



## Editorial

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**Abstract** The current debate about “Modell Deutschland” has been prompted by the global financial crisis that emerged in 2008 and the Hartz labour market reforms in Germany. Six contributions concerning labour market reform, production systems, vocational education and training, industrial relations, employment patterns, and social policy examine the pillars of the German Model. A central argument in all of the contributions is that the German Model is undergoing a process of recalibration accompanied by increased uncertainty, rather than institutional breakdown. The Model’s institutional preconditions and sources of legitimacy are becoming weaker and more questioned than in the past. These processes unfold less via major crises and political interventions than through “creeping” economic and social changes.

**Zusammenfassung** Die neue Debatte zum „Modell Deutschland“ ist vor allem durch die weltweite Finanzkrise von 2008 und die Arbeitsmarktreformen in Deutschland (Hartz) angestoßen. In sechs Beiträgen (zu Arbeitsmarktreformen; Produktionssystem; Berufsbildungssystem; Indus-

trielle Beziehungen; Beschäftigungsformen; Sozialpolitik) werden die Eckpfeiler des deutschen Modells ausgeleuchtet. Die Quintessenz der Beiträge läuft auf eine Neuaustarierung des Modells mit erhöhten Unsicherheiten und offenen Fragen hinaus, nicht auf seinen institutionellen Zusammenbruch. Seine Bestandvoraussetzungen und Legitimationsgrundlagen werden weicher und sind stärker gefährdet als in der Vergangenheit. Dies geschieht weniger durch die großen Krisen oder politische Eingriffe als vielmehr durch die „schleichenden“ Veränderungen in der Ökonomie und den sozialen Feldern.

### I

Inquiries into the performance and development of the German model are not new—such questions sparked intense debate among social scientists in the 1980s and 1990s. The debates were essentially theoretical responses in the field of political economy to the upheaval set in motion by the crises of the 1970s that marked the end of the “Golden Age” (Hobswam) of nearly 30 years of economic growth after the Second World War and the “fleeting dream of permanent prosperity” (Lutz 1984) in the Federal Republic of Germany. These crises demanded answers. Because the end of the post-war growth regime was viewed as an epochal break with varying effects across countries, scholars debated engaged in fundamental reflection concerning different models of capitalist development rather than searching for causes in specific socio-economic arenas or in specific countries. In this connection, Esping-Andersen’s *The Three Worlds of Welfare Capitalism* (1990), Hall and Soskice’s *Varieties of Capitalism* (2001), Streeck and Thelen’s *Beyond Continuity* (2005), Hollingsworth and Boyer’s *Contemporary Capitalism* (1997) and Streeck’s *Re-Forming Capitalism* (2009)

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are important contributions to this debate. These debates implicitly or explicitly form the theoretical background for the contributions to this Special Issue.

The details of this long debate need not be repeated here. In addition, the question of whether some authors' conceptualization of capitalism—which rely on only a few models defined in terms of relations existing in the 1980s—can adequately capture current processes of institutional change in advanced capitalism, can remain open. The categorisation of the German model of capitalism as a coordinated market economy (CME) does not mean much more than saying that the German model is not a pure liberal market economy.

Our motivation for taking up the question of the future of the “German Model” again is not rooted in basic theoretical considerations in the debate mentioned above. Rather, it is motivated by political discussions concerning the global financial crisis of 2008. The fact that Germany seems to have been less affected by the crisis than other countries, especially concerning the development of the labour market and the level of unemployment, raises new questions about the functioning of the “German Model”, above all in Europe: can learning from the German Model or some of its institutions contribute to ameliorating some of the effects of the crisis, and maybe even to managing the crisis in other EU states? This question has been asked specifically with reference to the vocational training system in view of the high levels of youth unemployment in almost all non-German speaking countries in Europe, especially in Southern Europe.

It is important to state what this pragmatic focus does not mean. First, it is not the intention of the articles assembled here to promote institutional transfer, which is often the subtext of political debates, intentionally or not, (compare Baethge 2014). Second, we wish to avoid the impression that our reference to the crisis concerns the real or potential effects of the financial crisis on the “German Model”. Institutional change does not generally occur via (large-scale) events, and even when these events have effects, it is not possible to empirically capture their effects in the short term. For example, it is impossible to draw firm conclusions about whether statutory changes aimed at improving the regulation of the financial sector in the wake of the global financial crisis have had a lasting effect on the institutional framework of the financial sector that we can speak of institutional change.

In the context of the crisis, however, the question of whether elements of the German Model have shaped the successful management of the financial crisis, and which specific elements these are, is highly relevant from a social scientific perspective. The effects of the crisis on employment have sparked interest in the labour market instruments characteristic of the German Model, such as short-time work, which were extensively used to shore up employment

(see Möller in this issue). This example, however, concerns a piece of the puzzle of the German Model and its application in an important, but limited policy area. Defining the German model, in contrast, requires specifying the comprehensive institutional framework underlying the socio-economic development of German society.

Drawing on Streeck (1997), it is possible to characterize the model in ideal-typical terms as an institutionalized system in which the production system and the social protection system, including issues of distribution and redistribution, are tightly connected. Institutionalisation refers to two things here: first, that production and distribution processes are not solely and primarily connected via markets, but rather outside of the market and that these intervening institutional arrangements of different kinds—especially social insurance institutions and interest intermediation—greatly influence the link between production and distribution. Second, institutionalization means that production and distribution effects are not only the result of contingent and temporary developments, but also are shaped by relatively permanent regulations.

Production systems include all of the institutional arrangements that immediately affect the organization of firm-based value chains such as industrial relations and codetermination, but also the historically shaped and institutionalized production concepts such as “diversified quality production” which is based on skilled work and which secures German industry its place in the world market today—even in the face of a changing international division of labour (see Herzigel in this issue). The social system includes the institutions of social insurance and social inclusion such as health care, pensions, as well as industrial relations and labour market regulations (unemployment insurance, training and retraining)—in other words, the large number of collective goods on which individual rights claims are based. These collective goods may be viewed as the second pillar of the income distribution. A decisive feature of the model is that it is not the sum of individual institutions, but rather, the institutions together form a process-oriented context.

Something that appears in an ideal-typical construction as a static and stable institutional structure is in reality subject to a variety of changes. Complex socio-economic developmental models like the German Model are not rigid structures; over a long period of time some elements may change in practice even though the model formally consists unchanged. The dynamism of the model, however, requires a definition of its core, the elements that must remain if we can reasonably continue to speak of a German model. This core consists in our view in the strong weight of non-market, corporatist steering of economic and social processes, at the level of value-creation (as in diversified quality production), as well as in the social structure which, importantly, is marked by a comparatively moderate degree of

social inequality in terms of income as well as institutionalized social participation rights, which strengthen social cohesion.

The relationship between stability and dynamism dominates recent debates in political economy. Institutionalists often emphasize continuity and institutional stability more than they do change (Streeck and Thelen 2005, p. 5). On the other hand, the rather process-oriented analysis based on Streeck's concepts of "systemic disorganization" and "liberalization" may capture central changes in the institutional structure of contemporary capitalism which have far-reaching consequences for the preconditions and effects of institutional action. Whether or not these changes have lasting effects and lead to further institutional erosion will depend on their causes, and these causes probably originate less in institutions than in the real economy and in social processes.

Whether or not liberalization and progressive disorganization are appropriate labels for the direction of change in the German Model, and if so, to what extent, also implicitly motivates the contributions to this Special Issue. Above all, the contributions consider the changes in economic, political and social context which are endogenously absorbed by institutions and lead to change in these institutions. Herein lies a distinctive feature of the contributions, which in many ways offer a methodological contrast to the strong focus on institutional structures in recent political economy research. The contributions do this in two ways. First, the contributions assign explanatory value to state policy and action. Second, they take micro-level developments in the labour market and individual behaviour strongly into account as causes of institutional change. The state arena is particularly visible in social policy development, where "grand coalition" bargaining and the negotiated compromises that follow from it are important drivers of continuity and change. State action has also played an important role in shaping educational policy, even if reforms have often produced significant unintentional effects (see in particular the contributions by Anderson; Baethge and Wolter; and Möller). The second area, the effect of micro-level developments on institutions, can be seen in the educational behaviour of individuals, for example in the unlimited inflow of students into higher education since the educational reforms of the 1960s. This effect is also visible in the changing occupational profiles of workers in dependent employment, which increasingly require independence, higher levels of individual competence and responsibility. These changes confront company management and interest organizations with demands that cannot necessarily be met using the standard repertoire of these institutions (see Marsden; Herrigel; and Baethge and Wolter). The stubbornness of many micro-level arenas frustrates existing institutional conditions and can potentially lead to the hollowing out of institutional arrangements, even if institutions formally still exist.

Streeck's (2014, p. 147) confident question to the critics of his most recent book (*Die gekaufte Zeit; Borrowed Time*), "Political Economy as Sociology: Will this work?" (*Politische Ökonomie als Soziologie: Kann das gut gehen?*) can for good reasons be formulated in the reverse, "Political economy without sociology (or any other social science that takes the micro-level into account): Will this work?"

## II

The contributions to this Special Issue adopt an analytical perspective that focuses on the central elements of the German Model during the last two decades. The constitutive elements of the model have undergone asynchronous change processes that nevertheless each shape the further development of the model:

- Joachim Möller investigates the question of how the German Model has overcome the political and economic turbulence of the past two decades, beginning with the costs of German unification, decades of stubborn structural unemployment, the major labour market reforms known as the Hartz reforms, as well as the major financial crisis that started in 2008.
- Martin Baethge and Andre Wolter focus on the hotly debated new relationship between dual vocational training and higher education labour market and education policy in the context of skilled labour shortages. They argue that the steadily increasing inflow into higher education could drain the dual vocational system and undermine a key element of the new German corporatism.
- The increasing globalisation of value chains in German manufacturing is the focus of Gary Herrigel's contribution. The article addresses the economic core of the German Model, diversified quality production. The ways in which increasing levels of foreign investment in manufacturing, above all in emerging markets, recursively affect the home market and generate new demands on skilled labour qualification as well as challenges for actors within industrial relations, raise new questions for the German industrial production model.
- David Marsden analyses the future of a traditionally strong element of the German Model, the industrial relations system, in particular unions. Marsden addresses this issue by comparing Germany to the United Kingdom, asking how this core element of the new corporatism is affected by recent challenges and how these challenges are related to new forms of knowledge-based work.
- The growth of atypical employment since the implementation of the Hartz reforms has been viewed in the political arena and among social scientists as one of the most important challenges to one of the central sources

of the social legitimacy of the German Model: relative social equality in the employment system. Werner Eichhorst and Vera Tobsch enter into this debate and examine the development of employment forms in the last several decades, as well as their significance for integration and segmentation on the labour market.

- Since the early industrial period, central pillars of social policy in Germany—health care and old-age pensions—have performed both social and economic functions that are typical of coordinated market economies. Karen Anderson analyses the recent development of these classic social policy fields with regard to not only their real changes but also their social consequences. Anderson focuses on the political decision making processes that produced policy changes and demonstrates that “grand coalition” bargaining—negotiated compromises between the two mass parties that is analogous to social partner bargains in the corporatist sphere—continues to drive social policy-making.

### III

What insights concerning the developmental perspective of the German Model do the contributions suggest in terms of economic and social intervention? Are there common tendencies or are these asynchronous processes isolated from each other so that one cannot speak of a uniform thread that could form the preconditions for the continued existence of the German Model? The answers suggested by the contributions can be divided into three points:

1. The first point concerns the drivers and patterns of institutional change. As expected, and in line with the mainstream of institutional analysis in political economy, it is not the large-scale economic and political events that cause changes in institutional structures, at least as far as we can determine today. If we follow the contributions, neither the world-wide effects of the 2008 financial crisis nor the far-reaching labour market reforms from 2003/4 (the Hartz Reforms) nor the continuing Europeanization<sup>1</sup> have had profound direct consequences for the institutions of the German Model so that one may speak of a substantial questioning and broad loss of le-

gitimacy. Quite the contrary, the traditional labour market policy instruments have been important in managing the crisis, so that the German labour market has not experienced the turbulence that affected other countries (see Möller). The extent to which the Hartz reforms will unleash negative consequences remains an open question. There are clear indications that a deepening of labour market segmentation might prevail (see Eichhorst and Tobsch), and some of these effects might not have been caused, but surely have been facilitated by labour market reforms (see Möller).

The majority of the contributions demonstrates that it is the long-term, one might say “creeping” changes in the economy, as well as in the social field, that undermine the preconditions of institutions, without actually destroying them (see Herrigel; Baethge and Wolter; Marsden). The extent to which, and in which time period, the challenges to the preconditions of the German Model identified in the contributions actually erode these preconditions, is an important question raised by the contributions, but it is not yet answered.

2. The formal institutional structure of the German Model—the way that it is anchored in organizational structures, statutory commitments, but also in consensual cognitive frames (for example, “quality production” and “equality of opportunity”), seems as before to be relatively stable and in tact, which is explicitly emphasised in several contributions (Anderson; Möller). As well, corporatist governance—a pillar of the German Model—fulfils its statutory mandate in collective bargaining, in the dual vocational training system, in co-determination, and in labour market policy, as in the past. But the foundation on which corporatist governance rests appears to be becoming increasingly unstable and uncertain. This is especially emphasised in the contributions by Baethge and Wolter and Marsden in the area of industrial relations. Here it is not only unions’ organizational weakness resulting from declining membership and fragmentation that plays a role. Changes in the composition of dependent employment and in the skill profile of employees that reflect the trend toward increased individualization, may in the long run weaken the organizational resources, and even more important, the sources of solidarity in German society (see Marsden; Baethge and Wolter; Herrigel). Even if this only concerns latent effects at the time being, the Eichhorst and Tobsch’s discussion of statutory regulation of minimum wages constitutes a very clear example of the limits of corporatist capacity for action.

These developments unfold without seeming to endanger the economic pillar—diversified quality production. Herrigel argues that the globally distributed value chains and foreign investment in emerging mar-

<sup>1</sup> It does not appear coincidental that none of the six contributions deals with Europeanization as an important factor shaping institutional change in the policy field that is analyzed. As long as there is no direct access point for the European level to exert influence on national social policy, vocational training and education, labour market policy (with the exception of labour mobility) and industrial relations, these policy areas remain largely influenced by national developments and legislation, even if Europeanization exerts indirect effects that are difficult to discern.

kets lead to a new balance of progressive, traditional production patterns that have consequences for the organisation of industrial employment in Germany (see Herrigel). These arguments apply to the manufacturing sector, whose share of employees will decrease in the future. Similarly, Marsden points out that the sectoral shift to the service economy could pose a further challenge to the German Model.

3. A common element linking nearly all of the contributions is the claim that social inequality is on the rise. This concerns the deepening of labour market segmentation resulting from the increase in atypical employment in the wake of recent labour market reforms, as well as long-term shifts in employment structure (Eichhorst and Tobsch; Möller). Even if one accepts segmentation as the price of expanding labour market participation (Eichhorst and Tobsch), it touches on a central source of legitimacy for the German Model. An increase in social inequality, partly as a result of atypical employment and partly because of social policy reforms, can be seen in the old age insurance and health care sectors (see Anderson). Even the dual vocational training system also performs less well at ameliorating social equality. For decade, the strength of the dual system has been the vocational and social integration of youths from lower social classes; in the last few decades, however, the exclusion of many youths with a high secondary school diploma and immigrant background has taken place (see Baethge and Wolter). This challenges another aspect of the legitimacy of the German Model, equality of opportunity, especially since this exclusion must also be understood as a failure of corporate governance in vocational training.

The German Model—decline or recalibration? This question is, in conclusion, not easy to answer, because recalibration can be connected to the weakening of some of the constitutive elements of the model, without necessarily implying an erosion of the model as a whole. In our view, the contributions to this Special Issue suggest that this seems to be the case. The essence of the contributions can be summarized as “recalibration along with uncertainty and open questions.” This means that the German Model has lost some of its “coherence and robustness” (Zukunftskommission der Friedrich-Ebert-Stiftung 1998, S. 11). If we understand the

model as an institutional ensemble of adaptive capacities, recalibration has taken the form of limited reconfiguration of individual institutions; institutional breakdown has not occurred. However, on the other side of the balance sheet are the increasing segmentation in employment and education, the increase in income inequality and participation, as well as the change in occupational skill profile in the direction of higher levels of competence and stronger individualization (Herrigel; Marsden; Baethge and Wolter). It remains an open question whether or not these continuing tendencies toward social division take hold and endanger social cohesion and challenge collective identity.

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