



Rebecca Harding, William E. Paterson, eds. *The Future of the German Economy: An End to the Miracle?* Manchester: Manchester University Press, 2003. x + 146 pp. \$69.95 (cloth), ISBN 978-0-7190-6010-6.



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Published on H-German (March, 2005)

The Persistence of “Modell Deutschland” under Pressure

This collection of articles seeks to evaluate the ability of the German economic system to adapt to changes in the global economy. All of the authors in this work, except Lothar Funk and Graham Timmins, are relatively optimistic that *Modell Deutschland* will persevere. The main contention of the editors of this book is that despite its inability to address macro-level coordination problems such as unemployment, German institutions at the microeconomic level appear to be effective at addressing the challenges of globalization. German politicians and business people have learned “to incorporate some of the criteria of competitiveness in a global era into the supposedly rigid structures of the consensus model” (p. ix). These editors even go so far as to contend that British politicians could learn something by looking at the “enabling role” of the state in promoting growth and competitiveness. Building on work in the “varieties of capitalism” approach, albeit without specifically referencing it, these authors demonstrate in incredible detail how this model of coordinated capitalism actually works.[1] Such an analysis of the intricacies of this model is indeed welcome for scholars working in this approach, as all too

often work in this field consists of general descriptions of different types of economies.

In their introduction Rebecca Harding and William E. Paterson contend that general observations about the rigidity of the German system often overlook the actual changes that are occurring at the level of micro policy formation. According to their assessment many commentators on the German economy focus solely on macroeconomic indicators over a short period of time. Others simply criticize one aspect of the system without delving into either the complexity of topic they are addressing or the particular advantages that the system offers firms. In regards to the latter they point out that the German innovation system is good at generating incremental innovations. Regretfully, the common measure for innovation in any economy is the number of patents issued for a particular country. Clearly such a measure cannot effectively capture incremental innovation. As for the latter point, many observers fail to point out that coordination between management, unions, and the government in formulating training policies provides

firms with highly skilled workers with markedly high levels of productivity. Coordination between unions and firms along with close relations between companies and banks enable firms to take long-term considerations into account.

Going against the general thrust of the introduction, Lothar Funk in chapter 2 argues that persistent high levels of unemployment arise from “inherent rigidities” in the system. Without substantive reforms he claims Germany will not be able to address this problem. He is particularly critical of the Red-Green coalition’s inability to address this issue substantively. Apparently for Funk the only solution to this problem is to reform the whole system. With words such as “employment-friendly institutional reforms” he argues, albeit rather implicitly, for the abandonment of the coordinated economy approach and the implementation of a liberal economic model. Without going into any detail about how the German government spends what it collects in taxes, he reaches the standard neo-classical conclusion that a high level of government spending contributes to unemployment and low growth. Although wasteful government spending surely hinders improvements in the German economy, we should be careful about broad generalizations that fail to appreciate how governments can help create conditions for international competitive advantage. Of course unemployment is a problem in Germany, but we should not use it as an excuse for dismantling those institutions that actually benefit firms. In short, it seems that he did not heed the comments of the editors who in the introduction warned about the short-sightedness of condemning an economic system based upon macroeconomic indicators over a short period of time.

In chapter 3 Graham Timmins also addresses the topic of unemployment, choosing to focus on the inability of the Alliance for Jobs (Allianz für Arbeit), a group made up of government officials, trade unions, and employer associations, to come up with any solution to this problem. The parties in this group simply seem incapable of developing any viable resolution to this dilemma. He contends that such consensus-seeking organizations are inappropriate for the German economy in the twenty-first century. Like Funk, Timmins claims that the problem is *Modell Deutschland* itself. Without referencing the theoretical model put forward in the introduction, his analysis of this alliance actually shows how the German state has sought to alter its microeconomic policy. The “Alliance for Jobs represents an attempt to steer rather than intervene in the labor market by a promotion of best practice within the private sector” (p. 46). For him

the problem with this approach is that it allows all actors considerable scope in defining this alliance according to their own desires. In short the government is not providing a sense of direction for this group. Maybe the real problem in this case is not the idea of consensus-based organizations, but rather the manner in which this particular alliance is being lead.

Louise Amore in chapter 4 takes a distinctively different tone than the two preceding chapters. She argues that debates on globalization “have tended to reflect the deregulatory bias of Anglo-American social practices,” thereby leading to a neglect of alternative understandings of how firms, states, and societies can react to this challenge (p. 54). She also doubts the very feasibility of the type of liberal reforms advocated by Funk. Germany can not simply implement an Anglo-Saxon model, as such a solution goes against hundreds of years of historical precedents and the embedded social institutions they create. By focusing on the history of the German model she also shows how in the past it has been successful at sustaining competitiveness and overcoming challenges. Nevertheless, these embedded social institutions are often viewed as structural rigidities that undermine the competitiveness of the system as a whole. Much would seem to turn on how a society defines the means for being competitive in the global economy. While policies in Great Britain are focused on cost competitiveness, German policies are geared to promoting competitiveness through innovations, skills, and productivity. A focus on reducing costs would undermine the very foundation of *Modell Deutschland*.

In chapter 5 David Marsh builds upon the previous chapter by showing the strengths of *Modell Deutschland* and highlighting its capacity for adapting to challenges over the long-term. From this perspective, he argues, German industry is actually more flexible than is commonly believed. In fact, corporatism has remained intact even as companies embrace Anglo-American ideas such as stock options and venture capital. Nevertheless, the fact that this model is slow and unwieldy in making decisions provides the country a “defense mechanism” against crisis. Change does indeed occur in the German system, just not at the cathartic pace witnessed in countries like Great Britain or France. The lack of such fast-paced change in Germany causes some observers to overlook actual changes that are occurring. This observation helps explain why many observers have been predicting the death of the German model since the 1980s. Yet, even in the late 1990s the emergence of small companies on the *Neuer Markt* section of the stock market, deregula-

tion in energy and telecommunications, rising trade surpluses and low inflation were indicators that the German model was indeed not on its death bed. He points out that unit labor costs per unit of output in Germany are still below the level of the United Kingdom.

Rebecca Harding and David Soskice in chapter 6 contend that the German innovation system “appears remarkably suitable for sustaining the country’s traditional strengths in producing hi-tech and value-added incremental innovations and adapting itself, albeit relatively slowly, to exogenous paradigm shifts” (p. 99). The particular strength of the German system in creating incremental innovations is often overlooked simply because many scholars working in this field focus on how economies generate radical innovations. Although this innovation system is widely renowned for its coordinated approach to problems, underneath this veneer of cooperation lies a market-based dynamic at the micro-level. Technology transfer institutes compete for both private and public money. Their detailed analysis of the workings of the Fraunhofer Society reveals the intricate nature of this system. Each Fraunhofer institute receives roughly one third of its funding from the society’s headquarters (largely originating from government funds), one third from public contracts, and one third from private contracts. A complex formula is used to reduce the funding of each society from the Fraunhofer institute if its contracts with private companies fall below 25 percent of its core funding. This task proves particularly difficult due to the competition between different research institutes to obtain such contracts. Some researchers contend that the weakness of the German system of innovation is evident in the fact that very little biotech research occurs in this country. These authors claim that public and constitutional resistance to such research explains why such work is not done in Germany. They point out, however, that giants such as Hoechst, Bayer, and Siemens are doing research in this area, albeit through independently operated firms that they own abroad. Clearly the underlying reasons for some apparent failures cannot always be attributed to inherent rigidities in the German system.

In chapter 7 Rebecca Harding and Arndt Sorge contend that, historically, German corporatism has changed to meet several challenges while at the same time being able to maintain some of its key characteristics. According to their assessment its strength to adapt to changes derives from its networked and collective nature, which itself dates back to even before the 1871 constitution. These authors contend that the corporatist nature of this system allowed Germany to “catch up” during German

industrialization while also providing the basis for both the first and second economic miracles. Consequently, they are optimistic about the ability of *Modell Deutschland* to be able to meet the challenge of globalization. Although changes have occurred over the centuries it has retained its corporatist core. One example they put forward is the concept of codetermination. It has been an integral part of the overall system despite numerous challenges. Throughout the history of Germany linkages between firms and research institutes have proven critical for the success of the *Mittelstand*. Nevertheless, the system is capable of adapting to change. As evidence for this contention they point out that seed-corn financing increased almost tenfold between 1994 and 1999.

In the final chapter Rebecca Harding and William E. Paterson contend that “the sophisticated web of networks, public-private sector partnerships and governance structures provides a depth of resource to policymakers and industrialists alike that is scarcely rivaled elsewhere” (p. 122). Although they are worried that Germany may have further difficulties in lowering its historically high level of unemployment, they point out that it is still the third largest exporter in the world. The country has been able to achieve this result while maintaining a low level of inflation and a massive surplus in its balance of payments. It is a rather fine line to walk, but they contend that the German model has adapted rather than changed fundamentally. The German state stimulates markets through incentives while still providing coordination and mentoring structures. It now supports entrepreneurial behavior and innovation as well as increasing funding for traditional technology transfer structures. In the end they contend that much of the criticism of the German model shortly after Schröder took office arose from high expectations that he would be able to rejuvenate the country quickly.

In many ways this book is a welcome breath of fresh air in the stuffy halls of academia. Too often works on *Modell Deutschland* fail to probe the depths of the system, preferring instead to condemn it based upon broad generalizations about what institutions are required for economies to be successful in an increasingly interconnected world. This book should also be praised for its attempt to focus on the difference between micro and macro policies. Chapter 6 in particular does a good job of explaining the strength of micro-policy formation in the German innovation system; it is not at all surprising that this article was co-authored by one of the editors. Regrettably, not all of the articles follow this general theoretical framework. Most notably the articles by Lothar Funk

and Graham Timmins deviate substantially from this perspective. At the same time, the book has to be applauded for its attempt to include authors who obviously have an opinion that differs substantially from that of its editors.

Nonetheless, this book arguably should have been placed in a broader context about the nature of capitalism in the late-twentieth and early-twenty-first century and the role institutions play in providing firms competitive advantage. Although Rebecca Harding and Arndt Sorge in chapter 7 point out that the system of codetermination helps provide firms with a committed workforce, they do not point out that employee commitment proves critical for high-performance work practices such as teamwork and lean production. My own dissertation elaborates this point by showing how the commitment of employees to the implementation of a lean production program at a German multinational's facility in that country was facilitated by the involvement of the works council in the implementation of this program. In stark contrast, the lack of worker commitment to this same lean production program at one of this company's facilities in the United States seems to have contributed to its failure in that country. The unwillingness of workers to embrace this program is traced back to lack of mechanisms for integrating them into the decision-making process. The benefit of making quick unilateral decisions is clearly undermined if firms cannot get their workers to commit to the changes required. Although German firms may indeed be slow in making decisions, once decisions are made the consultation which occurs during this process provides a high likelihood that participants in this process will be committed to it. My work also shows how the high level of skills of workers at the German plant proved indispensable for the type of worker empowerment imagined under the company's lean production program. The relative low level of skills of the company's U.S. workforce proved to provide a substantive hindrance to the success of this program at their facility in that country.[2]

Additionally, it is rather surprising that the editors of this volume did not choose to discuss the importance of labor laws in setting the basic framework for *Modell Deutschland*. The only labor law that they do discuss is codetermination. Although they discuss the problem of unemployment, even Lothar Funk does not mention how laws governing terminations severely limit the willingness of firms to employ new workers. They have also overlooked one very important change at the level of micro-policy. Firms in Germany now have the possibility to flexibly deploy their workers over periods of months rather than solely within a given workweek without compensating them with overtime pay as long as workers average thirty-five hours of work over a six-month period. Although this change did not occur within the last ten years, it does represent a significant departure from the traditional policies of the German government. It is interesting to note that such laws are actually more flexible than similar regulations in the United States, which forbid the averaging of work hours over a period longer than a week.

What reforms are likely to come in Germany remain unclear. However, as the editors of this book contend, they are likely to occur at the level of micro-policy, thereby falling under the radar of those looking for some grandiose break with German history and tradition.

Notes

[1]. See Peter Hall and David Soskice, eds., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (London: Oxford University Press, 2001).

[2]. Daniel Friel, *Labor Policy, Choice, and the Organization of Work: A Case Study of the Efficacy of Lean Production at a German Conglomerate in the United States and Germany* (Ph.D. diss., New School for Social Research, 2003).

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Citation: Daniel J. Friel. Review of Harding, Rebecca; Paterson, William E., eds., *The Future of the German Economy: An End to the Miracle?*. H-German, H-Net Reviews. March, 2005.

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