

BETWEEN THE DEVIL AND THE DEEP BLUE SEA: THE 'GERMAN MODEL' UNDER THE PRESSURE OF GLOBALISATION

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At the end of what Hobsbawm calls the 'Short Twentieth Century', Europe is no longer haunted by the 'spectre of Communism': the 'spectre of globalisation' now stalks the earth in its place. From the viewpoint of many economists, globalisation is the 'leitmotif of the **twenty-first** century' as Paul Kennedy puts it, and for many sociologists a 'world society' already appears to be a statement of fact. In everyday political debate, on the other hand, it is becoming increasingly common to hear that '**globalisation**' is a mere 'fetish', a 'phantom', or even a 'myth', the ideological contents of which remain a well-kept secret but essentially amount to an argument deployed to legitimise the absence of **any** political input into the shaping of economic and social processes.

Those who take this latter position claim that economic **globalisation** processes are actually nothing new, and the proof of this is usually said to lie in quantitative data on the development of world trade, world production, the mobility of capital and the international migration of labour. From the evidence provided by this data, it is readily demonstrated that the degree of world economic integration experienced today is roughly equivalent to that seen during the period of *Pax Britannica* before the First World War. The level of world economic **integration** at that time was, however, much lower than today and many economies that were then excluded from world trade and the system of international institutions are now **integrated** into the world economy. By **relying** on macroeconomic data based on long-range time series, the new character of globalisation is not easily discernible; this character is not just a result of the magnitude of today's economic processes – as manifested in higher levels of productivity, income, capital stocks and, above all, natural resource

consumption – compared to those in place at the end of the nineteenth century. We are better equipped to explain this situation if we go beyond references to the quantitative extent of global economic integration and take up the qualitative developments which have forced themselves into our consciousness at the end of the twentieth century. These developments will form the focus of the first section of this analysis.

I. WHAT'S NEW ABOUT GLOBALISATION AT THE END OF THE TWENTIETH CENTURY?

The development of a world market has proved to be a long-term process which began with the great discoveries of the sixteenth century and the subsequent colonisation of regions beyond Europe. However, the specifically capitalist dynamic of this process only came with the industrial revolution (see, for example, **Amin**, 1996). In the course of this 'Great Transformation', money, along with nature and labour, was converted into commodities and capital; this principle of 'commodification' was described by Karl Polanyi (1944) as 'disembedding' from social bonds and local commitments. With the revolution in energy systems in the course of the 'fossil-fuel' revolution that accompanied the industrial revolution, the social form of profit was released from the narrow confines of traditional biotic sources of energy and thus also from the corresponding space and time regimes.

At the end of the twentieth century we are experiencing a **further** stage of 'disembedding' (cf. **Altvater/Mahnkopf**, 1996, p. 109–136; **Altvater/Mahnkopf**, 1997): the emergence of 'synthetic indicators' (as furnished by the sub-balances of the balance of payments) with which societies are comparatively evaluated in the abstract functional space of the global market. Such evaluations would be harmless if they were only about the judgements in the national economy by interested politicians or scientists. But they define the comparative position of a currency area within the **global** economy and thus the context of a nation's currency area within global currency competition. Just as sovereignty in **nineteenth-** and early twentieth-century thought remained bound to the territoriality of states, so now it defines itself in a world of money **through** a currency area whose borders are defended at the counters of the **foreign** exchanges or within the **global** 'swift-network' of internationally operating banks. Once delivered into the hands of market mechanisms, subordinated to global time and space regimes and dependent upon the price of money (interest and

exchange rates), societies must accommodate themselves to the **disem-**bedded economic mechanism. The world market with its time and space regimes, with the **global** monetary and credit system that is maintained through the fossil **fuel** sources and their associated material and energy conversion systems, is the frame of reference for **sociali-**sation.

This is the primary aspect of globalisation in our own time. A second stage of 'disembedding' is now money's acquisition of a life of its own in relation to the 'real economy'; the decoupling of monetary from real accumulation; and the crystallization of a globally operating financial system which is subordinated to neither social norms nor political direction. Money is defined in terms of credit and debt, **i.e.** as money that no longer functions **only** as a medium of circulation within the commodity cycle. It is 'money as money'. This 'autonomization' as money transforms the 'global society' into a society of 'wealth owners' (J. M. Keynes). Disembedded powers therefore feed back onto social relationships and system of political institutions as external constraints. This finds expression in the 'hierarchy of markets' already described by Keynes: the money market steers the market in commodities with prices, and this in turn is relevant for demand on the labour market. In terms of the life **practices** of dependent employees, disembedding means therefore that their chances on the labour market are directed by processes on the global market which they cannot influence at all. For the political system this same process is responsible for the loss of sovereignty in economic policy.

What has proved crucial for political action in the context of **globalised** markets is the extraordinary dynamism which has driven the extensive world economic integration of the post-war era. This is due not least to the numerous tariff negotiations which have taken place within the framework of GATT and which have led to the widespread removal of trading obstacles. As a result of the technical and logistical 'revolution' in the communication and transport sectors and the reduction in the real cost of fossil **fuels** since the oil crisis in the **mid-**1970s, the geographical boundaries which had determined the movement of money and capital, goods, services and (to a lesser extent) labour have been removed. Since then, transport costs are no longer an impediment to crossing national frontiers. Territorial or 'natural' borders of competition between production locations become less important. Producers in these locations are now forced to behave as 'price takers' and must try to lower costs **and/or** meet global standards.

The tendency towards globalisation brings with it an enormous

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acceleration of all processes of monetary, real economic and social transformation. The 'globalisation of time' is manifested most clearly in the financial markets, where modern communications, information technology and complex computer programmes eliminate the time differences between the various capital markets, allowing money and capital to circulate practically in 'real time'. Globalisation along the 'time-axis' is also taking shape in cross-border production networks. Under the conditions of deregulated, liberalised markets and drastically shortened product life cycles, 'time competition' is becoming a critical factor in global market success. Periods of production standstill are proving to be decisive cost factors, which means that such periods must effectively be eliminated. Compared to the financial burden of production stoppages, labour costs incurred during the actual course of production are less significant. The overarching aim is the acceleration of capital circulation: all capital bound to materials and machinery should be 'set free' for renewed deployment.

The most important characteristic of economic globalisation at the end of this millennium is that an abstract global 'space and time regime' has come to prevail over the conflicting space and time commitments of societies and individuals; the latter must conform to rapidly changing standards and the quicker this conformity is achieved, the **quicker** the pace of the resulting transformation processes. Today it is credit schedules which determine the rhythm of global time regimes. It is no longer the harvest cycle, as in agrarian societies, nor the rate of circulation, as in large-scale industry, but the maturing of debts which defines the horizon of action and the periodization of cycles within a globalised finance capitalism. In this way money's logic dominates a 'global society'. It is not difficult to see that the sheer speed of change is inextricably linked to certain social and ecological costs; these can be seen in the rapid devaluation of qualifications and in the accelerated consumption of resources.

Another novelty of economic **globalisation** lies in the fact that the process of marketisation has largely penetrated all societies world-wide. There are no more 'patches of white' on the map, no more significant areas where people's lives are not dependent on the market. It is above all financial markets which have achieved a truly **global** status, and localised human relations have become subject to their dynamic. Global financial markets control the **goods** and service markets **through** pricing money (interest) and currency (exchange rates) and these, in turn, affect the level of demand in labour markets.'

Moreover, tendencies towards **globalisation** show that after the

collapse of the planned economies in Central and Eastern Europe, there have been no alternatives to the path of capitalist modernisation and national economic and societal rationalisation, nor to the normative power of world markets and world money. After the disappearance of the 'white patches' on the map, the 'red patches' also suffered the same fate. Since 1989, the principle of the capitalist market economy has been uncontested; it therefore no longer needs to prove its superiority in the 'competition of the systems' in terms of its social performance. The socialist planned state had at least one thing in common with the Keynesian, interventionist and welfare state in the industrialised countries, and with the 'developmental State' in the Third World: following the experience of world economic collapse in the thirties, the conclusion was drawn that social and economic processes could not be left to market forces alone. Like the strategy of 'import substituting industrialisation' in the South, Socialist planning in the East, and Keynesian interventionism in the West were attempts to counter the practical constraints of the world market through national control.

However, this particular strategy has become problematic under the changed conditions outlined above. To an ever greater extent, states are proving too weak to impose rules which regulate the affairs of a particular territory. Today, the rules of the nationalisation processes are less than ever the product of autonomous economic policy: they result from the effects of a world market no longer constituted by a collection of national economies, but one which itself constitutes a single 'geo-economy'. The world market is extending its irresistible power to control the price of money and currencies on the one hand, and on the other hand to set technical standards and generate as well a common **production-** and consumption-model characterised by efficient technology, high levels of output in manufacturing urbanisation, and a high degree of **mobility** and individualisation.

Governments throughout the world today see themselves bound to the unavoidable **logic** of 'structural adjustment': like the countries of the former 'Second World' and the Newly Industrializing Countries (NICs), the governments of the modern welfare states are coming under pressure to give priority to facilitating the necessary adjustment to the monetary standards of **global** financial markets and the international competitiveness of business. The countries of the South and East are forced by the World Bank and the IMF to implement structural adjustment programmes on a permanent basis, while the industrialised countries are **doing** this 'voluntarily'. The result is nevertheless

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identical in both cases: deregulation (of labour markets in particular), the liberalisation of prices and exchange rates, de-nationalisation (of public utilities), the stabilisation of national currencies, restrictive budgetary policies and political protection for making profits on productive investment which are above world market interest rates (including a risk surcharge).

It is above all monetary **globalisation**, and in particular the competition of currencies, which sets the standards in those areas seen as appropriate for intervention: wages, incidental wage costs, the regulation of the work and employee protection. Local reactions to global forces must be **generated** locally. The pressure thus increases on individual states to offer 'global players' the best conditions in the 'location competition'. In what Paul **Krugman** calls the 'race of the obsessed' the state is **losing** a **significant** degree of its sovereignty, yet its economic duties are increasing. In an area where it has been the traditional responsibility of government to provide for 'law and order', it now has to raise the competitiveness of businesses in the global market. In doing so, the state is changing its role: formerly a 'buffer' between the demands of international markets and the social interests of citizens, it is becoming an 'adapter' of these interests to the demands of borderless markets (see Sakamoto, 1994).

Two final peculiarities also characterise globalisation at the end of the twentieth century. Inside and across the borders of national economic areas, new (invisible) borders are **being** erected around productive 'microregions' such as **Baden-Württemberg** in Germany, Silicon Valley in the USA, Lombardia in Northern Italy or Southern Ontario in Canada. Networks built up between business, politics and academia ensure that competitiveness is achieved in the global sphere by 'productivity and innovation pacts' based on a qualified workforce, technical efficiency, a modern infrastructure and social consensus. Moreover, supranational (regional) economic blocks are being created in many areas of the world; these include, for example, free trade areas such as NAFTA in Northern and Central America and the single market in Europe. Their goal is to erect new borders against the pressures of **globalisation** in the form of custom duties, regulations and possibly even the introduction of a common currency (as in the case of the EU) – and, if possible, to set **globally** binding standards in the course of 'macroregional' innovation.

In the EU, the highly unsettling outcome of globalisation and the associated deregulation of the market is twofold. **First**, regional variations arise in labour costs, and hence in incomes and living standards,

despite progress towards political unity. Second, the obverse of monetary **deregulation** is protectionism in the real economy of the product markets, which may become a broadly supported strategy because it seems the **only** way to protect workers' interests. At present protectionism finds its way onto the international **agenda** only in the context of relations between large economic blocs (the EU, the USA or Japan) and of North-South or East-West relations. Nonetheless, protectionist tendencies could well become rife within Europe, even at a regional level, acting as an emergency brake to counter the excessive economic and social demands of the deregulated market – at least if competitive modernisation should falter and wage flexibility fail to lower cost.

To summarise the phenomena outlined above, the term **globalisation** can be said to refer to a *megatrend* which also embraces social, cultural and, above all, ecological dimensions, aside from the monetary, economic and **technological** aspects which are our primary concern here. When we direct our attention to these secondary factors, we can see that the social and ecological limits of globalisation are already being drawn. In contrast to the rhetoric of free trade, the thesis will be put forward here that the 'achievements of adaptation' which are required as the price for securing international competitiveness are, in fact, overloading the social system. The continuous reference to the seemingly overmighty 'systemic constraints' of the market can indeed bring people to heel and make them ready for sacrifice. Because decisions are removed from political responsibility and submitted to private forces – and therefore **de-politicised** – governments do not even have to fear severe losses in **legitimation**. However, it is a 'squaring of the circle' (R. Dahrendorf) to manage competitiveness on the world market, democratic participation on the national level, and (welfare state) systems for social security all at once. Since every cut in the social security net means **damaging** the material foundation of people's identity as self-confident political citizens, they can hardly be expected to trust parties and other institutions of civic participation to represent their interests (cf. Mahnkopf, 1998).

In the industrialised countries, this development is best seen in the institutions regulating the labour market – of which the following analysis of the 'German model' should provide an example. In north-south relations this same development finds expression in increasing inequality, impoverishment and 'de-civilisation'. Linked to this is a second thesis which asserts that no 'world society' can come out of economic **globalisation** – precisely because under the sign of 'global

hyperliberalism' (see Albo, 1994; Panitch, 1996) a convergence of economic-political answers to the new conditions of globalised competition is evident in all countries, south, east and north.

Apart from the social brakes on economic globalisation, ecological barriers to the realisation of globalisation must also be reckoned with. These barriers mean that the mobility of global finances, world trade, information technology and foreign direct investments from industrial and service businesses cannot bring about a just global society, that the promise of 'prosperity for all' cannot be fulfilled. At the high levels of natural resource consumption already reached, many goods which belong to the industrial model are becoming 'positional goods' (Hirsch, 1976), i.e. goods which cannot be used by everyone without destroying the entire framework of consumption. The ecological limits of globalisation must be kept in mind when a strategy of 'progressive competitiveness' is considered by the political Left as an alternative rather than merely a 'subsidiary element in the process of neoliberal capitalist restructuring and globalisation' (Panitch, 1996: p. 106). In the German globalisation debate, such a strategy is propagated under the slogan 'innovation competition' instead of 'cost-cutting competition' – and this by a cross-party majority which includes large elements of the political Left as well as prominent representatives of the conservative camp.

II. GERMAN PECULIARITIES: CONTESTING GLOBALISATION WHILE DEFENDING THE 'STANDORT'

Global competition makes 'Rhineland Capitalism' (Albert, 1994) appear 'too expensive', although it is an economic model which has proved very successful to date. The robust 'German model' has entered an existential crisis. Many employers, politicians and associated academics and journalists in the economic field have claimed that high labour costs are responsible for the fact that some businesses have relocated parts of their operation abroad in areas where wages and welfare costs are considerably lower. Social institutions which had 'embedded' the (West) German labour market² in a system of protective and redistribution agreements are considered today to be the archaic remains of conservatism and collective agreements; they appear to impede rapid adjustment to the demands of global markets. Even social scientists, who until recently were convinced that the 'German Model' would provide an answer to the social and political crisis in exemplary fashion, now fear that Michel Albert's pessimistic predic-

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tions could be realised that the less effective Anglo-American model of capitalism **might** prevail over the high-performance 'Rhineland capitalism', simply because the former shows a closer structural compatibility with the deregulative forces of globalisation (see Streeck, 1995).

Members of the Bonn coalition government, company directors and representatives of influential economic research institutes have been demanding for some time that production be increased, without wage increases, that companies be relieved from social welfare contributions, and that increasing wage disparities should be established. In addition, a reduction in the top tax rate is demanded along with a further shifting of the tax burden onto labour, the 'less flexible production **factor**'. According to the internally consistent logic of the neoliberal project of 'deregulation' and 'denationalisation', this policy is the necessary result of the international battle of the systems for 'taxable incomes' (see Jungnickel/Keller, 1997). This strategy is countered by the Social Democratic Party (SPD) and the Greens opposition, who propose two essentially connected positions: on the one hand, they protest against the damaging social consequences of cutting public spending, and on the other they propose a milder version of the same policy.

At first sight, this appears somewhat contradictory. Closer consideration of the situation, however, reveals a particular trait of the German economic globalisation debate. Even politicians, academics and journalists of social-democratic Keynesian (or indeed of a Green-alternative) persuasion follow those in the neoliberal mainstream in conducting the globalisation debate almost exclusively in terms of the competitiveness of '*Standort Deutschland*' (Germany as an economic location). A cross-party consensus gives political priority to ensuring the competitiveness of the German economy: President Herzog is in the company of most high-ranking trade union officials, broad sections of the Social Democrats and influential *Realpolitiker* from Bündnis90/the Greens in **drifting along** with the political mainstream. Debate is conducted principally about *how* the competitiveness of the German industrial *Standort* can be best secured: either through a reduction in costs **and/or** through radical product and process innovation.

Pointing to the practical constraints of **global** competition, some on the Right are advocating a reduction in costs at all levels. That would include a reduction in social security contributions as well as an undermining of collective agreements, increasing the flexibility of employment conditions and tax cuts for property owners and **indus-**

trialists. At the other end of the political spectrum, a large number of opposition politicians, trade unionists and academics view the 'threat of globalisation' as a pretext **generated** by politicians interested in distracting attention from domestic difficulties. From their point of view, the pressure currently exerted on the 'German model' of 'Rhineland capitalism' is not the result of economic globalisation but a result of a misguided unification policy financed by credit and not taxation, the rigid monetary policy of the Bundesbank and the temporary overvaluation of the Deutschmark (until 1995). In order to fend off **neoliberal** attacks against important industrial-social institutions, the supporters of these institutions question the statistical relevance of the globalisation thesis for the German economy. This is achieved by citing macroeconomic data on international trade, **foreign** direct investment and wage costs per unit of output compared with other countries. The point of the exercise is firstly to show the qualities of Germany as an economic location, and secondly to refute the thesis that national politics has lost all **meaning**.³

In order to exorcise the 'spectre of **globalisation**' and to retain the fiction of the large, unchanged scope of national politics in the economic and social-political sphere, the supporters of *Standort Deutschland* never tire of **emphasising** Germany's strengths in international competition. On the one hand, the export surplus achieved in foreign trade is **quoted** as an argument against Germany's putative competitive weakness. More important, however, is the demonstration that *Standort Deutschland* in no way suffers from overly burdensome (West German) wage costs because these costs correspond to **high** levels of **productivity**: if compared internationally, real wage costs per unit of output (in West Germany), are not overly high, nor have they increased significantly since the **1980s**.⁴ At the same time, competitive advantages due to low increases in unit labour costs were counteracted by the effects of the Deutschmark revaluation, particularly from 1992–95. With taxes representing 23.6% and social security contributions 15.4% of GDP, Germany is actually in the last third of European countries with regard to tax burden. Since 1982 the average tax burden on businesses has fallen, and in international terms, with the real tax burden taken as a basis for comparison, it is very low (see Schafer, 1996). Even the balance of direct investments **hardly** proves the weakness of the *Standort*. The flow of German capital out of the country cannot be explained by the pressure of costs, but has other causes such as market development and protection, or – in the case of German direct investments in the USA – efforts to avoid currency

risks. It is an undisputed fact that only a small portion of German direct investment has flowed into countries outside Europe and East European low-wage economies.

Within the framework of the German Standort debate, the contention has rapidly surfaced that the increase in cross-border economic activity is effecting a form of regionalisation, rather than a form of globalisation; or to be more precise, a Europeanisation of economic relations. Because Germany is a driving force and not a passenger within the EU, it is doubtful that the escalating competition of economic locations for the finance and investment capital of 'stateless' market forces necessarily means that national systems of governance – by which Germany is always meant – are becoming less important. On the contrary, many social democratic and Green politicians put their money on the 'German model' to provide a European answer to the constraints of **globalisation**.⁵ The fact that many **left-wing** social scientists are concerned almost exclusively with the strong German economy also explains why many lend their support to the view (expressed until recently **only** by neo-classical economists) that globalisation can result in a win-win situation for all those involved.

Not differing from those politicians and business representatives who use globalisation as a threat to force renunciation of any further demands, representatives of the 'head-in-the-sand' position, who wish to take the wind out of the sails of **globalisation** by calling it a 'phantom' or a 'myth', also call for a need to adjust to the global pressures. The argument is the following: Germany has been successful for some time in the rather traditional technology-intensive fields such as car manufacturing, mechanical engineering and the electrical (but not electronic) and chemical industries. Faced with the advantages of the low-wage 'late-comer' economies, Germany is losing the advantage it had as a result of its specialisation. The German production model relied until now on the medium-tech sector, which still claims its share of world trade. The German economy has nevertheless missed out on the opportunity to build a strong position in the high-tech areas of growth in the global economy; clear weaknesses in its technological competitiveness are apparent in the high technology Sectors, such as information technology and communications, the aero-space and biotechnology industries. German research and development is thus deemed 'too conservative'. Only in environmental technology can German firms claim a leading position; the number of patents registered for chemical and pharmaceutical products has even dropped (see, for

example, Priewe, 1996; Matraves, 1996; Audretsch, 1996; Potratz/Widmaier, 1996). According to the 'innovation gap' thesis, a fatal error is **being** made in 'remaining largely content with a good European position and shunning global benchmarking' (Priewe, 1996: p. 88). The basic institutional conditions at the centre of the national system of innovation, which supported the gradual modernisation in the medium-tech field in the past, are today considered to be an obstacle to the promotion of radical innovation in the high-tech sector (see Soskice, 1996).⁴

From their diagnosis of a growth-stifling 'innovation deficit' in the German economy, the supporters of the 'German model' conclude that the competitiveness of *Standort Deutschland* should not be protected by lowering wages and welfare payments. Instead, they advocate a policy of innovation and productivity competition within an exclusive circle of developed market economies. In the last section of this essay I will return to the question of the supposed mutual exclusivity of innovation competition and cost reduction competition as possible reactions to world market constraints. The primary question will be whether the innovation competition propagated by a cross-party group of 'modernisers' allows for a regulation of the social and ecological limits which confront the process of financial and real economic **globalisation** at the end of the twentieth century. But in order to assess the 'path dependency' of the proposed structural transformation, I would like first of all to recall the characteristics and strengths of the 'German model'. **After** this, some of its most important structural weaknesses will be listed.

III. THE 'GERMAN MODEL' UNDER DISCUSSION

Let us recall, first, the characteristics of 'Rhineland capitalism' and later the 'German model', which have been admired periodically over the last twenty years. The 'German model' was a Social Democrat election slogan from the 1970s which became a synonym for the consensual incorporation of corporatist interest groups into a process that Fritz W. Scharpf and Volker Hauff have called a global market-oriented 'national economy **modernisation**' strategy. Since then, the words 'German model' have come to mean a form of 'organised capitalism' in which state intervention in the workings of market forces serves to increase economic efficiency (see Wever/Allen, 1992).⁵ At the same time, the state has the constitutional obligation to assist in reducing, within limits, social inequalities, and thus creating a

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more just social order. In other words, it is a catch-word which stands for an economically based 'productivity pact' of labour and capital supported by state social policy – particularly in terms of **pensions**, health and 'human relations' in the workplace – and which (at least in the beginning of the 1970s) has been accompanied by educational reform. In post-war (West) German society, it has thus been synonymous with the fusion of international economic competitiveness, on the one hand, and a **high** degree of social cohesion and low levels of wage inequality and labour conflict, on the other. The Social Democratic model of moderate class compromise could admittedly rely on 'pre-Fordist' political structures and social institutions which **reach far** back into **German** history.

The backbone of this model was formed without doubt by the dual system of employer-employee relations, which instituted a very clear legally-defined division of tasks between trade unions and the representatives of business interests; the priority accorded to industry-wide wage agreements between employers' associations and trade unions over the arrangements of individual companies; the comprehensive legal regulation of company employment relations; and a complex system of employee participation in company decision-making. In the past, a wide-ranging standardisation of the rights of employers and the obligations of employees was in the interests of both parties. For the trade unions it was particularly important that standardised pay agreements allowed the centralisation of wages policy and a resulting evening-out of differences between occupations, levels of qualification and the regions. Those educated to different levels, those working in differing economic sectors, those in different regions and employees in companies of varying size were therefore subject to less wage inequality in Germany than in other industrialised countries (although it is important to add that wage inequality between the sexes has to this day barely been addressed).

The standardisation of employer-employee relations by way of pay agreements has been in the interests of employers because it has reduced competition between companies in Germany, kept disagreements with trade unions manageable and allowed a certain degree of forward planning. Also considered **central** to the German success story over the last decades are the institutions which form the dual system of specialist training, in which both the state and the economy share responsibility for on-the-job training and vocational instruction in schools. The high degree of centralisation and uniformity within the employers' associations and the trade unions permitted the **devel-**

opment of cross-industrial institutional regulations for vocational and additional training. As a result the degree of Taylorist division of labour could be kept to a minimum. However, it included only the skilled male labour element in the high-productive 'efficiency wage' sector of the German economy.

In addition to this, the system of banking has encouraged a long-term commitment to large, small and medium-sized businesses from home-grown banks. This has created a greater degree of financial stability for German companies than has been experienced by businesses in other countries.' Together with the active state promotion of research and technology, which has fostered innovation within a wide spectrum of businesses, but **particularly** within medium-sized businesses, these institutions have formed the long-term foundation for an internationally competitive and crisis-resistant variant of what Robert Boyer calls 'flexible Fordism', or what Wolfgang Streeck calls 'diversified quality production'. Predominantly male, highly **qualified** employers of German nationality have manufactured **quality products** in the medium-tech industries which have made large profits in the export markets. Within the framework of German co-determination and a business culture imbued with the spirit of this framework, workers' representatives have found it relatively easy to shoulder a certain **degree** of responsibility for the economic efficiency of businesses. In return for this, they have been able to exact wage increases in the past, and have achieved improved working conditions and a considerable reduction in working hours.

However, this 'Fordist productivity pact', inclusive of government and the various levels of parliament, must be seen as a coalition at the expense of nature. Considerable **growth** rates in labour productivity, and thus in prosperity, are inextricably linked with a high input of energy (and mineral and agrarian) resources. This process of non-renewable resource consumption appears to be productive rather than destructive because the amount of labour required to sustain it is **actually sinking**.¹⁰ 'Expensive' human labour (or the biological energy of the labour force) is **being** substituted by 'cheap' machine labour (or by fossil energy and, no less problematically, by atomic energy) and thus by the massive consumption of natural resources effectively taken free of **charge**.¹¹ The 'fossil-fuel basis of **Fordism**' (Altvater, 1992) is the reason why the destruction of nature – made possible by the rapid increase in the deployment of technology – has also brought job losses with it. This is because productivity increases are impossible without an increase in the consumption of energy and raw materials, and in

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times of stagnation or moderate economic growth, this entails, first and foremost, a process of labour-saving rationalisation, *i.e.* the replacement of 'expensive' human labour by the increased use of 'cheap' energy.

In the heyday of the 'German model', those who found themselves on the fringes of the labour market or who were forced temporarily into unemployment when the 'productivity whip' was cracked, could at least rely on the social security net to prevent them falling into long-term unemployment or social marginalisation (these people were mostly women, the low skilled and **foreign** workers). The corporative consensus which aimed to secure the international competitiveness of German businesses thus had a **functional** equivalent: welfare state institutions which were tied to gainful employment. This relationship between the production of quality goods by qualified and skilled male labour, the perception of joint interests and the corporatist welfare state is what Hans-Olaf Henkel, the President of the Federal Association of German Industry (BDI), has in mind today when he categorically demands the end of 'this consensus nonsense'. He is certainly not the only one to question the relationship between the increase in productivity and economic prosperity, social welfare and democratic order which was at the heart of the 'German model'. Voices from economic and academic circles are calling ever more openly for the state to become an entrepreneurial actor. Instead of demanding solidarity with the Standort from businesses, the 'national competition state' (Cerney, 1990) should create the conditions for a structural transformation in line with the global market. This means accepting the reduction of the macroeconomic room for manoeuvre and the loss of the capacity to protect uncompetitive production factors. Germany, according to the view of most economists, politicians and journalists, must be freed from the burden of a costly consensus culture. 'Consensus tends to etch in stone what already exists and fails to create new challenges for itself' (President of the Deutsche Bundesbank, Hans Tietmeyer, quoted by Buhl, 1997).

In his much vaunted 'Berlin Speech' of April 1997, the President of the Federal Republic, Roman **Herzog**, made it patently obvious why a socially bound capitalism is no longer a timely ideal: the global challenge requires the rapid transformation of all established **structures**, but in Germany, an irrational resistance to innovation and a reform inertia are delaying the necessary changes. 'Fruitless debate rituals' should therefore be consigned to the past, 'fears' about the dangerous effects of growth-orientated innovation must be dispelled,

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doubts about nuclear energy, biotechnology or digitalisation must be banished and 'excessive regulation' of the labour market in particular must be stopped (cf. Herzog, 1997). The message is clear: social conflicts no longer have to be dealt with or smoothed out democratically by the representatives of political or social interests – i.e. by parties, unions or employers' associations. The different interests of the unemployed, welfare recipients, pensioners, employees and employers have been designated as mere 'special interests'. In the current controversies surrounding pension security and tax reforms, organised interests are asked to subordinate their goals to a supposed 'common goal' and a supposed 'community'. Like many public statements made recently by the Social Democrat Minister of Lower Saxony and candidate for the Chancellorship, Gerhard Schroder, Roman Herzog's 'Berlin Speech' also takes up elements of the authoritarian state tradition ('*Obrigkeitsstaat*'): under the pressure of globalisation, an appeal is being made to an anti-party and anti-association sentiment which has hindered the progress of democracy more than once in German history.

The anti-democratic temptation is given clearest expression today, however, by representatives of the neo-liberal camp, and in unusually provocative terms. In the 'competition of the nations' to attract investors, even the constitution of the Federal Republic has recently come under fire. In the opinion of Rüdiger Pohl (President of the Institute for Economic Research in Halle), the globalisation of the economic sphere presents us with an urgent need to revise the German constitution, which allows an excessive fragmentation of governmental power among the Republic, the Lander and established interest groups (including the trade unions). The Honorary President of the FDP, Otto Graf Lambsdorf, is also urging reform to alter the division of power between the Republic and the Lander. His motives correspond to those of the head of the BDI, Hans-Olaf Henkel, who is calling for 'political reengineering': by 'correcting' the federal structure so that it would comprise fewer Lander, and by cutting the veto power of the *Bundesrat* (the upper chamber of the German parliament), the government would be able to put its policies through more quickly because there would be no constitutional constraint to contend with. Even an electoral arrangement based on Britain's first-past-the-post system is being suggested because it creates unambiguous majorities in parliament. The German constitution instituted a three-tier system of checks: associations, political opposition groups and the *Länder* can act as blocks against the political decisions of the government within the

system. Within the framework of the neo-liberal projects, it makes sense to rationalise the constitution too: if the speed of adaptation to new globalised conditions is a determining factor in assessing the viability of the *Standort*, a constitution which slows everything down can no longer be allowed.

Democratic participation, negotiating processes and checks on decisions are considered to be extra baggage in the quest to modernise along global lines. They are time-consuming – i.e. because they are a way of resisting capital dumping social costs on labour. Yet, democracy can only develop at a minimum level of prosperity; below this level, the chances of authoritarian patterns of direct repression increase **and/or** societies may degenerate into apathy. In this political moment of 'weariness', **fundamentalists** gain influence. Many people afraid of social declassification find simplistic solutions such as nationalist or regional separatism, closing markets against 'cheap imports' or closing borders against 'foreigners' an attractive alternative to unlimited globalisation. Attempting to establish new boundaries against 'others' holds for many the promise of restoring a security that has been undermined by the process of permanent innovation^{1*}. This dimension of economic globalisation has remained virtually untouched by the German *Standort* debate. Nevertheless, the German consensus model, and particularly the system of industrial relations, is thought to be responsible for hindering the programme of 'structural adaptation' to the demands of the global market.

IV. THE 'GERMAN MODEL' UNDER PRESSURE

But quite apart from these debates, the 'German model' is in any case not going to function in the future as it has in the past. This expresses itself, initially, in a growing injustice in the distribution of wealth, in the erosion of the industrial relations system, and also in a clear change in the 'politics in production' (Burawoy, 1979). Let us take each of these in turn.

1. Increasing differences in wealth distribution

The increase in mass unemployment, the dismantling of social services and increasing wage differentials since unification have led to a clear increase in the number of people classified as poor, in both the *Länder* of the former East Germany, and those of the old Federal Republic. In 1995 almost 12% of the population earned less than half the average net income of a West German; according to EU standards these people

qualify as poor. Regional disparities have also clearly increased since unification. When compared with other countries within the EU, Germany is the country with the largest **regional** disparities in economic wealth: while the region of Hamburg has a GNP per person that is 196% of the EU average, the region of Thuringia reaches only 38% (see EUROSTAT quoted by Krätke, 1997).

For the past decade and a half, wage rates have been sinking virtually continuously: in 1997 gross wages as a proportion of gross national income are expected to be only 67.7% (BMAS, 1996: Tab. 9.7), i.e. the level of the immediate post war period. The improvements in the conditions of distribution that employees were able to achieve after 1970 were lost in the 1980s and 1990s; in fact, the situation worsened, and they sank below the level of the 1970s. When inflation is taken into account, between 1980 and 1995 the average income of employees increased by just 3.1%; this means an increase of a mere 0.2% per year. Since 1992, increases in real wages have remained continuously below increases in worker productivity and it is through this, above all, that employers have been able to increase profits so considerably; between 1980 and 1993, company profits rose by 185% gross, and by 251% net. As a result of changes in taxation laws during this period, the tax burden on incomes from capital and entrepreneurial activities has dropped from 19.9% of gross income to 9.7%, while the burden of income tax and social welfare contributions on the income of employees (in the old Federal Republic) rose to 36.6% (Schafer, 1996). In spite of the considerable reduction in costs, however, the new jobs predicted by supply side theory have not been created. Quite the opposite in fact: since 1992, the rate of unemployment has accelerated considerably. No question: the 'German model' has not been **dragged** into crisis by virtue of the alleged technological deficiencies in German (export) industry, but rather because of the extent of Germany's mass unemployment. By mid-1997, 12% of all people with German citizenship were unemployed; in the eastern German Lander, the percentage of unemployed was almost 20%, whilst in 1998 the DIW (*Deutsches Institut für Wirtschaftsforschung*) is expecting the number of the officially registered jobless to break the five million barrier (DIW-Wochenbericht 27/28, 1997).

Actors in the territorial 'work society' (*Arbeitsgesellschaft*),¹³ particularly the trade unions, severely weakened by sustained mass unemployment, are becoming ever less successful in ensuring the participation of those holding financial assets in financing the institu-

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tions of the 'work society' (see **Altwater/Mahnkopf**, 1996: chapter 16). In Germany too the interests of those belonging to a global 'society of wealth owners' (*Gesellschaft der Geldvermögensbesitzer*), and the interests of the local society whose members are limited in their mobility and are more than ever dependent on the redistribution benefits of the (now, as ever) nationally-based welfare state, are diverging. This dependency increases the more employment growth and (according to all predictions only moderate, medium **term**) economic growth diverge. In contrast, the holders of financial assets as members of a global 'club-society' have an effective 'exit' option: they vote with their money by 'fleeing' from one currency and investing in another 'safer' one. They exercise their rights with the dollar or German mark accounts they own. They do not need the votes of the voters. They only use the mechanism of democracy to fend off the demands of the 'work society'. For the owners of financial assets, interested mainly in a stable currency and high interest rates, the nation is primarily a currency space. Anything not associated with serving short-term monetary and currency stability (such as social benefits) is not in their interest. They can do without contributing to the common welfare state, since their safety, property, education, health and mobility can also be bought privately. It is not surprising, therefore, that the wealthy leave the community of tax-payers and refuse to pay their share to maintain the public welfare and support those who are **often** regarded as 'superfluous' members of the territorial 'work society'.

The owners of wealth are the ones drawing currencies into global competition. In this currency competition, central banks are forced to attempt to maintain the value of their respective national currencies to prevent the flight of capital. They do this by enforcing a restrictive monetary policy supported by restrictive fiscal policies (**i.e.**, reduction in social expenditures). If the welfare state is under siege due to structural mass unemployment, both in terms of raising revenues and meeting expenditures, the state is forced to respond with deficit financing. Such a strategy benefits the owners of wealth, since the interest paid on the debt accrues as private income to the private lenders. At the same time, the owners of wealth fear that stability is jeopardized if taxes are raised or expenditures increased to finance the social security net. Inflation could not only diminish the external value of their money but also lead to exchange losses, if the central bank reacts by increasing base rates. To attract international mobile capital into a country, it is necessary, according to the market **funda-**

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mentalist recommendation of *mainstream* economics, to ensure that the internationally less mobile factors, especially labour, bear the cost. A decreasing proportion of the adult population which is gainfully employed, and the businesses that employ them, have to support an increasing section of the population that has no direct access to market-income. In Germany this is termed 'socialism in one class' (Scharpf, 1987 following Panitch, 1976).

2. The erosion of the industrial relations system

The crisis of the 'German model' is, at its core, a crisis of the established system of industrial relations. In the past this system was understood as a promoter of growth and democracy, making the specific asymmetrical power relations between capital and labour inherent in the capitalist order acceptable to wage earners. Today, the representatives of employers associations are shifting the once highly regarded 'social partnership' of autonomous collective bargaining nearer to pre-modern traditions. Free collective bargaining and flat rates of pay are regarded as relics of the corporate state, or merely as an instrument by means of which trade unions retain power; they are considered to be the equivalent of talks between particularly insidious cartels.

The once robust German system of industrial relations is seen as 'fossilised', inflexible and not open to innovations. Still able to rely on a large number of legal regulations, trade unions with wide experience of negotiation and employee representatives at firm level are able to put a spanner in the works of companies under pressure to reach quick decisions. Participation in company decision-making costs time; it does not square with the **increasing** dynamism of economic globalisation. Even if the discussions today between labour and capital in Germany still reach joint solutions – and this distinguishes relations in Germany from those in France, for example – negotiations still require far too much time. In Germany, as in other countries, employee rights, once regulated by law or by pay agreements, are now being brought into question. It is hardly surprising that the Anglo-American model is being pursued by many German employers: it is founded on the principle of worker insecurity and therefore reassures employers who fear an ('excessive') desire for security amongst their employees, a desire which can easily put the brakes on rapid change.

This conflict, which is not merely about material factors, but also involves political sensibilities, could prove to be a symbolic turning point in industrial relations. In September 1996 a majority in the *Bundestag* agreed – alongside other measures – to a reduction in the

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continued payment of sickness benefits from 100% to 80% of pay. Workers had achieved the 100% level as result of prolonged strike action in the **Schleswig** Holstein metal industry in the **1950s**, and it remained a very important issue for the unions. In most economic sectors there were regulations governing the payment of sickness benefits, and therefore it was equivalent to a 'declaration of war' on both workers and their unions when the employers association *Gesamtmetall* and a number of well-known large companies demanded that the new ruling be adopted promptly; they imagined themselves strong enough to be able to push through their interests even if they were in breach of the law. However, when Daimler **Benz** chairman Jiirgen Schrempp took the initiative in attempts to breach the tariff agreement in early October 1996 by announcing that sickness benefit levels would be reduced to **20%**, 20,000 workers in the factory at Untertürkheim failed to turn up for their additional weekend shifts. This action cost the company **200DM** million worth of production and as a result of the conflict *IG Metall* took in almost 30,000 new members.

The managing director of **Daimler-Benz**, supported by other employers, had contravened established rights and long-held norms of equality with little reflection, and shown the sacrosanct principle of a 'social partnership' in Germany to be a lie. In the end, employers traded sickness payments against concessions on wages. Meanwhile it began to dawn upon German workers and their trade unions that their opponents were no longer the German companies of the 'reconstruction generation', but a new generation of managers schooled in **American** universities under the dominance of an all-pervasive economic liberalism.

It should not be forgotten that German unification has acted as a catalyst for labour market developments which were already much more advanced in other European countries (cf. Mahnkopf, 1992 and 1994). These developments include more flexibility within the pay agreement system and a decentralisation of the wage and working hours policies at company level, i.e. areas which in Germany had been highly regulated **hitherto**.¹⁴ According to official statistics, roughly 90% of West German employees **still benefit** from pay agreements. However, industry-wide collective agreements have already lost much of their binding power in the reality of business practice. Many collective bargaining agreements are circumvented by concession bargaining at plant level. Innumerable company-level agreements on cost-lowering and productivity increases authorised by works councils

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in eastern and western Germany in the last few years effectively contravene the law: reductions in wages and salaries of up to 30%, unpaid overtime and days off, the extension of regular working hours without salary and the abandonment of previously agreed reductions in working time. More than this, many employers today openly demand the reintroduction of the 40 hour week without any increase in wages. This process can be seen as a socially backward step *through* the mechanism of collective agreements, as a specifically German variant of 'concession bargaining'. Instead of social improvements, future concessions to employers will be negotiated. This will be done *through* centralised industry-wide collective agreements and not through plant-level agreements or individual contracts, as has been the case for some time in other European countries (for example Great Britain and France).¹⁵ With the onset of the practical decentralisation of interest representation, the DGB trade union confederation has adopted a new (highly controversial) political programme, which actually approves the 'adaptation of collective agreements to plant-level conditions'. This programme indicates that the 'modern' forces within the trade union movement have come to the fore, forces that for a long time have demanded 'the real erosion of flat pay rates as a starting point from which to conduct their own policies', instead of demanding the retention of the collective bargaining arrangements previously held up as a model (Schröder/Ruppert, 1996: p. 615).

The employers' desire to change the rules of the game extends far beyond this, however. At least this is the case for those elements in the employers' associations which have been particularly vocal in the last three years. They will not be satisfied with a mere regulated *flexibilisation* of the general collective bargaining agreements. These groups strive for a general reform of the shorter working hours agreement formulated in the 1980s, and demand a *legal* right to undermine standards, or, better still, a general decentralisation of collective bargaining policies. As the works constitution law effectively rules this out, employers are seeking some sort of change to this law." Lawmakers and economists concur that competition in the markets should be promoted; legally required levels of redundancy payments or the right of employees to participate *in* company decisions are detrimental to this. One particular speaker for an employers' group, backed by the findings of conservative labour law experts, argues for *further* changes in the law governing strikes, or to be more precise: for the replacement of strikes with a peaceful arbitration procedure which sees strikes as 'damaging' to both companies and jobs. Social welfare

benefits in all forms and legal measures protecting workers are viewed as obvious competitive disadvantages.

Ideological arguments over labour laws, for example, which have substantial and far-reaching implications for 'civil liberties' in T.H. Marshall's sense of the term, cast light on the regulatory ability of those intermediate organisations previously concerned to maintain the social cohesion of the 'German model'. Trade unions, employment associations, even trade and industry chambers of commerce, membership of which was compulsory – all these suffer as a result of having fewer members and less discipline. The sixteen DGB trade unions have lost almost a fifth of their entire membership in the last five years through rationalisation and the wave of redundancies in the traditional industrial sectors." Added to this, the conjunction of persistent mass unemployment, the increasing economic dominance of tertiary sectors, the decentralisation of the internal organisation of companies (in the form of in- and out-sourcing company functions) and labour migration throughout Europe have led to an 'informalisation' of certain sectors of the labour market. The increase in casual work, **subcontracting**, part time work, fixed term working, the dependent self-employed and new TV and home-working practices mean fewer workers with worker status." **The number** of potential trade union recruits has consequently fallen too.

The depletion in members and the problem of dwindling **ability** to integrate can actually be highlighted even more dramatically by the case of the employers' associations than it can by that of the trade **unions**.¹⁹ Many of the newly established companies that have emerged from company splits are not prepared to enter an employers' association. More significant, however, is the fact that many companies leave associations as they are proving more and more unsuccessful in reconciling economic differences of interest between suppliers and producers, **between** capital- and personnel-intensive industries, between those who are export and national market-oriented, as well as between profit-making and loss-making industries. In more than two-thirds of the metal companies which have left employer associations over the last few years, the workforce of the company is unionised at an above average level. Therefore the company management consider themselves able to resolve matters without the assistance of an employers' association, even in those companies where unions are strongly represented (see **Schröder/Ruppert**, 1996: p. 42). In this sense, the erosion of German employer associations can be understood as a reflex response to the weakness of the unions.

From this development, one can see why, in the winter of 1995, IG **Metall** failed in its attempt to induce employers and the Federal government to enter into an 'alliance for work': there are no employers' associations capable of forming deals, willing to seek consensus or able to control their membership effectively enough to sustain such a **neo-corporatist arrangement**.²⁰ This is not to say that the ability of unions to reach agreements under the pressure of such conditions is a thing of the past. At least the unions' internal membership and **organisational** crises have not yet reduced their mobilisational capabilities in increasingly tough distributional conflicts, and they have shown their willingness to compromise in other (wage) conflicts. However, the ability of the trade unions to reach binding agreements is increasingly open to question. They no longer enjoy unquestionable recognition as intermediary **organisations** compelled to take part in the regulation of work-related matters, but rather struggle to be recognised as wage negotiators in what can more or less be seen as a desperate war of attrition.

3. The changing *model & 'politics* in production'

A 'model change' is thus called for in Germany, and not just on the level of collective bargaining. The German system of dual occupational training, still seen as an international model for long-term 'human resource management', is also seriously under threat – principally from the reduced willingness of industry and business to offer enough apprenticeships. In *Standort Deutschland* the pool of skilled workers is becoming scarce: labour market researchers and many leading figures in the German economy agree that Germany will experience a grave shortage of suitably qualified industrial workers by the year 2005. However, companies are not making enough trainee vacancies available; they train just **enough** people to suit their own very limited needs. According to the findings of a business panel from the Institute for Labour Market and Job Research (*Institut für Arbeitsmarkt und Berufsforschung*), the number of trainee positions available since 1992–93 has gone down, despite an increased number of applications; as in previous years, the number of applicants for such positions in 1997 has exceeded the number of positions **available**.²¹ In the last few years, it has been primarily the **large** businesses which have reduced their quota of trainees positions; their restrictive personnel policies have been most brutal in regulating the number of trainees taken on. In the next few years it is believed that a further increase in the demand for apprentices will simultaneously coincide with a further decrease in the number of positions available (see Pfeiffer, 1997).

The reaction of politicians to this dire situation amounts to nothing more than helpless appeals to create more training places. In addition, the Federal Government continues to place demands on employers' associations to reduce funding for training, and has reduced the scope and duration of the technical college day and introduced shorter, two-year apprenticeships leading to a lower level of qualification than the normal apprenticeship. To firms it appears that the once proclaimed 'export success' of the 'German model' of dual training is now too 'rigid' and too complex. In reality, companies are **revoking** the 'social contract' which has governed the training of apprentices until now. A long German tradition is thereby brought into question which had hitherto ensured that individual companies, characterised by a self-interest engendered by competition, did not have sole jurisdiction over training. Rather a joint chamber, under the auspices of the state, regulated which occupations required what form of training, when this should take place, what level of remuneration was required, and what should be included in the curriculum of state-organised technical schools.

A fundamental shift in values has also occurred with reference to forms of technology and labour within German companies. Certain industrial sociologists have recently observed an 'Americanisation of thought' which could bring down 'the labour policy pillar which has supported the German production model', if carried to its logical conclusion (Kern/Schumann, 1996: p. 720). In the technical field, it is expected that a certain degree of automation will be abandoned and with it, the ergonomic benefits gained in the 1980s. The idea is no longer dismissed that the German car industry, at least, could see a renaissance of classic production-line work and the employment of an only averagely qualified workforce. If the 'path-specific' **industrialisation** policies promoting the cultivation and remuneration of 'human resources' are changed in favour of short-term planning strategies restricted to easily operationalised dimensions, many well-known industrial sociologists fear that 'consensus rationalisation' in German industry could suffer. As a result, an appeal is being made to the enlightened self-interest of companies not to jeopardise the innovation consensus vital for future increases in productivity by favouring a short-term cost-cutting programme. **The** weak point in the German production model – the innovation deficit in the high-tech industries – should, these voices argue, be overcome by administering a targeted, but indeed substantial dose of 'insecurity' to some workers and their representatives (see Kern, 1995). Accordingly, an obsession with the 'professional nature of work', bolstered by the German system of

vocational training, would be abandoned, along with the traditional idea of companies as a place of worker participation and as the central **organisational** focus of the trade unions.

The recommendation to the trade unions is that they conclude an **'innovation pact'** with reform-friendly managements in order to boost productivity. The 'German model' would thereby make a decisive move towards an agreement that would maintain the financing of productivity increases where possible. This is the answer formulated by the left in response to the demands of **globalisation**. However, it is not a measured response to the foreseeable social and economic parameters of globalisation: this problem is the subject of the last section of this essay.

V. IS INNOVATION REALLY THE BETTER ANSWER TO GLOBALISATION?

Processes of innovation are, firstly, processes of what Schumpeter called 'creative destruction'. They dispose of the 'old' and replace it with the 'new' – by abstracting from their contents. However, from the point of view of the individual satisfaction of needs and social development, technological advances have frequently proven to be counter-productive. The 'new' is not necessarily better than the old. This is especially clear when 'competitive innovation' is considered in the light of its effects on ecology and employment.

In Germany, however, an almost **unconditional** 'productivity and innovation policy' stretches across all political parties. This is a highly risky strategy even with **regard** to job creation policy. The hopeful message is that innovation increases productivity and competitiveness. By means of increasing output the effects of rationalisation might be overcompensated, **i.e.** a net increase in jobs might occur. This said, no one has yet been able to show how an accelerated restructuring process could succeed in creating more jobs. Basically, the idea is to achieve higher growth rates through innovation at the expense of labour intensive low-tech sectors and in favour of product groups which are research- and development-intensive. Following this path, Germany would continue its export drive and thus export unemployment to other countries. The innovation debate (inherently critical of the government's policies) calls for the increased spending on education as a necessary condition to ensure the leading position of the German economy in the next century. With advances in the tertiary sector and the globalisation of economic activity, however, the benefits of

allocating public resources to research, science and education do not automatically flow into the national economy. Today one must not be concerned solely with using nationally generated knowledge, but rather with the coming together over national borders of different forms of knowledge and information. The absorption of knowledge generated worldwide is just as important as the national promotion of knowledge (see Gerybadze et al., 1997).

However, it is not just currently in Germany, but also in other industrialised countries and the emerging markets of the so-called 'first generation', that efforts are being made to improve the 'systematic competitiveness' of (micro) regional economies through 'upgrading' strategies. Alongside the promotion of **regional** networks, within which the flow of knowledge is organised efficiently and regional spillover effects can take place, more investments in research and development, in education, training and further education, in software, in the improvement of management, information and organisation also contribute to this upgrading process. By virtue of the implementation of information and communication technologies, it is easier to codify at least parts of the technical knowledge now available and to work with it outside national boundaries. Forces of innovation and **qualification-oriented** competition would therefore only produce success if product and process innovations are accompanied by a lowering of costs. There is no alternative which offers either competition-based innovation or a **lowering** of costs. The one makes no sense at all without the other. Those who enter into global competition have to accept the rules of competition: only global comparisons can establish the acceptable returns on capital from (innovative) productive investments or how low wages (for **highly** qualified workers) must be. Productivity alone does not influence decisions on the location of production sites (near to their markets and to research and development sites). In this respect, it is just wishful thinking to assume that innovations at German locations will permit much higher wages and social standards than in firms operating under Anglo-American or Asian conditions.

Added to this is another problem: as a rule, those who advocate 'radical innovation' do not demand innovations that are more labour- and less capital-intensive. On the contrary, if whole regions, industries and certain types of workers in the world economy – above all women, foreign workers and less well **qualified** workers – end up as losers in the process of 'structural adjustment', this is understood as a price which has to be paid. It is clear that non **neo-corporatist** industrial and **struc-**

tural policies will succeed in creating optimal conditions for all potential investors in industry and the service sector. Research and capital-intensive industries demand incentive structures, resources, and non-material infrastructures which are different from those needed by industries and companies at home in certain advanced, but not high-tech, segments of the economy (cf. M. Kratke, 1997). Thus the plea for innovation rather than cost-cutting competition means that labour-intensive production and the production of services which demand middle or lower level qualifications (and this is more frequently the case than ever before) will be transferred abroad. Domestically this will sharpen social divisions and marginalisation in the labour market.

The current debate over 'ways towards greater employment' thus does not centre on the catch-up development of the Swedish model, which involves an expansion of the public service sector. Rather it focuses on a socially bearable but 'Americanised' labour market policy. Because, according to Fritz Scharpf (1997), political opposition to the raising of taxes in Germany has 'already become too strong', the American way of expanding employment in the area of private services will proceed, as will the adoption of a low wage employment market for simple activities that require lower rates of productivity. For reasons of constitutional law, and for those of political acceptance, no one in Germany is fully prepared to advance the position that workers could be employed – as in the USA – in low-paid jobs where their net earnings **keep** them below accepted poverty levels. From this stem the calls to combine low-level incomes with an additional welfare income (or a negative income tax).

There already exists a '**grand** coalition' in Germany supporting a growth-oriented path of innovation, approved even by sections of the Green Party, and a similar cross-party consensus is evident on the 'social question'. Basically, the idea is that if the aim of building an **internationally** competitive German economy is not realistic without causing a split between its formal and informal sectors, then ways and means have to be found to stem the rise of expectations of disadvantaged groups that has continued to take place over the last half century. In the opinion of the 'Future Commission' (1997), the reasons that point towards the causes of Germany's high unemployment are: the rapidly **increasing** tendency for women to work and the (high) expectations of German employees, including aspirations to individual development and self-fulfilment as well as material security. Therefore, wage reductions are a prerequisite for the creation of new 'alliances for work' in Germany.

Yet it is above all in the economic sphere, and not just the social one, that the *sustainability* of this path of development is **questionable**. What people systematically ignore is that global competition within the field of innovation leads to an acceleration in technical advancement and, correspondingly, to more rapid use of resources and of energy. An 'innovation pact' intensifies the *acceleration* of socio-economic change, whereas, from both a social and ecological viewpoint, it is necessary to slow down the speed of productivity increases, to diminish rates of development and to lessen the scale and scope of spatial mobility.

It is not just in companies, but rather in society as a whole, that an acceleration of change intensifies synchronisation problems. On the one hand, ever larger quantities of knowledge and information must be processed in a given period, while on the other hand a growth in knowledge will lead to older forms of knowledge and information becoming obsolete more quickly. The growing intensity of worldwide competition increases the pressure on all existing social and economic structures, and consequently the pressure on social and economic actors to respond to this rapid change. In turn, this response gives the acceleration of **change** renewed impetus, so that unions must rapidly adapt, thus reducing the time available to develop alternative policies and hence reducing the range of available options. The rapid innovation of technical advancements has many additional negative side effects, not least the defensive reactions in the labour market that are provoked in response to the repeated necessity to adapt to changing conditions. Examples include reactions against the 'unreasonable' demand for 'life long learning' because life long learning also means a certain inability to plan one's life, or to be sure of one's job; because a new mobilisation of all personnel resources is always demanded; because everything – the ability to communicate, social graces, personal attributes or moral standards – are made into 'market factors' which have to be flexible enough to be compatible with the changing market environment.

In the German debate, the option of developing new spheres of growth through radical grass roots innovations is always tied up with the predominant objectives of ensuring international competitiveness for businesses and of maintaining the production base at home. As a rule there is no classification that could make new products and technologies 'viable in the future'. In the last analysis it is the market, with its 'ingenious ability for invention', that fosters innovation. Of course the plea for the creation of an 'innovation regime' in Germany,

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with modern products and technologies, comes with the rhetorical proviso that only what is 'ecologically sound' should be promoted: namely products that use fewer resources and produce fewer damaging chemicals. However, in view of the urgent need to reduce consumption of almost all resources by up to 90% (in highly industrialised, rich countries like Germany, according to the calculations by the Wuppertal Institute, 1996), the concept of achieving 'sustainable **growth**' can itself no longer be sustained. What is necessary for the economy is a strategy of directed **growth**, selection and contraction. 'Sustainable **development**' will not be achieved merely by the adoption of ecologically high-tech industries: it demands a different economy, different laws and different consumer **behaviour**.²²

In principle we do not have to worry about the development of new products for new markets, but rather about new techniques – including risky ones like biological and genetic technology – that will transfer even more resources into even more activities, functions, services and products and use technical advancement as an additive. Even if the aim of a competition in innovation ensures that products, **goods** and services can be produced with fewer and fewer resources and energy, causing less harm to the environment (and this is highly **questionable**), the so-called 'rebound effect' will have to be reckoned with at least in the future, so that all previous increases in efficiency and the savings made per unit of **performance** do not lead to complacency. Savings that may perhaps result from technical advances will almost certainly be transferred immediately into increased human activity; this leads to more consumption, more mobility, progressive urbanisation, to **individualisation** and above all to the efficient deployment of new technologies, leading to yet further increases in worker productivity. It follows, **moveover** that under *ceteris paribus* conditions, the effects on employment will be negligible, even in a process of comprehensive economic modernisation towards ecological **goals**.²³

So **long** as innovation is understood to be mainly technical, so long as progress is seen as an increase in productivity per person and so long as the **safeguarding** of social welfare and democratic relationships is only conceivable in the context of industrial growth, the 'innovation battle' is really only a case of replacing one evil with another, or *a choice between the devil and the deep blue sea*. Through enforced **modernisation** of production methods and processes, globalisation is supposed to have its threatening element removed. If this path is taken, however, a just economic order will not emerge, nor will an answer to the ecological crisis be found.

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NOTES

- 1 Because globalisation can no longer be carried out in the form of spatial-territorial expansion, today's economic and financial dynamic is directed ever increasingly inwards – at people's 'lifeworld' (Lebenswelt) (cf. Habermas, 1987: p. 332ff. especially) which is important for individual and social identity, and at the **nanos**-structures of life (gene science and biotechnology). It can also be directed outwards, into space or down to the ocean bed, **i.e.** those areas yet to be opened up by the market.
- 2 I am unable here to enter into detailed discussion of the specific characteristics of the East German economy and its labour market.
- 3 See **Simons/Westermann 1997, Küchle 1996, Krätke 1997, Dolata 1996 and Zinn 1997**, who, amongst many others, put forward a similar argument. A **disconcerting** peculiarity of the German globalisation debate is that its participants constantly 'discover' the same (long-range) sets of figures and pass them off as original discoveries which are then used to 'enlighten' the lay person ignorant of economics about the 'myth of globalisation'. Somewhat irritating for the lay person is not just the litanical argumentation which has convinced neither the 'global players' nor those who are effected negatively by their decisions (employees, for example), but also the questionable academic manners evident in the unwillingness of many authors to quote others who have pursued a similar line of thought. Behind the reluctance to take **globalising** tendencies seriously it is not hard to see that an attempt to salvage a theoretical paradigm is being made: **i.e.** a specifically national perspective on economic processes, which is at the heart of the discipline which in Germany is still called '**Volks wirtschaftslehre**', generally translated as 'national economy', but also carries the sense in German of the 'people's economy'. For further discussion of the adequacy of this perspective, which takes the global economy to be the mere aggregation of domestic economies and cannot conceive of a new **global** quality, see **Altwater 1997a**.
- 4 Between 1973 and 1994, wage costs per unit output in Germany (calculated in national currency) rose by **94%**, whilst its most important national competitors saw an average rise of 270%. Within the last four years, wage costs per unit output in West Germany fell by 1%, whilst in the European Union as a whole they rose by 4.5% between 1994 and 1997 and by 10% in the USA (**DIW, 1997: p. 473**).
- 5 See **Junne 1996, Boyer/Drache 1996 and Streeck 1996**, who all express scepticism, although from differing perspectives, about this vision of the preservation and further development of 'Rhineland capitalism' throughout the European macroregion.
- 6 Admittedly, the 'innovation gap' in the German national economy discovered by critical social scientists, politicians and trade unionists is not an original idea. Since the beginning of the nineties, representatives of the political class have conjured up a 'Japanese-American **Challenge**' (**Seitz, 1992**) to Europe and maintain that the necessary structural reorientation towards key technologies is being hindered by institutional rigidities in Germany.
- 7 The most important indicator of technological competitiveness is the level of industrial expenditure on research and development. In state-of-the-art technologies, the ratio of expenditure on research and development to turnover is estimated at **8.5%**, but only **3.5–4%** in the higher revenue technologies. Since the

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end of the 1980s, the entire research and development expenditure in Germany – as in the USA since the mid '80s – has in fact been in decline; however, in terms of per capita investment in research and development, Germany is still in second place behind the USA and followed by Japan (DIW – Wochenbericht 22/1997). For this reason, the German Institute for Economic Policy (DIW – Deutsches Institut für Wirtschaftspolitik) cannot identify any innovation deficit, in contrast to announcements from the Federal Research Ministry and circles of left-wing social scientists.

It is not possible to discuss here whether 'the German model', with its corporatist and concerted 'social market economy', would ever have arisen or had a chance of survival without the continual reminder and challenge of state socialism (a reminder then exploited under the conditions of the cold war) and the 'competition between the systems' (Offe, 1996: p. 195).

- 9 On the other hand, 'newcomers' who base their existence as independent business people primarily on the resource of 'knowledge' find it relatively difficult in Germany to gain access to capital (see Vitals, 1995).
- 10 In the case of the Federal Republic of Germany, it can be shown that the national product is devalued by more than half as a result of the damage done to nature, health and future prospects, and that net prosperity is actually no longer increasing (see Scherhorn, 1996).

Butterweck (1995) maintains that the economic advantage of higher productivity is achieved on the basis of a 'subsidy' of the economic rationalisation process provided by the coming generations. These future generations will not be able to rely on 'stocks' of non-renewable resources. We are leaving them not only a poisoned environment and a planet with a reduced capacity to absorb radiation of heat, but also depleted and hardly accessible mineral deposits which can only be reached by resorting to a higher consumption of energy and other resources which are themselves becoming ever more 'ecologically dear'.

- 12 A backwards development of modern mass democracies to authoritarian patterns becomes more probable as environmental destruction increases and the linkage of mass democracies to the promised 'prosperity for all' proves to be chimerical for ecological reasons. A new authoritarianism would probably not oppose free trade or the tendencies of globalisation, individualisation and denationalisation, but complement and complete these following the motto: politics and society have to submit to global economy. However, this means that the participative citizen of civil society has less and less to say in face of market forces.
- 13 In German parlance the term 'Arbeitsgesellschaft' is constructed in relation to the Fordist 'standard model' of work and employment. Although this model of employment has changed, work and employment remain the most important determinants of 'life-chances' for the majority of the population.
- 14 Certainly the hopeless situation of many eastern German firms and the catastrophic situation evident in the eastern German labour market have come just at the right moment to soften the 'institutional rigidities' in western Germany.
- 15 An example of this concerns IG Chemie, an industrial trade union which represents workers from the chemical, paper, ceramic, coal mining, energy and leather industries. A short time ago, IG Chemie agreed to an 'opening clause' in a collective bargaining agreement allowing individual companies to cut wages in the name of improving their own competitive standing.

This concerns §77, abstract 3, of the works constitution law which forbids

- companies to set their own levels of working hours and wages and protects the priority of standard setting by general collective bargaining agreements.
- 17 The losses were most dramatic in eastern Germany; of the 9 million workers who were **organised** in the FDGB in 1989, only 2.4 million are now members of a (DGB) union.
 - 18 According to a study by the Future Commission of the *Freistaaten* of Bavaria and Saxony' (*Kommission für Zukunftsaufgaben der Freistaaten Bayern und Sachsen*) (1997), the proportion in western Germany of those employed in 'standard employment' who are thus liable to pay welfare contributions has declined from 84% in 1970 to 68%. Therefore, by the beginning of next decade it is possible that every second employee in western Germany (as is already the case in eastern Germany) may have a job in an area of precarious employment.
 - 19 In the 20 years from 1964 to 1984, the degree of organisation across employers' associations in the metal and electrical industries dropped, on average, by 11%; while over the last few years this downward trend further accelerated. 43% of metal working companies in western Germany today are still members of an employers association; in the eastern German metal and electrical industries, this number has not yet reached 30%. Even in **Baden** Württemberg, where these industries have traditionally been widely dispersed, only 36% of companies organise themselves in an employers' association (see **Schröder/Ruppert**, 1996).
 - 20 Debates conducted among political scientists, on the other hand, refer to the deep historical roots of (German) corporatism and its resistance to short-term changes in the economic and **political** environment.
 - 21 Even in the federal states where spectacularly corporatist 'Biindnisse für Ausbildung' have been agreed upon, the number of apprenticeships available has not stabilised, and in the eastern German states the market for apprentices is an unmitigated disaster.
 - 22 Of course this is not the opinion of federal 'modernisers' across the political spectrum. **Wolfgang Clement**, Social Democratic economics minister in the highly populated state of Nordrhein Westphalia, argues, for example, against an 'ecologisation of lifestyles'. Like his colleague in the SPD, Gerhard Schroder, Prime Minister of Lower Saxony, or Federal President Roman **Herzog**, he is against this 'horribly pessimistic picture of the world' and the 'technophobia' that has manifested itself in the German environmental movement, and advocates instead a form of technocratic nature management (see *Handelsblatt*, 27/28.6.97).
 - 23 At best sections of the car manufacturing industry, which is no longer cost-effective in Germany, could be replaced by the export of more environmentally friendly cars and products of other less resource-intensive technologies. Even this modest prospect of creating a few hundred thousand jobs in Germany is inextricably linked with the assumption that the growth of new markets is more important than the desired increase in productivity. Otherwise the loss of old jobs would not be counterbalanced by the creation of new ones.

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