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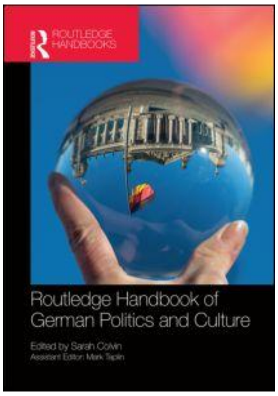

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Modell Deutschland

From the Bonn to the Berlin Republic

Jeffrey J. Anderson

In November 2013, two news articles appeared in the span of three days that captured perfectly the conflicted international status of the German model. The first piece to appear was in *Spiegel Online*, which ran a major story detailing the coalition agreement that had just been hammered out between the centre right (CDU/CSU) and centre left (SPD) negotiating teams. The article highlighted the apparent internal contradictions of the future government's pledges simultaneously to raise the minimum wage, lower the official retirement age, and hold the line on tax increases – all while preaching austerity to the rest of Europe. The message was as clear as the article's title – Germany is no longer a role model for Europe. Two days later, in the 'Business Day' section of the *New York Times*, an article appeared that showcased several successful industrial apprenticeship programmes in South Carolina that have taken their inspiration from the experience of the German vocational training system. Here, too, the underlying message was clear – Germany is worth emulating.[1]

Perhaps these articles tell a subtle story of situational relevance: at the same time as Germany's role as a template for Europe is becoming more problematic, even contested, its experiences have a growing application in other parts of the world. Even if there is nothing more than coincidence in the nearly simultaneous appearance of these contrasting takes on the German way of doing things, we have come a long way since the early 1980s, when Modell Deutschland was held up worldwide as one of several coherent and successful models of political economy – other examples included the Swedish model and Japan Inc. – that had made their mark on the global economy (see also Chapter 24). That each of these distinctive models has fallen on hard times is indicative of broader economic and social transformations that have undercut the varied settlements that emerged out of the early postwar period.

The focus in this chapter is on the evolution of the German model of political economy from its inception in the years immediately following the end of World War II, through unification, to the present day. After locating the study of the German model in the broader social science literature, the chapter will survey the origins and components of Modell Deutschland after 1945 until the so-called *Wende* (turnabout) that followed the collapse of the German Democratic Republic in 1989, and the model's evolution after the unification of the 'two Germanies' in 1990. I argue that the German model achieved a notable level of coherence

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and success up through the 1970s, but began to experience considerable pressures and undergo significant changes well before the shock provided by unification. Since 1989, the combined impact of two integration projects – Europe and Germany – has led to a deep and permanent alteration in the component parts and internal workings of the German political economy, resulting in a system that is now less clearly defined, less coherent, and less inclusive in terms of its capacity to generate prosperity for all at home and for its neighbours in Europe. Modell Deutschland, to the extent that it now exists, still works, but it is much less apt to be described as appropriate for emulation or export in its entirety. Individual components of the model (e.g. vocational training) remain attractive to the outside world, however.

Some preliminaries: Germany as a model, Germany as a case

The term 'model' has two distinct yet interrelated meanings. The first was outlined above – namely, that empirically there are organised ways of doing things that are recognised and occasionally even exalted by policy experts for the manner in which they function and the outputs they generate. Once established, models become part of the currency of discourse, as advocates and detractors hold them up as reference points in the discussion of options for action. Models can be treated holistically, as integrated systems, or they can be conceived of as packages of component parts, capable of being unpacked. Models can and often do travel, as actors look abroad for examples of 'best practice' that can be imported into the home context. Models can also play a powerful role in internal debates, as a template or reference point that sets limits on what is possible and what is not. All of this, as we will see, is relevant to the discussion of Modell Deutschland.

The term 'model' also carries a separate yet related meaning, one originating in more abstract, academic endeavours. One way to think about models in this vein is to contemplate the question 'What is this a case of?' (Ragin 1992). Models, or cases, play an important role in the accumulation of knowledge within academic disciplines; they are the mainstay of inquiry in political science, history, anthropology, and sociology. Modell Deutschland is one of several examples of pivotal cases in scholarly inquiry drawn from the German experience. For both historians and political scientists, Weimar Germany is an illuminating case of democratic breakdown, just as Nazi Germany is a case of fascism or totalitarianism. Students of political culture look to the postwar Federal Republic for insights into political socialisation or development and the politics of memory, and political economists have derived fascinating insights into the consequences of late industrialisation from the Imperial German case (Gerschenkron 1965).

The elements of the postwar German model

Just as it is tempting but wrong to think that the version of parliamentary democracy established after 1945 in Germany was derived from the democratic experiences of one or more of the occupying powers, it is misguided to look to the United States, the United Kingdom, or France for the inspiration behind the postwar model of the German political economy. Of course, the postwar German economy was capitalist to the core, populated by actors – organised labour, business, consumers, agricultural producers, and state institutions – comparable to those in neighbouring countries of Western Europe, and ultimately it pursued the same output objectives. Its composition, as well as the underlying principles on which it operated, however, was distinctive, and as such deserving of the label 'essentially German'. In this section, the main components of Modell Deutschland are outlined, with special emphasis on how each related to and interacted with other elements in the model to produce a coherent and reasonably harmonious whole.

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The survey will begin with the ideas or doctrines informing the model, and then move to the institutions and actors that gave it substance in the Bonn Republic.

Ideas: the social market economy

The postwar German model of political economy rested on a consensus across the left–right and labour–capital divides about the relationship between state and market (see Chapter 22). The 'social market economy' (SME), as the name suggests, is based on a fusion of principles. At the core is a bedrock commitment to the market. The primary responsibility of the state is to support and facilitate the self-regulating economic order, first and foremost through the creation of transparent and comprehensive frameworks of rules and regulations (Müller-Armack 1948). The SME doctrine also carries strong implications for the state's macroeconomic and foreign economic policy. German governments on both the left and the right eschewed an open commitment to demand management (Keynesian) policies, opting instead to prioritise price stability, a policy objective that was formally the preserve of an independent central bank, the Bundesbank. Foreign economic policy objectives revolved around a stable and preferably undervalued currency and free trade.

Alongside the obligations to the market, however, SME doctrine prescribes a social role for the state in ameliorating the disruption and occasional destruction that markets generate. This translates into support for comprehensive social welfare programmes as well as the notion that, frequently, the state will have to intervene with industrial, regional, and labour market policies to address the negative externalities of market forces. When the German state intervened to address sectorial crises in coal and steel production, or sought to address rural underdevelopment, it did so with an eye to facilitating adjustment to market forces, not fighting or reversing them.

The SME also shaped the German state's objectives regarding European integration. Germany threw its weight behind the European project for reasons other than economic interest, to be sure, but once it became a founding member of the European Economic Community it sought to create a supportive policy and regulatory environment. The Federal Republic is often described as having pursued altruistic goals at the European level – sublimating concrete interests to the broader objective of peace and security in Europe. There is nothing inherently flawed in this portrayal; it is only part of the story, however. German governments of both left and right sought to erect institutional and normative frameworks at the European level that would nurture Germany's successful domestic economic formula. Europe's common market and free trade orientation vis-à-vis the rest of the world were essential to German domestic economic objectives. German policymakers consistently backed proposals for EC-wide harmonisation in the areas of economic and monetary cooperation, industrial policy, and regional assistance programmes, all to preserve a level field of competition for German firms (*Ordnungspolitik*) and to reduce the negative consequences of other countries' policy decisions, such as imported inflation. The 'social' dimension of the social market economy found expression and support in European environmental policy, the Common Agricultural Policy (CAP), competition and regional policies, and social policy.

The broadly shared doctrine of the social market economy places the German state in a distinctive category. Because the market is respected, but neither worshipped nor slavishly obeyed, the German state is a far cry from the night watchman state championed by neoclassical economists and many politicians on the right; at the same time, it falls well short of the interventionism and omnipresence of its counterparts in Japan and France. The doctrine of the social market economy in no way dictated political processes or outcomes in postwar Germany, and these

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principles relating state and market did not rule out hard-fought, even divisive conflicts between left and right over economic and social policies. Rather, debates unfolded within parameters set broadly by the doctrine. Left and right might have disagreed vehemently over the limits of state intervention or the construction of the welfare state, but at no time during the postwar period were core institutional and ideational features of the West German political economy at stake.

Institutions: the coordinated market economy

The German model that quickly emerged and consolidated in the postwar period has been described as a 'coordinated market economy', a term that points to a set of distinctive and interlocking institutional characteristics. The West German private sector featured an 'articulated industrial system' (Shonfield 1965: 247) based on close relationships among firms and between firms and universal banks; these institutional links led managers to adopt long-term planning and investment horizons, and they conferred on the private sector the capacity to undertake sectorial adjustment in the context of industrial crisis. Industrial relations in the Bonn Republic were also characterised by concertation and coordination, in which powerful, well-organised representatives of labour and capital engaged each other in an institutionalised process of negotiated adjustment that unfolded primarily at the sectorial and plant level, lending the German system a decentralised cast.

The industry-finance nexus

In spite of the actions undertaken by the Allied powers to break up cartels and unbundle large firms, particularly those involved in the war effort, the postwar German economy retained many of the distinctive institutional features bequeathed to it by late industrialisation. Large-scale, export-oriented manufacturing concerns dominated the traditional industrial sectors; these firms maintained close ties to small and medium-sized suppliers, often regionally concentrated, that competed with one another but also engaged in important cooperative initiatives involving research and development as well as vocational training.

Germany's finance/banking sector was also large in scale, dominated by investment banks with close ties to industry. Three 'universal banks' – the Deutsche Bank, the Dresdner Bank, and the Commerzbank – enjoyed a commanding position within the financial sector, setting the tone for the thousands of smaller banking institutions in Germany. These major banks owned equity shares in industrial enterprises that entitled them to representation on company boards. The resulting web of interlocking directorships introduced mechanisms for coordination and concertation that were simply not possible in other advanced industrial democracies. By the early 1980s, 'banks voted 70 percent of the shares of the largest 425 firms in Germany. 318 of the top 400 companies had two bank representatives on their supervisory boards' (Hall 1986: 235).

This tight industry-finance nexus carried significant implications for the broader workings of the political economy. In contrast to nations in which firms relied on the stock market or retained earnings to finance new investments, German enterprises could count on long-term financing proffered by banks, which in turn were permitted to shepherd these investments through representation on company boards. The result: 'patient capital', which allowed firms to focus on the medium- to long-term horizon, with salutary implications for management-labour relations, capital investment strategies, and sectorial adjustment without direct government intervention. Expanding profit margins and rising shareholder dividends, while not inconsequential for many German firms, simply did not loom as large in the calculations of company managers as in countries like the United States and the United Kingdom.

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The labour-capital nexus

Modell Deutschland was based on organised capitalism. Three separate peak associations represented business interests in the Federal Republic of Germany: the Bundesverband der Deutschen Industrie (BDI), representing industry interests not directly tied to collective bargaining; the Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA), representing employers' interests in collective bargaining; and the Deutscher Industrie- und Handelstag (DIHT)[2], representing the chambers of industry and commerce. At first glance, this method of organising capital might seem to guarantee duplication of effort and increase the likelihood of cross-pressuring and even outright mutual cancelling of interest, but in fact it enabled a broad range of business interests to exercise leverage across a wide range of issues and areas. The BDI concentrated on the general or common interests of business (irrespective of size, market orientation, etc.) as well as sectorial issues pertaining to trade, regulation, and the like; its membership was dominated by large and medium-sized firms, which, it must not be forgotten, were also ably represented by powerful and well-organised sectorial or industry-specific business associations. The BDA was free to focus exclusively on employer interests in the collective bargaining process. The regionally and locally specific interests of small and medium-sized firms found expression in the myriad local chambers of industry and commerce, which were represented at the national level by the umbrella association of the DIHT.

Labour contributed its part to Germany's organised capitalism. After 1945, the principle of autonomous organisations representing the interests of working men and women was resurrected in the new German democracy. In industry, workers were reorganised into 16 separate unions based on distinct industries or sectors of the economy (coal, chemicals, metalworkers, etc.). These sectorial unions in turn belonged to a national (or 'peak') labour federation, the Deutscher Gewerkschaftsbund (DGB). The principles of industrial unionisation, operating under a central federation, created a powerful social partner capable of entering into longstanding and stable agreements with employers. Although formally apolitical, the DGB frequently sided with the political left on a range of economic and social issues, providing critical support at election times at the local, state, and Federal levels. Separate unions were established to represent white-collar workers and civil servants. Although important in their own right, these organisations played less of a determining role in the functioning of the classic German model of political economy.

The organised power of labour is at the heart of three distinctive, even unique features of the German model. The first is a well-established principle of worker participation in the management of the firm. In any firm with more than five full-time employees, workers are entitled to elect a works council, which is entitled by law to negotiate a range of issues with owners, including hiring, overtime and part-time work, the introduction of new technology and production regimes, and – in the case that mass lay-offs are needed – agreement on social plans covering retraining, redeployment, and severance and early retirement packages. In companies employing 2,000+ employees, workers are entitled to 'co-determination' (*Mitbestimmung)*, which entails formal representation on the management supervisory board (*Aufsichtsrat*), and the right to participate in all matters that come before this important body, including investment projects and strategies, mergers and acquisitions, and the appointment of the firm's management leadership. The employees who serve on works councils and supervisory boards are almost always members of their sectorial union. Union officials who are not employees of the firm are also permitted by law to serve on supervisory boards; for companies with between 2,000 and 20,000 employees, two of the 12 or 16 (depending on firm size) worker representatives may be union officials not affiliated with the firm, and for companies employing more than 20,000 workers, up to three may be union officials.

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The second notable attribute of the German model that can be traced back to the organisational power of labour is the national system of collective bargaining. Although decentralised in appearance, with 16 separate industrial unions – to say nothing of their counterparts in the white-collar and civil service sectors – responsible for hammering out agreements with employers, in practice the system worked in a highly coordinated manner that resulted in a notable level of centralisation. Typically, IG Metall, the largest and most powerful of the industrial unions, took the lead in setting wage norms that were then observed by other unions under the DGB umbrella. The resulting two- to three-year contracts provided for both predictable and stable industrial relations, and typically sprang from the principle of wage restraint, which was critical to management's interest in export competitiveness and labour's interest in sustained full employment.

The third notable institutional feature of the labour-capital nexus in Germany is the vocational training system (Culpepper 2000). This thoroughly institutionalised and highly effective nationwide system integrates hands-on apprenticeships in enterprises with formal education/training at vocational schools in over 300 distinct fields. The system is based on longstanding partnerships between individual firms, sectorial business associations, the chambers of commerce, trade unions, and subnational (*Länder*) governments.

Modell Deutschland and semi-sovereignty

Many if not all of the components of the German model of political economy described so far have analogues or close parallels elsewhere in the advanced industrial world. Indeed, ambitious and illuminating attempts to classify political economies have typically grouped Germany with other countries, like Austria and Switzerland, that share many of its economic attributes. Hall and Soskice place the German model in a broad category of 'coordinated market economies' (Hall and Soskice 2001). What makes Modell Deutschland archetypical, even unique, is both the combined presence and interaction of these attributes within the industry-finance and labour-capital nexuses and their embedding in a broader, distinctive political system. Peter Katzenstein coined the term 'semisovereign' to describe a set of complex but constructive political arrangements that worked in harmony with the organised capitalism of the private sector (Katzenstein 1987). In employing this term, Katzenstein adapted a self-evident characteristic of the German state – its lack of complete sovereignty in the international system – and applied it to the internal attributes of the state.

The postwar German polity was semi-sovereign in a variety of ways. In terms of the vertical distribution of authority, the framers of the constitution, or 'Basic Law', opted for a strong form of administrative federalism, in which the 11 Federal states (*Länder*) not only were allocated significant areas of policy autonomy (e.g. education and regional economic development) but were also tasked with implementing laws decided at the national level. The horizontal distribution of authority at the national level was similarly unconcentrated, both by design and in practice. An independent constitutional court (Bundesverfassungsgericht), a strong upper chamber of the legislature (Bundesrat), the recurrence of coalition government: all these elements combined to ensure that majoritarian impulses, common in other parliamentary democracies like the United Kingdom, were sublimated in favour of concertation and cooperation among actors and institutions. In the realm of economic governance, the hallmark characteristic of the German semi-sovereign state was the central bank, the Bundesbank, which was constitutionally shielded from political control and tasked with the responsibility of protecting the value of the currency (Goodman 1992: 58–102). Central bank independence thus translated into a freedom to focus narrowly and exclusively on price stability and holding inflationary impulses in check.

The resulting separation of monetary policy instruments (Bundesbank) from fiscal policy instruments (Ministry of Finance/Chancellery) cemented the separation of powers. Overall, the end result of semi-sovereignty was a decentralised yet capable state presiding over a centralised society (Katzenstein 1987: 15).

Modell Deutschland and performance

During the four decades of the Bonn Republic, Modell Deutschland was synonymous with success. Its credentials were established early on, as Germany's 'economic miracle' (*Wirtschaftswunder*) unfolded over the course of the 1950s. The combination of a decentralised state and highly organised capitalism produced enviable results across a range of indicators:

- *Exports*: Up until 1989, Germany led its European partners year in and year out in the US dollar value of exports in goods. The country ran a close second to the United States, world leader during this period, and consistently outperformed Japan, another advanced industrial democracy known for its export prowess.[3]
- *Growth, inflation, and employment*: During this period, Germany emerged as Europe's dominant economy. After a decade of explosive expansion in the 1950s, as industry rebuilt and retooled, the German economy settled into a period of stable, respectable growth. Even more impressive, solid growth was accompanied by the lowest inflation rates in Europe (indeed, in the advanced industrialised world) and by one of the lowest unemployment rates. These impressive achievements can be traced back directly to the combination of Bundesbank autonomy and the framework of business-labour cooperation, especially where wage bargaining is concerned.
- *Strikes*: Unlike France, the United Kingdom, Italy, and Greece – to name just a few neighbouring countries – Germany enjoyed a reputation for relative labour peace during the years of the Bonn Republic. Strikes, official or wildcat, were not an ever-present feature of the landscape. Clearly, this had much to do with the growth and employment performance of the national economy: the pie was growing, so there was less to fight about. The role of institutionalised labour inclusion, via the works councils and co-determination, cannot be overlooked, however (Gourevitch *et al.* 1984). And labour conflict was not entirely absent from the scene. During the 1980s, for example, the unions called for nationwide work stoppages in disputes with employers over the introduction of the 35-hour working week.
- *Sectorial adjustment*: Finally, the German model of political economy equipped actors to cope with downturns and crises, which surfaced regularly in Germany as in other advanced industrial democracies during the postwar period. The coalmining industry began to feel the effects of international competition as early as the 1960s, with massive lay-offs and resulting negative ripple effects for the surrounding regional economies very much on the cards. Similar stories can be told for the steel and shipbuilding industries in the 1970s and 1980s. In each instance, although the labour-managements conflicts were bitter, and often spilled over into inter-party conflict between the Social Democratic Party, which invariably had strong political ties to the affected unions and regions, and the Christian Democratic and Free Democratic parties, which tended to side with employer interests, the outcomes were textbook examples of the social market economy in action – industry contraction and restructuring in a manner consistent with the inexorable pressures of (global) market competition, but with compensation and adjustment assistance for workers pushed out through early retirement and lay-offs.

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The Berlin Republic: beginning of the end of Modell Deutschland?

In the Berlin Republic, Modell Deutschland no longer exists, at least not in its Bonn incarnation. The changes to its internal constitution are both complex and varied. Some have resulted from conscious decisions taken by elected politicians, business interests, or unions. Others have come about through subtle, incremental adjustments to changing contexts, both domestic and external. Taken together, these changes have altered the model's constituent parts and interconnectedness in each of the three areas surveyed above: the state, the industry-finance nexus, and the labour-capital nexus.

The sources of these changes date back to before the collapse of the GDR and unification in 1989–90. There are in fact two distinct yet overlapping and reinforcing sources of change in the German model: those external to the national model, originating in globalisation and European integration; and those internal to the model, emanating from the process of German unification. Together, they have produced far-reaching changes in the German model of political economy.

Globalisation and European integration

Globalisation and European integration are two sides of the same coin. The growth of global economic and financial interdependence, and the attendant sharpening of competition and the pressures this places on firms and national economies to adapt, has been driven by the economic integration of Europe and at the same time has fuelled attempts to deepen cooperation in Europe. The interactive, even synergistic relationship between integration and globalisation has had a profound impact on the German model of political economy. Although the effects have become more visible since 1990, this external source of change has been a fact of life in Germany since the later period of the Bonn Republic.

Growing awareness and concern in Germany about the changing global economic environment manifested itself as early as the mid-1980s and shaped debates about domestic reform as well as the country's approach to Europe. This is especially visible in the debate about Germany as a viable location for production (*Standort Deutschland*). Conservative political parties and their supporters in the business community questioned whether the country, which had always qualified as a high-cost production location, could carry on with old habits under radically changed circumstances. *Standort Deutschland* was becoming an inhospitable place in Europe and, indeed, the global economy: it had the highest wages, the shortest work week, the most vacation days, the highest degree of job protection, the most burdensome business taxation system, the most uncompromising environmental regulations, and so on.

Germany's full-blooded support for the Single European Act in 1987 sprang from a desire to build on and promote the already impressive competitiveness of German export industry. The completion of the internal market, combined with a commitment to liberalise the financial services and banking sector, set in motion a gradual transformation of the broader economic context in which the German model of political economy operated. The Treaty on European Union (Maastricht), signed in 1992 and implemented in 1993, further accelerated these impulses for change. German support for the single currency stemmed from geopolitical considerations rather than from rational economic interest, but the end effect was to initiate direct legal-institutional and indirect market changes to the traditional Modell Deutschland.

The greatest impact of globalisation and European integration on the traditional German model of political economy is to be found in the structure and responsibilities of the state in the realm of monetary fiscal policy; these changes can be linked directly to the Treaty on European

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Union and the commitment contained therein to the single currency. The creation of the European Central Bank (ECB), and the parallel demotion of the Bundesbank, means that primary policy responsibility for monetary and currency matters now resides beyond the borders of the Federal Republic. The role carved out for the ECB by the EU treaty framework is closely modelled on the Bundesbank template, at the German government's insistence. The ECB's main focus is price stability, and it was intentionally shielded from the kind of direct political influence that was typical of central banking arrangements in many parts of Europe at the time, including France and Italy. And the historical record of ECB management of the eurozone since 2000 generally conforms to the intentions and hopes of the designers of the single currency; price stability and a preference for low rates of inflation (as opposed to growth or full employment) represent the first priorities of the institution.

Although a formal-legal change, the transfer of central bank authority from the national to the European level has not had a dramatic impact on the functioning of the German model – at least not yet. The potential is there, however. In the first place, the Bundesbank played an important role in setting expectations for firms (pricing and wage/benefit costs) and for trade unions (collective bargaining objectives) through its choice of monetary targets and interest rate decisions; experts attributed a vital role to it in terms of establishing a climate of restraint and longer-term planning horizons that had a discernible impact on labour-management relations nationwide. Although the ECB pursues a similar set of objectives to the Bundesbank, its reference points, attached as they are to the entire eurozone, are much broader and much more varied than the Bundesbank's, and so its decisions are further removed from the decision horizons of German capital and labour. To be sure, wage and benefit settlements have been characterised by restraint during the post-1990 period, but this is attributable to the uncertain and somewhat stagnant economic performance of the German economy, and not to ECB signalling. What might happen if and when expansionary times return is an open question.

In the second place, the ECB, despite its status of independence, has been drawn into political debates much more directly than the Bundesbank ever was during the heyday of the Bonn Republic. Especially since the onset of the international financial crisis in 2008, which soon metastasised into a sovereign debt crisis throughout the European periphery, the ECB has moved to the centre of a bitter struggle among EU members over its proper role and instrumentarium. Those who would elevate growth and employment objectives to first-order priorities of the European Union have advocated far-reaching changes to the ECB, hoping to move the institution more in the direction of proactive central banks like the US Federal Reserve. This initiative, which includes enabling the ECB to issue Eurobonds, has been vigorously opposed by the government, opposition parties, and economic interest groups in Germany.

Less definite, though no less important changes resulting from globalisation and European integration can be identified in the structure and orientation of the financial/banking sector. Although it would be a complete exaggeration to say that Germany's system of 'patient capital', anchored by powerful universal banks and supported by a dense network of 'house banks' closely tied to German small and medium-sized enterprises, has been dissolved, the fact is that financial market liberalisation, ushered in by the Single European Act, has left an imprint. Germany's big three universal banks have become much more internationally oriented, which has diminished somewhat their capacity to 'organise' capital through the interlocking directorships so prevalent during the days of the Bonn Republic. On the other side of the table, large firms have substantially diversified their sources of long-term finance, moving away from the nearly exclusive reliance on house banks. The picture at the lower end of the size scale exhibits much more continuity with the basic contours of the Bonn Republic template. Overall, though, the

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industry-finance nexus has both internationalised and become less oriented to the longer-term horizons that promoted the classic German patient capital (Deeg 2010; Jackson and Deeg 2012).

German unification

The path to German unification is by now a well-known tale. For many living in the east, it is a story of arrogance and hubris. For many in the west, it is a story of good intentions and disastrous miscalculations. More than 20 years after the fact, one could describe the project as a qualified success, but one that resulted in a very different country. Perhaps nowhere is this impact more apparent than in the institutions and operations of the political economy. And there is no small amount of irony in this outcome – the manner in which the two Germanies were unified economically was driven by absolute faith and confidence in the power of the Bonn Republic's Modell Deutschland, and yet the end result entailed significant departures from the original model.

The Kohl Government, rejecting calls from the opposition Social Democrats, academic economists, business associations, and even government agencies like the Bundesbank for a gradual, cautious approach to unification, opted for a policy of rapid institutional transfer, based on complete faith in the principles of the social market economy and the proven track record of the West German political, social, and economic model. This supreme confidence extended to the integration of the new parts of Germany into the broader European market and regulatory framework. Almost immediately after its implementation in 1990, however, Bonn's policy of institutional transfer generated massive social and economic problems for the new Länder and for unified Germany. As Eastern German export markets in eastern Europe and the Soviet Union collapsed, the region's industrial base imploded, generating mass unemployment and necessitating massive transfers, through the social welfare system and through intergovernmental channels, to prop up the faltering new states of a unified Germany. The privatisation of East German industry, which had been entrusted to the Treuhandanstalt, a new parapublic agency, sputtered, requiring the West German state to begin supporting nonviable enterprises in order to stave off a complete collapse in the east. It soon became clear that the mounting problems in the new Federal states would also require a more lenient approach in Brussels.

The process by which unification challenged and in key respects transformed the German model makes for an absorbing narrative, but one that would take us well beyond the confines of this chapter. The outcomes of this process are clear, even if some of them are not yet finalised. The most significant changes are to be found in the realm of ideas, in the state sector, and in the labour market.

The most obvious casualty of German unification is the doctrine of the social market economy. The Kohl Government, backed by the coalition parties and a bevy of respectable policy analysts and academic economists, justified the rapid and uncompromising transfer of western German institutions, practices, and norms to the new Federal states in terms of social market orthodoxy. Reversing the effects of 40 years of state socialism rested on the application of a tried and true system of ideas and institutions. The main thrust of government policy was to introduce the market, and to be prepared to cushion its negative effects through social policy and, where necessary, targeted and temporary state intervention. As the evidence soon began to mount that the treatment was not working, and in fact appeared to be making matters worse, support for these tenets of the social market economy began to waiver.

The undermining of faith in SME principles was an inherently political process. Eastern German interests, frustrated by the government's failure to deliver on the promise of adherence to social market orthodoxy, allied with sceptics in the west to question many of the established

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truths of the postwar political economy in West Germany, forcing the government into an improvisational mode. Motivated by differing agendas but united in their criticism of the traditional German model, they mounted a significant challenge to the consensus in Germany underpinning the domestic model of political economy.

The challenge to social market orthodoxy has not resulted in the demise of the doctrine. If one were to ask a government official or an academic economist about the philosophy that guides the operations of the German economy, he or she would reply, '*Soziale Marktwirtschaft*!' The empirical referents of that term in 2014, however, are substantively different from those that existed even 30 years ago.

What is meant by that? In a nutshell, German government officials were compelled to act in ways that stretched the implicit balance between 'market' and 'social' well beyond established parameters. Examples are legion. The Treuhandanstalt, rather than liquidate when no buyers were to be found, was forced time and again to prop up and sustain large, inefficient enterprises to preserve jobs and sustain faltering local and regional economies (Fischer, Hax, and Schneider 1995). German officials in Brussels increasingly sought exemptions and even outright changes in EU policies to cushion the effects on the eastern German region, even if this meant departing from long-established positions adopted during the Bonn Republic (Anderson 1999). Although government officials took great pains to square these interventionist impulses with social market orthodoxy, the fact is that by the end of the first decade of unification, the range of acceptable state roles and the balance between 'the market' and 'the social' embraced by the *soziale Marktwirtschaft* had expanded dramatically.

The labour market in the Berlin Republic also bears signs of profound change that represent significant departures from the postwar Modell Deutschland. Some of these changes have come about as the result of changes in government policy sparked by the *Standort* debate. Concerns about the government's expansive fiscal policies after unification risked undermining the broader parameters that made Germany such an attractive place to do business – that is, a sound budgetary policy, a strong currency, and a low inflation rate. Business interests in particular hoped to use unification as an occasion to force policymakers to undertake a major reappraisal of state regulatory and taxation policy, as well as social policy. The result: a series of government reforms of the labour market – specifically, the Schröder Government's Agenda 2010 initiative, at the centre of which were the Hartz I–IV reform proposals. These reforms bundled social insurance and unemployment benefits and tied their receipt more directly to the search for and the willingness to accept work, and sought to create a set of new employment programmes oriented towards the promotion of competition and incentivising entrepreneurship (Czada 2005: 175–8). The objective was to create a more flexible and responsive labour market, one theoretically more open to part-time and low-wage earners hovering at or near the poverty/unemployment line. The reforms were hugely controversial within organised labour and left-wing political circles; many viewed the Schroeder Government's initiative as a betrayal not only of social democratic principles, but of the common understanding of social market economy principles. The Hartz reforms in particular have been directly tied to growing inequality in Germany, and feed the perception of a growing 'dualism' in the new German economy.

Industrial relations sit at the core of the labour-capital nexus. Like other elements of the German model, there is much here that is recognisable in the Berlin Republic. Vocational training is structured and operates much as it did during the days of the Bonn Republic. Works councils and co-determination remain anchored in German law and function much as they did during the years of the Bonn Republic, although it is fair to say that during difficult times, when unemployment was high and corporate threats of job exports and plant closures rang true, these mainstay institutions of worker inclusion came in for increasing criticism within trade union

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and leftist circles for playing a more accommodationist role within firms, even heralding the demise of organised capitalism (Beyer and Höpner 2003). Although it would be an overstatement to say that these institutions now represent a locus of company unionism, the fact is that during the course of the 1990s firm-level 'pacts' and other enterprise-level agreements, in which worker representatives agreed to worker concessions on wages and other matters in exchange for job guarantees, became quite common. Although it is unlikely that unification caused these changes, the incorporation of the former German Democratic Republic certainly contributed to them, both by worsening the general economic performance of the overall German economy and by adding employer and especially worker mentalities, fostered by decades of top-down state socialism, that encouraged a more enterprise-centred approach to labour-management relations.

The framework of collective bargaining has also survived into the Berlin Republic, but its reach is now less extensive. Some of this has to do with a weakening of labour – whereas unionisation rates during the heyday of Modell Deutschland hovered between 30 and 35 per cent, today's German labour force is only 20 per cent unionised. On the other side of the table, employer associations now encompass fewer members, as firms, especially in eastern Germany but also in the west, have left the associations to forge collective bargaining agreements with labour on their own. So by definition the coverage of collective bargaining agreements has diminished as the organisational reach of both capital and labour has shrunk.

The decline in coverage by the traditional institutions of Modell Deutschland associated with the capital-labour nexus has resulted from multiple and reinforcing pressures: increasingly global competition, the completion and expansion of the European market, the lingering recessionary environment, and the social and economic consequences of unification. The latter's fingerprints are especially prominent; whereas coverage of both works councils and collective bargaining agreements in the original Federal states of Germany declined from 83 per cent in 1995 to approximately 60 per cent in 2011, over the same period coverage in eastern Germany dropped to 50 per cent (Silvia 2013). This has led some experts to describe the German economy in terms of dualism, characterised by a still sizeable but inexorably shrinking sector in which conditions prevailing during the Bonn Republic still hold, and a growing sector in which weak or unorganised labour contends with firms on terms reminiscent of liberal market economies (Deeg 2010).

Conclusion

If the question is simply, 'Does a distinctively German model of political economy still exist?', then the answer is 'yes'. Down to the present day, the Federal Republic of Germany has retained a distinctive mix of institutions, actors, and processes that exist and operate on the basis of a distinctive set of norms, values, and principles. And yet, this is not the Modell Deutschland of old. The theory and reality of the social market economy have diverged under the strains of unification. The social partners that animated the model – labour and capital – have lost members, and consequently enjoy a more limited reach and possess fewer means to drive the system, either on their own or by acting together. The state has found itself called upon to do more with less, and has found many of its responsibilities and associated authority unbundled and packed off to Brussels. To the extent that the traditional Modell Deutschland exists, it is a shrunken version of itself, existing alongside a growing and separate political economy that bears the imprint of a long process of deregulation and liberalisation. Dualism seems to be a lasting legacy of the post-1989 transition. One must be cautious in connecting these changes in the make-up and constitution of the Berlin Republic's model of political economy with performance. No advanced industrial economy is doing better than its Cold War incarnation. That said, in terms

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of the standard measures of economic performance, which include GDP growth rates, unemployment, and inflation, the German economy today is outperforming many if not all of its fellow EU members, to say nothing of the broader class of OECD members. Relative to others, Germany is doing well.

However, all this has come at a price. Internally, respectable growth and better-than-average unemployment and inflation have come at the price of growing inequality, which carries at least the potential for social conflict. Externally, relative German economic success, which is symbolised most visibly in the growing export surplus that Germany posts, has come at the price of the support and respect of Germany's EU partners. Here there is not only the potential for conflict – there is conflict. And the risk is that the success of the German model, which during the Bonn Republic years was viewed both inside and outside Germany as compatible with, and in some sense central to, European success, could come to be seen as contrary to the EU's economic prospects. That would spell disaster for Germany and for Europe.

Notes

1 'World from Berlin: Germany No Longer a Role Model for Europe', *Spiegel Online*, 28 November 2013. Available online at www.spiegel.de/international/germany/0,1518,936162,00.html (accessed 15 December 2013); N.D. Schwartz, 'Where Factory Apprenticeship is Latest Model from Germany', *New York Times*, 30 November 2013. Available online at www.nytimes.com/2013/12/01/business/where-factory-apprenticeship-is-latest-model-from-germany.html (accessed 15 December 2013).

2 In 2001 the DIHT was renamed the Deutscher Industrie- und Handelskammertag (DIHK).

3 Source: OECD.StatExtracts. Available online at http://stats.oecd.org/index.aspx?datasetcode=MEI_TRD# (accessed 15 December 2013).

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