

Business Culture, Markets, and Diversified Production Regimes in Historical perspective: USA and Germany in comparison

Werner Abelshauser

University of Bielefeld, Germany

At the beginning of the 21st century the production regimes of the USA and Germany are often considered to represent different ideal types of social systems of production (corporate governance, financial system, industrial relations, inter-company-system, qualification system). Against the background of expanding world markets and the emergence of immaterial productions as leading sector of the economy in highly developed countries Europe's development seems to be lagging behind the economic pace of her competitor („eurosclerosis,“). The Central European mode of capitalism - often labeled as „business coordinated market economy,“¹ - is, therefore, fiercely challenged by a more aggressive and competitive „liberal market economy,“ stemming from British-American historical experience. Seen from a European perspective this clash of business cultures is raising difficult questions which could trigger off a series of far reaching consequences. Most central is the question whether Europe in general, and Germany in particular, is confronted with an inevitable tendency towards converging production regimes following the US-model or not. Will „Rhenish Capitalism,“² loose its attractive power to European neighbours or will it even become obsolete?

Against this background the paper is following two intentions:

First, searching for valid indicators which would allow to measure comparative competitive strength of rival production regimes on relevant markets.

Second, analysing the respective room for manoeuvre - given there is a necessity for changing historically grown production regimes and for adapting to competitive models which seem to be more successful under the conditions of global competition and a growing tendency towards immaterial production. The main hypothesis of the paper is that globalization does not foster convergence but rather divergence of production regimes according to their comparative advantage on different product markets.

What the German production regime is capable of providing has been described in recent times above all by foreign observers. They see in this regime nothing more and nothing less than the historically developed culture of market economy. The most important characteristics of this market economy are:

the practice of long term financing of business undertakings and the free transfer of technology to all branches of these undertakings:

a multi-structured system of general and professional education in the organising of which the economy plays an important role, from the apprenticeship level right up to the level of technical colleges ;

the practice of „Social Partnership“ within and outside the enterprises.

For German economic observers who have a tendency to self-criticism, the positive estimation of the effectiveness of the German institutions by leading foreign economists comes as a surprise. For the American foreign trade expert Michael Porter, the German

market economy is of the greatest benefit to the export market and is the essential reason for its continued success.³ The British economic researcher David Soskice sees in the „enterprise-coordinated market economy“ as he calls it, the way it has developed in the last one hundred years, an eminently successful long-term production system when compared with the American system, especially under the present conditions of globalisation.⁴ And the French top manager and bestselling author Michael Albert advises the taking over of this so called „Rhenish Capitalism“ because it is superior to the Anglo- Saxon model in regard not only to social but also to economic aspects.⁵ These economists, when speaking of the concept of social market economy refer to the double sense of social partnership and entrepreneurial coordination. Because both these basic elements of German enterprise are based on accumulated trust and the competence for sociability, the American philosopher Francis Fukuyama sees here as a prerequisite for low level structuring of the costs of economic transactions and the increased competitive power among global economic protagonists which this structuring brings with it.⁶ For this reason Fukuyama underlines the role of trust and social virtues as the sources of the prosperity of world society. According to his conviction, cultural factors of this kind determine the global competitive ability of global economic protagonists. Fukuyama regards Germany because of its historically developed institutional framework as well equipped for the competition of economic cultures of the 21st century.

The basis of such and similar judgements, which can be formulated on a macro level on the strengths and weaknesses of the economic situation in general and the production regime in particular, is the comparison with other social systems of production, preferably with those

which also, like the German system, can claim to represent ideal types of social systems and are in competition with other economic systems. In the case of Germany this means a comparison with the production regime of the United States of America which is endeavouring to lay down the criteria for the successful organisation of the economy of the 21st century in the existing circumstances of globalisation and the quick development of an information society. The question regarding which of these systems will master the challenges of the future better has been long since not only of academic interest, but has assumed in the practice of German economic organisation, the nature of an embittered culture struggle.

In the confrontation of the German and American production regimes, the respective particularities stand out clearly (Table 1). Labour market, acquiring of qualifications and the participation of the employee in corporate policy are regulated in Germany in a way which presupposes as well as allows a stable and long-lasting corporate perspective. The preference of the enterprises for a highly qualified core workforce and the guarantee of a branch and specific vocational training in cooperation with state organisations also help to lay this base. The protection of employees from the opportunist conduct of third parties through institutionalised bargaining (tarifautonomy) and („Flächentarif“) further strengthens this base. With the institutionalisation of the participation of the employees in corporate decision making, Germany has found, long before 1947/52 a specific answer to the Principal-Agent problem, which takes into account an increasingly asymmetrical distribution of knowledge within business organisations.⁷ In Germany the historically developed modes of corporate financing and corporate governance, both of which are impossible without an efficiently functioning universal banking system, aim at a long-term corporate calculation and make a long term perspective possible. A comparative strong position of the banks and a

relatively weakly developed capital market obligate the enterprises to act on the principle of Stake-holder value, which is enforced over the „Depotstimmrecht“ of banks.

The German production regime is also marked by a cooperative Inter-company system which is characterised by a corporate interest policy on the national level and a coordinated intensive cooperation within the branches. The German model of a coordinated market economy can only make sense in the context of a production regime, which is based on permanence and cooperation, and which can play out its comparative institutional advantages on a product market, in which diversified production qualities are exchanged. This emerges by employing established technology whose strength lies in an enduring producer/customer relationship.

The American production regime is almost diametrically opposed to its German counterpart in almost all respects and can be described as a liberal market economy, which rests on free competition and short term return orientation. Because of this it can prove its institutional superiority on those product markets, whose profile is marked by radical innovations brought about by the employment of new technologies. The long term comparison of both the production regimes shows that at the time of their emergence at the end of the 19th century they had far more in common than 100 years later (Table 2). This is not surprising, because both have responded to the challenge of internationalisation of the market and to the changes in industry brought about by science.

Certainly not to be overlooked are the characteristic differences between the two systems, which contribute to their divergence. In a large part they can be explained by the fact that

the new institutions at the end of the 19th century availed themselves of the already familiar social, economic and legal models, in order to keep the costs of setting up institutions as low as possible. In the USA, this institutional store of traditions had its roots in British Common Law, whereas in Germany they came from the rich historical fund of corporate experiences.

In the search for practical examples with which the strengths and weaknesses of the German production regime and the production situation of Germany can be concretely demonstrated, two yardsticks of economic success are relevant: the structure of granting of patents and the balance of trade differentiated according to surplus and deficit. The first is a measure of the innovative ability of the economy, the latter of its competitive ability.

In the sphere of granting of patents the general statement that the strength of the German economy rests above all on the markets for diversified quality production which are produced by the employment of established technology is fully confirmed. As the tests from the years 1989 to 1991 proved, the strength of the patent specialisation lies in branches whose technology has developed to a certain maturity and whose innovation goals turn more to concrete economic applications. To these branches of industry belong the transportation system, machine tools industry, environmental technology, mechanics, motor industry, roadbuilding, or thermal power technology. Summing up, one can say that the strength of the German economy lies in putting the basic innovative ability to practical use. The innovative ability of the German economy is correspondingly weak in branches whose success depends on a flexible and risk oriented production regime. This applies to information technology, the semi conductor techniques and in optical and biotechnology.

(Table 3)

The influence of the social systems of production on the patent production will be clear, when the pattern of patent granting of two completely divergent production regimes are compared with one another. Here also the US offers a comparison (Table 4). There the greatest innovation potential lies in the information technology, in medical techniques, biotechnology, pharmaceutical industry and nuclear technology, that is in those very branches whose innovative potential is very low in Germany. On the other hand, the innovation abilities are below average in America in spheres where a long term corporate perspective and broad spectrum of educational qualifications is called for. If these two patterns are laid one upon another, it will be clear that the two production regimes, when judged by their innovative abilities fully complement each other. The strengths of one are the weaknesses of the other and vice versa.

In a similar way, the strengths and weaknesses of the German social systems of production can be read from the structure of the trade balance. The German export industry shows its dynamism, and above all in the mechanical engineering and chemical industries, whereas it shows a marked weakness in the market for modern office equipment and electronic data processing. Even when the German export economy, unlike its Japanese or American counterpart, does not fully command any particular segment of the world market we are still surprised by the depth and breadth of its international position. For example, in the year 1985, not less than 345 sectors had a share of the world export which lay over 10.6 percent. Only 7 of them accounted for more than 1 per cent of German exports.⁸ This breadth of German exports is due to a differentiation strategy of the German economy which concentrates on relatively strong sectors with a high degree of productivity. It is

therefore particularly able to withstand competition and economic fluctuations. The orientation towards diversified production comes into the forefront.

Against the background of mass unemployment, the German economy has been exposed to growing criticism, and it has to submit to an embarrassing critical examination of its future. Doubt is being expressed on the flexibility of its production regime, which appears to be necessary in the context of globalisation, in order to adapt to the new conditions of the World Market. The fact is that the German social system of production has come into existence more than a hundred years ago and has been highly resistant to all attempts at change. Opportunities for change arose after the defeat in the two World Wars and also after the worldwide economic crisis the effects of which were felt particularly strongly in Germany. Strong efforts were made by the Occupation Forces after 1945 to replace parts of the German production regime, for instance the banking system, the strong position of the („Verbände“) or the forms of internal cooperation of the enterprises with other, less politically stamped forms. The German economy has resisted most of these efforts at change and has been able to achieve the Economic Miracle (Wirtschaftswunder) of the fifties with a social system which was essentially a continuation of the social system of this century. This preference for historically developed relationships is to be explained partly by the fact that the institutional framework of the German economy at the time it came into existence at the end of the 19th century was conceived as an answer to the tendencies of internationalisation of markets and the growing influence of science on methods of production. Germany was a pioneer in these fields even before the First World War. This throws up the question whether the German production regime has become obsolete or whether it needs only limited reforms, in order to adapt itself to the new manifestations of

development tendencies, to which it has in principle right from the beginning reacted successfully.

The analysis of the social systems of production as the institutional heart of the German economy can only be a preparation for the answer to this question. Important is first of all the knowledge that the German economy is unusually successful in product markets with established technology. It shows however marked weaknesses in other highly innovative product markets. This raises the decisive question whether the German system can demonstrate its strength when basic innovation abilities are required to be put into actual practice or whether in the long run the German economy must lose its connection with new production cycles, because it is increasingly not in the position to generate new production cycles. In the first case, the German economy would be able to prove its ability to survive in the future. Weaknesses could be easily solved by compensatory strategies, for example by direct investment abroad to take advantage of the different institutional settings. In the second case, the complete overhauling of the institutional framework would be the only solution.

For this scenario, a second aspect needs to be taken seriously. This can be taken from the historical analysis of the German production regimes. The individual components of the social system are so closely interlocked with each other, that it would be difficult to separate any component and replace it with another module from a different system. A very important role is played here by the dual system of vocational training. Apart from the public investment, the enterprises also invest considerable means in a system, which allows them, along with the trade unions, to have a say in corporate decision and to report on the

technological needs of their branch of industry. This presupposes however, long term methods of financing and a coordinated wage policy is necessary to reduce the danger of enticing away of the workforce; cooperative labour relations are necessary to secure the loyalty of highly qualified workers and lastly the close cooperation of the enterprises in the spheres of transfer of technology and lastly standardisation in order to acquire generally acknowledged standards which can be taken as a basis for vocational education and for the system of examination. Long term methods of financing are possible with certain forms of corporate governance and strong associations, which give the financial institutions the necessary flow of information. This argumentation applies equally well to every subsystem of the German production regime.⁹

A complete renewal of the social system of production would without doubt alter the identity of German society. Even the most vociferous critics of the existing system are not conscious of it when they demand reforms. Of course such a break with continuity is not totally unprecedented. The Wilhelmine era has shown us how a production regime can, after a long drawn out economic crisis be quickly replaced by a completely different one, but it has also shown us the ordeals this can mean for the stability of a society.

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¹ D. Soskice, Globalisierung und institutionelle Divergenz: Die USA und Deutschland im Vergleich, in: Geschichte und Gesellschaft 25 (1999), p. 201-225.

² M. Albert, Capitalisme contre Capitalisme, Paris 1991.

³ M. E. Porter, The Competitiv Advantage of Nations, The Free Press (1991) [Nationale Wettbewerbsvorteile. Erfolgreich konkurrieren auf dem Weltmarkt, Wien 1993]

⁴ Soskice, S.

⁵ Albert, S.

⁶ F. Fukuyama, Trust. The Social Virtues and the Creation of Prosperity, New York 1995. see also Robert Putnan, Bowling alone

⁷ W. Abelshauser, Vom wirtschaftlichen Wert der Mitbestimmung: Neue Perspektiven ihrer

Geschichte in Deutschland, in: W. Streeck, N. Kluge (eds.), Mitbestimmung in Deutschland. Tradition und Effizienz, Frankfurt, New York (Campus) 1999.

⁸ Porter, p.

⁹ Soskice