helleiner and Pagliari, 2011: 182).

Obviously, governmental statements that correlate with specific domestic factors cannot serve as proof for a causal relationship between ideas, interests and/or institutions on the one hand and governmental preferences on the other. When governments justify their positions with ideas, they can, for example, also draw a rhetorical picture to promote hidden material agendas, such as protectionism or liberalisation. Thus, quotes do not serve as causal proof, but instead as plausible evidence for what politicians perceive as legitimate reasons for their positions in the eyes of voters. In other words, based upon the standard assumption that politicians desire to remain in office, explanatory statements made by politicians in principle reflect what a society considers legitimate ideas, interests and institutions.

In pluralistic societies, interest groups compete with other interest groups as societal ideas compete with other societal ideas. A complete analysis of the cases should ideally comprise these debates among different interests and ideas. Given the space constraints of a journal article, however, this endeavour must be accomplished by future research. This article aims at bringing together in one analytical framework three societal variables that are usually employed separately, conceptualising the conditions for their bearing on governmental preferences, and providing evidence for their relevance in each case.

The G20 debates on stimulus and debt

Three issues have figured prominently on the G20 agenda since 2008: the coordination of domestic stimulus programmes, global imbalances, and tighter financial market regulation. While the latter was essentially watered down by the financial services lobby in industrialised countries, especially in the US (Morgan, 2011: 596; Woods, 2010: 11), most G20 countries created huge stimulus programmes intended to cushion the recession by boosting domestic demand. These programmes and the expensive bail-outs for banks rapidly increased public debt, which has become a core problem for several countries since 2010. According to the IMF, on balance for 2009–2010, the US initiated the largest stimulus package, amounting to 4.8% of gross domestic product (GDP), followed by Germany with 3.5%, Canada with 2.8%, Japan with 1.8% and the UK with 1.3% (IMF, 2009: 18). The stimulus programmes are held to have successfully attenuated the impact of the post-crisis recession. While all industrialised countries of the G20 initiated stimulus programmes, they took different forms in the countries involved. Since this case study refers to domestic economic policies, the analysis starts with the domestic policy-level before turning to the international arena of G20 controversies.

United States

The US programme focused on new spending and tax cuts that heavily increased public debt. The American Recovery and Reinvestment Act (ARRA) from 2009 alone comprised US$ 787 billion. Besides huge increases in governmental expenditure in the form of deficit spending, the US Federal Reserve Bank undertook three rounds of quantitative easing (QE), which resulted in a sharp increase in the amount of dollars on the market. QE2 encompassed 600 billion dollars and, in 2011, QE3 was announced, consisting of a purchase of 400 billion dollars of US treasury securities (The Economist, 2011). While governmental spending through ARRA was distributed according to political considerations, the huge sums of QE were distributed by the market.

The features of the US stimulus programme corresponded to the ideational and institutional foundations of the US's LME. Regarding ideas, the readiness of the government to embrace huge deficit spending was consistent with societal attitudes and behavioural patterns in the US, where debt-driven consumption is widely supported by the public (Cynamon and Fazzari, 2010; Morgan, 2011: 593; Rajan, 2010). Mirroring the behavioural practice of debt-fuelled consumption, the savings rate by private households in the US is traditionally much lower than in Germany (OECD, 2010). These divergent societal practices suggest an ideational predisposition that plausibly leads US voters to be more acceptant of governmental deficit spending than is the case for German voters. Regarding institutions, a huge part of the US stimulus consisted of loose monetary policy with market-driven distributional effects. This corresponded to the dominant competitive market institutions and was concurrent with ideational settings exhibiting more trust in the market than the government to distribute resources. As Pfau-Effinger (2005: 11) notes, 'In Germany the majority of the population is oriented towards an intervening welfare state which diminishes social inequality, while, in the United States, the majority opinion is that equity is guaranteed best by the free working of the market'.

Germany

The CME Germany took a different path in stimulating its economy by relying on the institutionalised, automatic stabilisers of its welfare state, estimated at 2.5% of GDP (International Labour

Organisation, 2010). Because automatic stabilisers and other social security transfers are much higher in Germany than in the US, public expenditure and demand stimulus automatically increase substantially during an economic downturn. Public opinion polls support the ideational side of these differences in governmental intervention. For example, as the World Values Survey (WVS, 2006: V152) indicates, while 27.7% of Germans believe that it is an 'essential characteristic of democracy' that 'governments tax the rich and subsidize the poor', only 6.6% of Americans agree with that statement.

On the institutional side, the large welfare state, tax system and the Kurzarbeit-scheme are examples of institutions within a CME designed to automatically cushion the impact of economic recession. With Kurzarbeit, the government subsidises the wages of workers who would otherwise be laid off in order ensure they retain their jobs (Schirm, 2011: 56). Thus, automatic stabilisers in the German welfare state and the Kurzarbeit-scheme can plausibly be considered institutional manifestations of the societal ideas of collective solidarity and collaborative interaction between employers, labour and government. The Kurzarbeit scheme additionally serves the interests of both entrepreneurs and trade unions. Therefore, the institution of Kurzarbeit can be traced back to the ideational and institutional predisposition towards collaborative solidarity as well as the parallel interests of unions and entrepreneurs. In sum, mutually reinforcing societal ideas, institutions and (to an extent) general interests led Germany to be less reliant on market mechanisms and new forms of deficit spending than the US.

Additional ideational features also contributed to the German rejection of a US-style loose fiscal policy. Most prominent was the fear of inflation caused by deficit spending as articulated in the domestic debate and, internationally, at G20 meetings. This broadly shared ideational consensus on anti-inflationary fiscal prudence has dominated German economic policy culture since the hyperinflation of the Weimar Republic. It was enshrined in Ludwig Erhard's recipe for a Soziale Marktwirtschaft (Schmidt, 2001: 1–2) as well as in the statutes of the Bundesbank. Thus, anti-inflationary societal attitudes can be interpreted as a societal idea based on historical experiences, which resulted in practices (high savings rates), regulations and in a general societal interest in low inflation.

International positions

In the G20, Germany and the US differed considerably on stimulus and public debt. The US advocated a strategy of heavy deficit spending and monetary easing, and demanded other countries engage in stimulus to an equal degree with the US. The US treasury secretary, Timothy Geithner (2010a), argued in a letter to G20 finance leaders: 'G20 countries with persistent surpluses should undertake structural, fiscal and exchange rate policies to boost domestic sources of growth and support global demand'. The German government strongly opposed US deficit spending and QE on two grounds. Firstly, it disputed the sustainability of economic stimulation via deficit spending and printing money. Secondly, it emphasised the danger of inflationary pressures on prices. Already at the G8 finance ministers' meeting in summer 2009, the German finance minister, Peer Steinbrück (2009), urged the US to pursue an 'exit strategy' with regard to loose monetary and fiscal policy. Chancellor Merkel (2010) demanded before the Seoul summit that the G20 'talk more in the G20 framework about the exit strategy from our various crisis programmes. We must switch to a phase of budget consolidation, as we are doing in Germany'.

Summing up, the US and Germany articulated their contrasting demands for further stimulus and for monetary and fiscal prudence in the context of the G20. Explaining governmental positions in the case of stimulus and debt through the societal approach focuses on variation regarding content ideas and institutions, because *specific* sectoral interests were not strongly involved. Interests were detected in the form of the general societal interest in low inflation due to high savings in

Germany and of the non-sector-specific support of unions and entrepreneurs for Kurzarbeit. These general material concerns, however, rested on ideas and institutions, as shown above.

Governmental positions predominantly corresponded to content ideas and to the institutions of the respective CME and LME. In Germany, trust in regulation, fiscal prudence, high savings and anti-inflationary policies were expressed in societal attitudes and practices. These ideational features were consistent with domestic institutions. Both shaped policies (such as lower levels of new spending) as well as non-market distributional arrangements (such as the automatic stabilisers and Kurzarbeit). In the US, higher trust in market forces, huge deficit spending and loose monetary policies enjoyed high acceptance in societal attitudes, while the market-driven distribution of the stimulus through QE reflected liberal market institutions. Thus, this case study supports H2 on the influence of path-dependent ideas: when sectoral interests are only affected diffusely and fundamental questions about the role of politics in governing the economy are raised, ideas prevail in governmental preference formation. In addition, the case supports H3: governmental positions were consistent with domestic institutions, since the global governance issue referred to questions related to domestic patterns of socio-economic regulation.

The G20 negotiations on exchange rates and global imbalances

The second case study analyses the controversy among G20 members over the coordination of foreign economic policies, that is, exchange rates and global imbalances. These topics are closely linked since both mattered for the same reason: trade. Exchange rate policy became an issue because currency devaluation was seen as an instrument to boost exports and protect domestic industry. Global imbalances became an issue when the US raised it to pressure the big export countries to reduce their surpluses and thereby the import pressure on US domestic producers. Coordinating different national policies on both of these issues affects specific domestic sectoral interests directly via their impact on jobs and profits in the export sector and in sectors threatened by imports. Since this case study refers to external economic policies, the analysis starts with the international level at the G20 before turning to the domestic level.

Regarding *exchange rate policy*, the debate in the G20 began when the Obama administration accused China of undervaluing the renminbi and thereby decisively contributing to the large trade deficit the US had with China. The US demanded an appreciation of the renminbi vis-à-vis the US dollar (Geithner, 2010b). In the words of treasury secretary Geithner (2010c): ‘We believe it is very important to see more progress by the major emerging economies to more flexible, more market-oriented exchange rate systems’. However, with the issuance of huge amounts of dollars through QE, the US equally started to devalue its currency. Consequently, other G20 countries began to worry about their exports suffering as a result of competitive devaluations between the US and China. The German chancellor Angela Merkel (2010) complained about ‘increasing distortions of exchange rates’ and warned that ‘in the end, everybody loses from competitive devaluations’. Similarly, the German finance minister Wolfgang Schäuble (2010a) remarked that ‘it’s inconsistent for the Americans to accuse the Chinese of manipulating exchange rates and then to artificially depress the dollar exchange rate by printing money’.

Domestic sectoral interests played a crucial role in defining the positions of the two governments. The US argued that both its exchange rate criticisms of China and QE were aimed at securing domestic jobs and at promoting exports. As US treasury secretary Geithner (2010b) noted, ‘The undervalued renminbi (…) makes it more difficult for goods and services produced by American workers to compete’. US policy positions with regard to China’s currency followed intense lobbying by domestic business associations demanding protection from the competition by Chinese goods. For example, the US Chamber of Commerce (2011) reports on its activities by stating that it 'led advocacy efforts to increase multilateral pressure on China to adopt a market-determined exchange rate and revalue its currency'. In contrast, the warnings of successful exporters such as Germany were based on fears that Chinese and US currency devaluations would harm the competitiveness of their products on the world market. The position of the German government corresponded to domestic sectoral worries about the negative repercussions a 'currency war' would have on German exports. As Anton Börner (2010), president of the German exporters' association (BGA), stated: 'We expect the US Federal Reserve Bank to continue printing money. (…) but a currency war and competitive protectionism only produce losers'. Similarly, the president of the German Chamber of Industry and Trade (DIHK), Hans Heinrich Driftmann (2010), emphasised: 'The current attempts of some countries to achieve short-term advantages through currency devaluation are dangerous'.

The second trade-related theme, *global imbalances*, became controversial in the G20 in 2010 when US treasury secretary Geithner proposed a cap of 4% for a country's current account surplus/deficit. This initiative was aimed at the large Chinese, German and Japanese export surpluses. Geithner (2010c) called for political action to reduce these surpluses: 'Countries that chronically run large surpluses need to undertake policies that will boost their domestic demand'. The US proposal was opposed by German finance minister Schäuble (2010a): 'The German export successes are not the result of some sort of currency manipulation, but of the increased competitiveness of companies. The American growth model, on the other hand, is in a deep crisis'. Complementing her finance minister, chancellor Merkel (2011a) stressed that two-thirds of Germany's growth was triggered by domestic demand and not by exports. The G20 Seoul summit in 2010 did not follow the US proposition but, instead, agreed to develop a range of indicators for monitoring global imbalances. The 'indicative guidelines' included domestic private savings rates and private debt, public debt and fiscal deficits, trade balances, and net investment income flows and transfers (G20, 2011b). The agreement was consistent with Merkel's (2011b) position in defence of the German export sector: 'We have clearly paid attention that export surpluses as expression of good competitiveness must never be banned'.

Both countries' positions on trade imbalances corresponded to the interests of domestic sectors. These were articulated, for example, by DIHK president Driftmann (2010), who warned that everyone would lose from new restrictions on trade and that 'the best solution for economies with weak exports is anyway to work on their own competitiveness'. On the US side, *Bloomberg Businessweek* observes that the G20 outcome 'won't quiet the growing chorus of American free-trade sceptics, who argue that unfettered global commerce is killing American jobs and industries' (Coy, 2010). The President of the US Chamber of Commerce, Thomas Donohue (2010), emphasised that 'the Chamber supports a multilateral effort to address global imbalances. We commend Secretary Geithner for starting this necessary discussion'.

Summing up, US and German positions related to exchange rates and trade imbalances corresponded to domestic sectoral interests. This was apparent in the correlation between governmental and interest group statements concerning the cost–benefit aspects of trade and exchange rates. The US sought to protect domestic sectors threatened by imports and simultaneously enhance the performance of US exporters by devaluing the dollar and establishing restrictions on competitors. Germany, in contrast, sought to defend its successful export sector against currency manipulation and the trade restrictions proposed by the US. Thus, this case study supports H1 since, in both countries, governmental positions were shaped by the cost–benefit calculations of directly affected specific sectors. In accordance with H2 and H3, ideas and institutions could not be detected in the debates on imbalances and exchange rates since these issues did neither refer to fundamental questions on the role of politics in steering the economy, nor to domestic institutional regulations.

The International Monetary Fund governance reform

While the previous cases exemplified the correlation of domestic forces with governmental positions towards policy coordination, the following case study investigates societal foundations of positions on decision-making rules in an international organisation. Governance reform of the IMF has been debated since the 1990s, with emerging economies demanding both an increase of their seats on the executive board, as well as an enlargement of their voting and quota shares. Regarding quota and votes, IMF members agreed to a shift of 6% in favour of emerging powers in 2010. China obtained the third largest quota and Brazil and India now belong to the 10 member states with the highest shares and quotas (Lesage et al., 2013: 565; Wade, 2011: 364).

Both the US and European governments approved the augmentation of emerging economies' voting and quota shares. The proposed changes to the executive board and to the US veto, however, led to a conflict between the US and Europe, especially with Germany. Whereas Europeans demanded an end to the US veto power in the IMF, the US rejected this demand by emphasising the need for US leadership and threatened to use both its veto and a specific procedural tool to force European IMF members to give up permanent seats on the executive board. The US veto results from its voting share of 16.8% and structural decisions requiring a 85% majority. The US procedural tool was that the temporary increase of the executive board's original 20 seats to 24 was due to expire and needed to be renewed in November 2010. The US threatened to veto this renewal if European members refused to forgo some seats. Had the US done so, the number of seats would have been automatically reduced to the original 20, causing countries such as India and Brazil to lose their seats representing regional constituencies (Beattie, 2010). This outcome, in turn, would have been contrary to the long-held German aim to foster a more inclusive decision-making process in the IMF (see below). Regarding the puzzle of the article on the conditions for the prevalence of either domestic ideas, institutions or interests, this controversy shows ideational differences rather than differences in domestic sectoral interests. Thus, correlations between governmental positions and societal ideas consistent with domestic institutional features are to be expected.

Germany

Chancellor Schröder (2002), for example, had previously emphasised that 'we need a truly democratic trade and financial regime in the world'. Regarding the IMF quota, German finance minister Schäuble (2010b) stressed that 'Germany supports a redistribution of at least 5% from the overrepresented to the underrepresented countries. We expect the dynamic emerging and developing countries to benefit primarily from this redistribution'. In addition, the proposal advanced by Schäuble (2010b) sought to end the US veto power by reducing the threshold for structural decisions 'in order to organise the IMF's decision-making process in a more integrative way'.

The German government's position favouring 'integrative' decision-making rules was consistent with the societal process idea of consensual decision-making and with the domestic institutions of the German CME. Public opinion polls show that Germans are much less in favour of strong leadership than are Americans and trust competition less than Americans. According to the WVS (2006 V119 and V148) only 16.9% of Germans compared to 32.9% of Americans believe that 'having a strong leader in a political system' is 'very good' or 'fairly good'. Furthermore, 10.2% of Germans compared to 21.3% of Americans believe that 'competition is good'. This difference in societal ideas is consistent with the 'structural bias towards consensus decision-making' (Hall and Soskice, 2001: 24) in the German CME. To name two examples of inclusive corporate governance institutions: in Germany, employees have the right to co-determine working conditions and to occupy half the seats in a company's supervisory board. Thus, the societal process idea of inclusiveness and the collaborative decision-making institutions correlate with the German government's position in favour of inclusive IMF decision-making.

United States

US dominance in the IMF has been previously emphasised, for example, by secretary of state Colin Powell (2001), who stressed the necessity of a 'strong US leadership in the IMF'. In 2009 treasury secretary Geithner (2009) testified before Senate: 'the IMF's governance structure needs to evolve (…). This means giving greater representation to dynamic emerging market and developing countries (…) and it also means preserving our strong leadership role in the Fund'. The perceived need for US leadership and the rejection of the German demand for an end to the US veto was underlined by assistant treasury secretary Marisa Lago, stating: 'We do not believe that that (reform) calls into question the US veto' (quoted in Beattie, 2010). The White House (2010) noted after the governance reform that 'US leadership was critical to this agreement' and emphasised that the reform 'maintains the US veto over key IMF decisions'.

These quotes illustrate the desire for leadership underpinning the US government's position on its veto in the IMF. This position correlates with the societal idea of strong leadership and with the acceptance of competitive, winner-takes-all processes, which, as shown by WVS data, are supported by twice as many Americans as Germans. In addition, government positions and societal ideas are consistent with US domestic institutions, which favour competitive winner-takes-all results more than the German system, including 'corporate structures that concentrate authority in top management' (Hall and Soskice, 2001: 33).

In summary, the US position correlates with the process idea of leadership and with the institutions of its LME. Germany's position was consistent with the process idea of inclusive decision-making and with the collaborative institutions of its CME. No lobbying by interest groups was apparent. Thus, this case study supports H2, which asserts that ideas prevail when sectoral interests are only diffusely affected and fundamental questions about the role of politics in governing the economy are raised. Furthermore, the case supports H3 by confirming that, when the global governance issue refers to domestic regulatory patterns, governmental positions will be consistent with domestic institutions.

As has already been discussed, the evidence offered in the three case studies regarding the puzzle of this article only suggests correlation, not causality, between societal ideas, institutions or interests on the one hand and governmental positions on the other. Future research might analyse whether US and German positions can also be explained by alternative approaches not employed here, such as power-based neorealism.

Conclusion

The case studies provide evidence for the conditions under which value-based ideas, regulatory institutions or sectoral interests inform governmental positions. Ideas, interests and institutions were subsumed here under the rubric of the societal approach to create a domestic theory of governmental preference formation.

In the first case on stimulus and public debt, governmental positions corresponded to societal content ideas about appropriate policies (but not to specific sectoral interests) and were consistent with domestic institutions. These findings support H2 and H3, since the controversy referred to the role of politics in governing the economy and to domestic regulations, but showed no direct impact on specific domestic sectors. Governmental positions correlated with the institutions of the liberal (US) versus coordinated (Germany) market economies as well as with ideas favouring fiscal prudence, high savings, governmental subsidies (Germany) versus deficit spending, low savings and low governmental intervention (US). Ideas and institutions mutually reinforced one another. Ideas as attitudes supported collaborative institutions, such as Kurzarbeit, which overlapped with the interests of unions and entrepreneurs. Ideas as behavioural practices led to general societal interests such as in low inflation to protect high savings in Germany. Thus, interdependencies among the three variables were detected in addition to the sui generis bearing of ideas and institutions on governmental positions.

In the second case study, the dispute over global imbalances and exchange rates directly affected the cost–benefit calculations of specific sectors, namely the export sector in Germany and firms threatened by imports in the US. In accordance with H1, these conditions triggered the articulation of sectoral interests through lobbying which, in turn, corresponded to governmental positions. In the third case study on governance rules in the IMF, societal ideas and domestic institutions reinforced one another. The German position correlated with process ideas favouring inclusiveness and with the decision-making characteristics of its CME. The US position reflected process ideas supporting leadership and was consistent with the competitive, hierarchical characteristics of its LME. These findings support H2 and H3. While societal ideas were detected in the stimulus/debt case as *content ideas*, they correlated with governmental positions in the IMF case as *process ideas*.

The findings in the case studies suggest that societal ideas and interests relevant for governmental positions are either informed by domestic institutions or do not oppose them. The general societal interests detected in the first case study, however, also point to the limitations of the scope of the societal approach as exemplified here. Future research should conceptualise general societal interests in addition to sectoral interests. Furthermore, while fruitful for analysing domestic sources of governmental preferences and the conditions for the relevance of either interests or ideas and institutions, the societal approach does not address the possible impact of the domestic distribution of power and wealth, nor does it consider the role of elites and party ideologies. Further research is needed on these issues.

In addition to substantiating the conditions for the relevance of societal ideas, institutions or interests on governmental preference formation, the evidence in the first and third cases supports the varieties of capitalism-argument that diverging national institutional complementarities preclude governments from following the pressures of globalisation for policy convergence. Instead, societal ideas and domestic institutions fostered the resilience of national capitalisms and policies.

Regarding the theoretical debate in international political economy (IPE), the article shows the limits of employing a purely institutionalist explanation, given the evidence for the impact of ideas and interests on governmental preferences. Clear limitations also became apparent regarding an exclusive focus on material interests, since ideas and institutions plausibly informed governmental positions in two of the three cases. Finally, the analysis demonstrated that purely ideational approaches encounter limits, when governments defend domestic institutional patterns and sectoral interests in international negotiations. Considering all three variables of the enhanced societal approach consequently proved crucial to explaining the domestic politics of governmental preference formation and the puzzle regarding the conditions for the influence of ideas, institutions or interests.

The societal approach contributes to the understanding of the conditions under which domestic forces impact global governance beyond the cases examined here. Domestic interests are expected to shape governmental positions generally in cost-inflicting sectoral matters, and thus should be particularly prominent in the realm of trade and financial negotiations. Ideas will have a bearing when fundamental questions regarding the role of politics in steering the economy are raised, for instance, in debates on the policy strategies of the IMF and the World Bank, as well as international labour and environmental standards. Finally, governmental positions will be consistent with domestic institutions when global governance issues relate to domestic regulatory patterns. As such, governmental positions and domestic institutions should be consistent in cases of collaborative versus leadership-oriented decision-making in international organisations and of harmonisation versus mutual recognition of standards in trade and investment negotiations.

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