Chapter 6: The other capitalism

In economics, as in entertainment, the spectator is more likely to remember an outrageous, over-the-top performance than a quietly understated one. In other words, the glitter of Wall Street and the gladiatorial drama of the casino economy enjoy a worldwide notoriety denied to the subtle balancing act of the German *Sozialmarktwirtschaft* (social market economy). In their dreams of a capitalist nirvana, the downtrodden inhabitants of Tirana or Bratislava or Ulan Bator naturally conjure up visions of a prosperity made in America and packaged by Hollywood; dreams made all the more legitimate and credible now that the Eliminations, falsehoods, and false hopes of half a century of communist propaganda have been firmly swept aside. When, in the summer of 1990, a few dozen Albanians managed to escape the last European bastion of Stalinism and find refuge in France, it soon emerged that their true destination was America: the America of Dallas, Chicago, and Wall Street. And when the Budapest Stock Exchange was inaugurated earlier that same year, it was cause for national celebration. Hungarians at last had tangible proof that the capitalist Eldorado was just around the corner.

It would certainly come as a shock to most people in the former communist countries, then, to learn that capitalism is not one and indivisible, that market economies – like cars – come in different makes and that the most efficient one is not necessarily the glamorous American model. One who would not be surprised, though, is Lech Walesa. Poland's new President has openly talked of his quest for an ideal model which would reconcile the supposed prosperity and efficacy of American capitalism with the relative security, in social welfare terms, of the old regime (see Guy Sorman, Sortir *du socialisms.* Fayard, 1991); a model which would allow people, in the words of a much-quoted Warsaw witticism, 'to live like the Japanese without having to work harder than the Poles'.

Were President Walesa to look over his shoulder to Germany, he would find something not unlike his ideal system. To take but one example, the former West German states could boast an average of 1633 hours per year of real working time per employee in manufacturing industry. Joking aside, this does fit the description of 'working less than the French while producing as much as the Japanese' (see Futuribles, January 1989). German metalworkers already enjoy a 36 $^1/_2$ hour working week and it is quite possible that the 35-hour week scheduled to be introduced in 1995 will (in spite of the enormous controversy it has aroused) eventually become the norm. The point is that, of all the great industrialized nations, Germany can lay claim to both the shortest working week and the highest wages, whilst at the same time building up an enormous trade surplus with the rest of the world.

Yet Germany is but one example, one particular incarnation, of the 'other capitalism', the Rhine model – largely unrecognized or, at best, misunderstood – which extends from northern Europe to Switzerland and partially includes Japan. Like its rival, the neo-American model, it is indisputably capitalist: the market economy, private property, and free enterprise are the cornerstones of both systems. In the last 10 or 15 years, however, the neo-American model has begun to veer off in another direction, a trend described by sociologist Jean Padioleau as 'the speculator gaining the upper hand over the industrial entrepreneur and the race for easy, short-term profits undermining the collective wealth built up through long-term investment'.

The Rhine model represents a very different vision of economic organization; it presupposes different financial structures and social controls. It is far from perfect, but its characteristic features combine to produce a stable, yet dynamic (and remarkably powerful) system. The same aphorism may be applied to it as to democracy: it is the worst system in the world, except for all the others. And although it has never received anything like the public recognition and international prestige of the neo-American model, there is evidence of a greater awareness among economic decision-makers. A survey of 300 European company directors, carried out by the French polling organization SOFRES in August 1988, makes for interesting reading in this respect.

Asked to name their preferences if they had to subcontract more work abroad or purchase more foreign goods, they opted for West Germany (as it was then) by a huge margin, in spite of its higher salary costs – of which they were, naturally, well aware.

(France, incidentally, was their second choice, with the Benelux countries coming in third.)

Let us now turn to some of the fundamental aspects of the Rhine economic model, those which distinguish it most clearly, and in many cases radically, from the neo-American model.

The role of the market

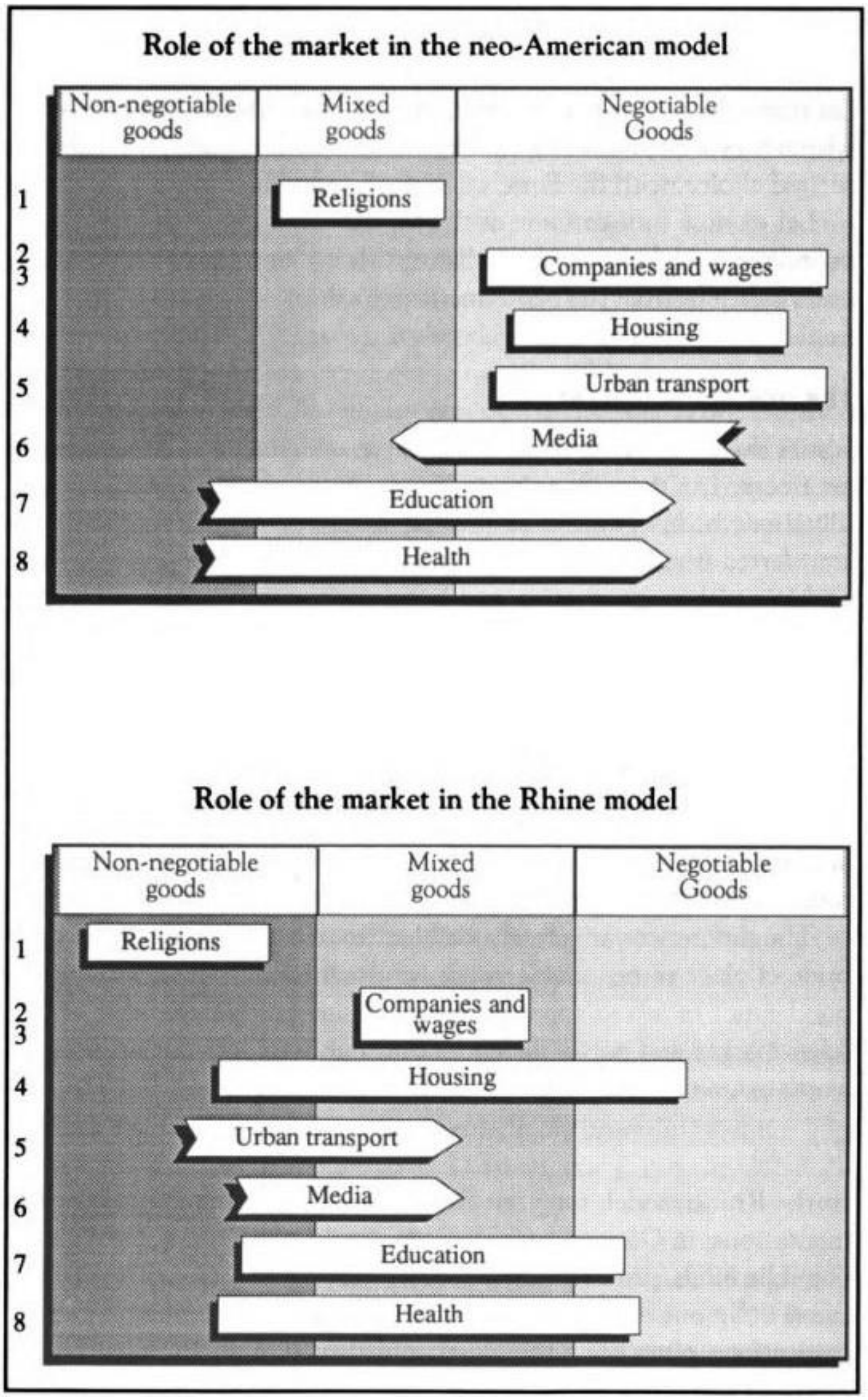
Just as there can be no socialist society in which all goods and services are free, so can there be no capitalist society in which all goods and services may be bought and sold. Some assets, by definition, cannot be transferred from one owner to the other. They may be personal (love and friendship, generosity and honour, for example) or collective (democracy, public freedoms, human rights, justice etc.). They are what may be termed non-negotiable (or non-exchangeable) goods and they are basically the same for both models of capitalism, with one major exception: religion.

Where the models diverge significantly is in the realm of negotiable goods (i.e. commodities and services that can always be exchanged) and in that of mixed goods. The two diagrams on the following page will give a rough idea of the market status of certain types of goods in each model.

The differences are clearly visible: the neo-American model gives pride of place to negotiable goods, whilst the Rhine model has a pre-ponderance of mixed goods (those which are partly negotiable on the open market and partly dependent on public-sector initiative). It is worth examining each item in turn.

Religions

In the Rhine model, religions do not generally function as economic institutions; in Germany, for example, pastors and priests are paid out of public funds, just as if they were civil servants. In the USA, it would seem, religious movements are increasingly run as mixed-economy institutions, often using the most sophisticated methods of marketing, publicity, and media-management.



Companies

In the neo-American model, a company is a negotiable good like any other, whereas for the Rhine economies it is not just a commodity, but a community – in other words, a mixed good.

Wages

The same holds for wages, which, in the neo-American model, are increasingly subject to the prevailing winds of the market at any given moment; the Rhine system, however, tends to base wages on factors not directly connected with worker productivity, such as qualifications, seniority, and nationally agreed pay scales. They are thus negotiable goods in one case, mixed goods in the other.

Housing

Housing is also almost exclusively a market commodity in the USA. In Rhine economies, by contrast, public sector initiatives account for a significant proportion of housing and rents are often subsidized.

Urban transport

The situation in urban transport is analogous to that of housing, although even in the USA it is subject to some public regulation; one of the few places where untrammeled competition prevails in this sector is Santiago, the capital of Chile, where, thanks to General Pinochet's 'Chicago boys', anyone can set up a bus service and set fares at will. As a result, bus traffic there is the heaviest in the world and pollution levels are worse than ever.

Nevertheless, the many deficiencies of municipal transport services in Rhine countries have put them under increasing scrutiny and moves toward privatization are on the increase. This is indicated in the diagram by an arrow pointing in the direction of the 'negotiable goods' category.

The media

Similarly, the media – especially television – which have traditionally belonged to the public sector in Rhine economies, face increasing privatization. Oddly, this is the one case where the American trend goes against the grain; its all-commercial broadcasting sector is experiencing a new growth of 'community-run' television stations financed through public subscription. Thus the arrows in the diagram point in opposite directions for this commodity.

Education

This spans all three categories of goods in both models. Nevertheless, it is readily apparent, in the case of the neo-American model, that the proportion of educational establishments subject to market forces is enormous and still growing steadily (as indicated by the arrow in the direction of 'negotiable goods').

Health

Like education, health embraces the three different categories of goods in both models, but in the Rhine model, where a greater role is accorded to public hospitals and mutual benefit schemes operating in tandem with Social Security, there is as yet no sign that the authorities are keen to transfer many of their prerogatives to the private sector – as is increasingly the tendency in both English-speaking and Latin countries. It is a point which needs underlining, as it admirably illustrates capitalism's potential for both short-term wealth creation and long-term erosion of social values. The latter may occur if public authorities fail to exercise their supervisory role and when there are no other strong social values to compete with that of money and wealth. As the late French economist Francois Perroux once wrote:

> For any capitalist society to function smoothly, there must be certain social factors which are free of the profit motive or at least of the quest for maximum profits. When monetary gain becomes uppermost in the minds of civil servants, soldiers, judges, priests, artists, or scientists, the result is social dislocation and a real threat to any form of economic organization. The highest values, the noblest human assets – honour, joy, affection, mutual respect – must not be given a price tag; to do so is to undermine the foundations of the social grouping. There is always a more or less durable framework of pre-existing moral values within which a capitalist economy operates, values which may be quite alien to capitalism itself. But as the economy expands, its very success threatens this framework; capitalist values replace all others in the public esteem and the preference for comfort and material well-being begins to erode the traditional institutions and mental patterns which are the basis of the social order. In a word, capitalism

> corrupts and corrodes. It uses up society's vital life-blood, yet is unable to replenish it.
>
> *Le Capitalisme,* in the 'Que sais-je?' series: 1962

These are prophetic words indeed and any number of concrete examples may be found to illustrate them. To take but one which concerns us all (directly or not), let us examine the American legal process, which has begun to take on all the characteristics of a marketable, negotiable commodity.

In Japan, it is considered somewhat shameful to bring a lawsuit; every avenue of negotiation and compromise must be explored before resorting to such an extreme measure. In the European tradition, the legal profession – like all the other professions – frees its members from the need to chase profits and calculate prices, in order to be able to concentrate in a disinterested fashion on serving the public good. It is this notion of service to a higher ideal – whether this be defined as 'justice' or 'health' or 'education' – which in turn defines the code of professional conduct: in a word, honour. Honour is the key concept, as the term 'honorarium' (payment for professional services) clearly indicates.

This ancient tradition (stretching back to Hippocrates, in the case of medicine), fundamental to the liberal professions, is the cornerstone which anchors them firmly *outside* the marketplace. But in the USA, a radical change is under way. The legal profession is now more aptly described as 'the lawsuit industry'.

This latest victory of a certain brand of capitalism has been fully documented in Walter Kolson's study, *The Litigation Explosion* (Truman Talley Books: New York, 1991). In his review of Kolson's book in *The New York Times* of 12 May 1991, former Supreme Court Chief Justice Warren Burger notes that this unprecedented change began to gather real momentum in 1977, when the Supreme Court ruled that lawyers should be allowed to advertise their services on television. The immediate upshot of this decision has been the exponential growth of contingency fee agreements, whereby a prospective plaintiff in a lawsuit hires the services of a lawyer on the following terms: no fee will be payable if the suit is lost, but if it is won and damages are awarded, the lawyer will take a percentage cut of the damages. Such arrangements are now routine in road accident cases, so much so that an injured victim is not surprised to find a lawyer by his side in the ambulance, urging him to sign a contingency fee agreement before they reach hospital.

According to the statistics, there has been a 300-fold increase in the number of malpractice suits against US doctors and hospitals since 1970. Given that the resultant cost of malpractice insurance may reach the equivalent of £30,000 per year for some doctors, it is no wonder that aggressive profit-making is the order of the day in the medical profession as well – as innumerable American women (to take just one example) could testify on being advised by their gynecologists to undergo a hysterectomy on the sole grounds that the onset of menopause has made the uterus 'redundant'.

Another statistic speaks volumes: the number of federal judges found guilty of corruption and tax evasion in the 1980s exceeded the total of the previous 190 years of US history. The judiciary, too, is swaying to the siren song of the profit motive. Do not imagine, however, that dark irrational forces are at work: your lawyer, who sees you as a rich vein of potential lawsuits waiting to be mined, is working to a logical plan which begins and ends with maximum gain; your doctor is merely following the same capitalist reasoning, in which you are a biological generator of profit. But here's the rub: in such a system, who can you trust? And what is a society really 'worth' if it systematically breaks down trust?

Bank capitalism

In the Rhine model, the 'golden boys' and their breathless exploits on the floor of the Stock Exchange are conspicuously absent. Banks, not stock markets, are the principal guardians of the capitalist flame in Germany and Switzerland: one has only to compare the Frankfurt or Zurich Bourse with their heavyweight British or French counterparts. Frankfurt's total capitalization is a third that of London and nine times smaller than Wall Street or Tokyo. It is only recently that options and futures markets were introduced on the German exchanges, which remain narrowly focused and decidedly unglamorous. German companies in search of financing are far more likely to talk to their bank than to raise funds on the financial markets or through public subscription. Some – including giants like Bertelsmann, the biggest European press and publishing group – are not even listed on the stock exchange. Just the opposite, in other words, of what we see in the UK and the USA, and all the more striking a contrast in the light of Germany's economic power and influence.

It is the strength and vigor of German banks that explain this situation. Whilst everyone has heard of the Deutsche Bank, with its commanding position in the German economy, and of others such as the Dresdner Bank or the Commerz Bank, few suspect how very powerful they are. Crucially, they may (unlike American banks) conduct all types of business; no regulations restrict them to a single activity or sector. German banks are 'universal' institutions: they make ordinary loans and have ordinary depositors; they deal in stocks and bonds and manage company treasuries; they also operate as commercial banks, providing investment advice and carrying out acquisitions and mergers. And finally, they maintain whole networks of economic, financial, business, and industrial information for the benefit of client companies. The result is a special relationship between bankers and their customers in which mutual cooperation is constantly reinforced.

Above all, German banks have assumed the role of company financiers, which elsewhere has been taken over by the stock markets. Most firms have their 'house bank' to whom matters of finance are entrusted; one can almost imagine the German banker telling his client, the company president: 'You just take care of improving production and increasing sales and leave the financial problems to us!' In Japan, as mentioned earlier, the symbiosis of industry and banking is even more pronounced, with many industrial groups owning their own banks. It is almost possible to reverse the equation and say that the Japanese banks (and insurance companies) own their own industrial groups.

Mutual-interest networks

In Germany, too, the common ground shared by banks and industry goes some way beyond purely financial considerations. As important company shareholders, banks enjoy a privileged status and their views are listened to, on at least two accounts: first, through direct ownership of a portion of the capital; and, secondly, through voting rights exercised on behalf of shareholders who bank with them. Combining these two levers of influence gives German banks a considerable say in boardroom decisions. Thus, Deutsche Bank owns a quarter of the shares – and with it a minority veto – in the automotive giant Daimler Benz (which also makes engines and aircraft parts), as well as in Philipp Holzmann (Germany's premier construction firm) and in Karstadt (the leader in volume retailing). Dresdner Bank and Commerz Bank similarly have a 25 percent or more stake in a dozen major companies.

Conversely, the banks' largest single shareholders tend to be these same industrial groups (although this seldom represents more than a 5 percent holding in each case). And there are other links, such as the supervisory boards which oversee banking activities: big business usually has its seat on these, too. Again, both conditions apply to Daimler Benz vis-à-vis Deutsche Bank.

This interpenetration of banking and business interests forms the warp and weft of an industrial-financial fabric which is both stable and highly resistant to outside factors. There are at least three consequences of this marriage of interests for the economy as a whole and all are beneficial.

To begin with, the banks tend to have the long-term interests of business at heart; unlike the brokers of Wall Street, for whom regular quarterly profits are the sole criterion, German banks see their stake in a company as an enduring commitment. They accept that risks must be taken, involving large sums over long periods of time, as the price for backing a difficult but potentially rewarding venture. Why else would the Swiss banks have invested heavily in the watch-making industry at a time when it appeared to be in terminal decline and what else explains Metallgesellschaft's ability to increase its holdings in the mining industry when raw materials were synonymous with doom and gloom?

A second positive consequence for managers of businesses, and for the economy generally, is that banks make for stable shareholders. Their basic loyalty gives management room to breathe, secure in the knowledge that no sword of Damocles (in the form of a hostile takeover bid) is hanging over their heads. Corporate executives are free to devote themselves to managing the firm; their time and energy are not being lavished on interminable, and unproductive, legal wrangles and the devising of anti-takeover strategies. It is one of the reasons German companies continue to be highly competitive on world markets. The same can be said of Japanese, Swiss, or Dutch firms: their managers do not live under the constant threat of a sudden restructuring imposed by outsiders, although not always for the same reasons. Japanese capitalism has a number of quasi-feudal characteristics of its own, which will be explored in a later chapter. In Switzerland, the role of the three great banking groups is rather different from that of the German banks. It is through the restrictive rules governing shareholders' voting rights that the capital stock of Swiss firms is protected from would-be predators. As for the Netherlands, a whole battery of anti-takeover measures ensures that CEOs and executives sleep peacefully.

This relatively secure setup does not mean that managers in the Rhine economies can afford to relax on the job or that their mistakes go unnoticed. There is always a nucleus of principal shareholders (banks and others) who take their supervisory powers and responsibilities seriously, acting as a counterweight to executive prerogatives. They do not shrink from punishing cases of management negligence or dereliction – and thus, indirectly, also help protect smaller investors.

The third consequence of banking's pre-eminent role in the economy is that the sheer density of the web of mutual interests cannot be easily penetrated by outside forces. It is fair to say that the German economy is driven by consensus (rather than commanded – nothing horrifies German decision-makers more than the idea of a command economy) involving a relatively small group of people, who all know one another well and travel in the same social circles. Personal relations are a decisive factor in protecting the German economy from the unwanted attentions of foreign investors. When a firm is under threat, its bankers will quite naturally seek a home-grown solution to the problem rather than look for help from abroad. Deutsche Bank, for example, stepped in to rescue the ailing Klöckner-Werke group; and when the computer firm Nixdorf ran aground, the banks were instrumental in arranging for its takeover by the electronics giant Siemens. If mergers and acquisitions are handled this way, one can imagine the difficulty, for any foreign investor who might be contemplating a hostile raid on German property, of getting past the vigilant front lines of the banks.

There are exceptions to every rule, of course. German companies are perhaps no longer as invulnerable to foreign takeover as they once were; of the 3,000 West German firms which changed hands in 1989, 459 were acquired by foreign investors spending an estimated total of £2 billion – which is twice as much as the figure for 1988. (French investors accounted for 63 acquisitions, a threefold increase since 1986.) Yet these figures should be treated with caution, for on closer inspection they show that the vast majority of foreign takeovers involved small or medium-sized businesses. In 1989 a single acquisition (that of Colonia by the French insurer La Victoire) accounted for more than half of the total French investment in West Germany. Meanwhile, German investors made twice as many acquisitions in France as vice versa and there is every reason to think that the imbalance in Germany's favour will continue to grow.

Rhine companies thus enjoy financial stability and benefit from a host of safeguards which promote long-term development and enhance competitiveness. But it is not only in the management of capital that they excel; the very structure of company management also plays an important part.

A well-managed consensus

In a 1986 report to the EC President entitled 'Federal Germany: Its Ideals, Interests, and Inhibitions', W. Hager and M. Noelke wrote that German society showed 'a tendency to avoid contentious issues and questions that might jeopardize the social consensus'. The same statement applies to Japan and this is no coincidence: both defeated in World War II, they remain, in their new capacity as economic superpowers, keenly aware of their own vulnerability. In both countries, political democracy and economic prosperity are too recent not to be somewhat fragile, making it easier perhaps to enforce a particular social discipline typical of the Rhine model.

Turning to the power structure and patterns of organization within companies, it is clear once again that the emphasis in the Rhine model is on mutuality and shared responsibilities. In

SOURCE: *Plantu*, Un vague souvenir, *Le Monde Éditions*, 1990 p. 40. *(Reproduced with permission.)*

Germany, all parties are invited to participate in company decision-making: shareholders, employers, executives, and trade unions alike cooperate in a variety of ways to achieve a unique form of joint management (the German term, 'Mitbestimmung', is perhaps best translated as 'co-responsibility'). A 1976 law makes it compulsory for all firms of 2,000 or more employees to implement this system of shared decision-making at virtually every level.

At the top, to begin with, there are two key bodies: the board of directors, responsible for company management as such and the supervisory board, elected by shareholders in the AGM, whose role is to oversee the activities of the board of directors. Both bodies are at all times required to assist one another in ensuring that company affairs run smoothly. Real checks and balances are thus brought to bear, allowing equal time for each side (owners and investors on the one hand, management on the other) to put its views and be listened to, yet without either one dominating.

To this top-level division of powers is then added the distinctive German brand of industrial democracy referred to above as co-responsibility. Workers' participation in management dates back to 1848 and is thus a well-established tradition. It takes the form of committees which may be likened to British works councils (or French *comitis d'entreprise*), but with real and wide-ranging powers. All issues of concern to the workforce are referred to these councils: training, redundancies, schedules, methods of payment, work patterns, etc. It is in fact *mandatory* for senior management and works councils to come to an agreement on these matters. But co-responsibility does not end there.

Employees have another means of influencing decisions in the form of the company supervisory boards, to which they elect delegates. Since 1976, German Firms employing more than 2,000 workers must allocate an equal number of seats on these boards to employees as to shareholders. Although the supervisory board will always have as its chairman (who casts the deciding vote in split decisions) a representative of the shareholders, it is nevertheless remarkable that employees should have such a strong voice on one of the most important executive organs. In the German view, dialogue between partners is the indispensable oil that keeps the wheels of business turning and reduces the likelihood of destructive social friction.

From the French standpoint, this mode of decision-making and supervision would appear so heavy-handed, and so time-consuming, as to paralyze all initiative. Yet this is manifestly not the case. Not only are German firms as dynamic as their competitors, if not more so, but they benefit from the enhanced sense of belonging which co-responsibility fosters. The company is seen by *all* its members as a community of interests, a true partnership. American sociologists have christened this the 'stakeholder' model of organization, as opposed to the 'stockholder' model. The latter concentrates exclusively on those who own shares (stock) in the business, whilst the former treats everyone as a partner with a personal interest (stake) in the company's fortunes.

In Japan, a different set of concepts, not always clear to Western eyes, produces the same result: a feeling of belonging to a community, almost a family. For example, under the term *amae* – virtually untranslatable – are grouped notions of the need for solidarity and protection and the search for emotional fulfilment which the company must satisfy. Another word, *iemoto*, describes the leadership which an employer must display and carries familial overtones. According to sociologist Marcel Bolle de Bal, ‘Amae and *iemoto* are mutually complementary notions: one is distinctly charged with feminine principles of love, feelings, emotions, and the group; the other carries a masculine charge embracing concepts of authority, hierarchy, production, and the individual. Both are inseparably united in the ongoing effort to build a durable organization’ (see *Revue française de gestion,* February 1988).

We in the West are constantly being reminded of the peculiar characteristics of Japanese corporate life – guaranteed lifetime employment, pay based on seniority, in-house trade unionism, group incentive schemes, etc. – which are the concrete manifestations of unique cultural values. Unique they may be, but the result is the same: a collective feeling of belonging. The ‘company spirit’ is as strong in the Japanese variant of the Rhine model as it is currently weak in the neo-American economies.

As the world becomes a more and more uncertain place, immaterial factors like trust and belonging are increasingly important. It becomes essential for all corporate enterprises to ensure that their members play the same game by the same rules, share the same views, and fit into the same patterns, so that in the end, decisions can be taken by consensus and energies can be mobilized naturally, spontaneously.

Stability at home is all the more valuable when uncertainty and instability are abroad; far from stifling change and adaptability, domestic harmony can be turned to competitive advantage. It is worth noting, at this juncture, that just as America is not New York (and New York is not just Wall Street), so the largest American corporations have successfully avoided the trap of short-termism in their management of human resources, if not always in their financial management. Companies such as IBM, ATT, General Electric, and McDonald's have, as far as possible, steered clear of the 'casino economy' mentality which currently disfigures the neo-American model and which sees employees as so many poker chips in a high-stakes game. They have understood that in order to build and consolidate a multinational endeavor, it is better to gamble on stability, incentive, and even co-responsibility.

Training: the loyalty factor

The German brand of power-sharing is thus highly rewarding to companies; but, equally, it is of immense benefit to their employees. Purely in terms of wages, to begin with: German workers are among the best paid in the world, at an average DM 33 per hour as against DM 25 in the USA and Japan, DM 22 in France (at 1988 rates). Moreover, the gap between the best-paid and the lowest-paid workers is not as wide as in other countries (see B. Sausay, *Le Vertige allemand*; Orban, 1985), making Germany a far more egalitarian society than America or even France.

Surprisingly, wages and salaries account for a smaller percentage of German GDP – 67 percent in 1988 – than is the case in other leading EC member states (71 percent in France, 72 percent in Italy and 73 percent in the UK). Although partly explained by Germany's huge trade surplus (pre-unification), this little-known statistic is highly revealing: it means that German companies manage to pay out the highest wages in Europe (keeping industrial unrest to a minimum) and still have more funds left over for self-financing than their competitors.

German workers are not only better paid than their American or French counterparts but, as previously noted, they work fewer hours. What, then, of their overall career prospects? The litmus test for promotion is, in the Rhine model, based on qualifications and seniority. Thus the twin priorities for an employee who wishes to 'get ahead' are clear: company loyalty and further training. Not coincidentally, the pursuit of both is beneficial to all.

It is not unusual to find that senior managers of German (and Japanese) firms have spent their entire working lives in the same company, having moved up the ladder of promotion from shop floor to executive suite. Nothing could be further removed from the attitude now prevalent in America, whereby job mobility and frequent career changes are seen as proof of excellence and individual initiative. (France has not been immune to this 'nomadic' bug: as with so many fashionable trends imported from the USA, the concept was widely, and enthusiastically, adopted. Recently, the pendulum seems to be swinging back towards greater career stability – except in the lecture halls of the top business schools, where 'self-affirmation through mobility' is still being taught.)

If proof were needed that the German system of power-sharing and co-responsibility could be decisive in molding a more competitive national economy, the recession years of 1981-82 provided a striking example. Employers and trade unions agreed to keep wage settlements down, so as not to further penalize companies in distress; in some cases, they even negotiated salary cuts amounting to 3 percent or 4 percent of purchasing power. (Even greater sacrifices were conceded by Japanese workers following the oil crisis of 1974-75.) The resulting recovery was extraordinarily vigorous: by 1984 the German economy had begun to grow again, creating new jobs, and winning back its share of world markets. And when, in 1984, a major strike was finally brought to an end, the workforce as a whole mobilized itself in order to make up the losses.

Co-responsibility, if skillfully applied, can be a potent weapon in the economic armoury; it may even prove to be the decisive edge of one competitor over another. Training and education provide a further illustration of the benefits of the Rhine vision of devolved management.

Vocational training and skills upgrading are now widely recognized as supremely important for business and industry, whose real wealth lies, not in capital or plant, but in the knowledge and expertise of the workforce. In the European context, it is again Germany which has taken the lead in this endeavour and again the approach is based on close cooperation between management and employees. Long a matter of top national priority, training in the German workplace (and outside it as well) is based on three fundamental principles:

1. It must be widely available. Only 20 percent of the working population in Germany have no paper qualification, as opposed to 41.7 percent of the French. The German apprenticeship system is particularly remarkable in that it absorbs half of all school-leavers; the disappointing figure for both France and the UK is 14 percent. As a result, the proportion of German school-leavers who find themselves unemployed or in a job involving no further training is a mere 7 percent, whilst in France it is 19 percent, and in Britain…44 percent! Furthermore, there is strong emphasis on vocational studies (leading to the equivalent of a City and Guilds qualification, for example), involving some 53 percent of the German workforce, as compared with only 25 percent in France.
2. Training must not be restricted to the élite. Whilst it may be that the USA boasts an educational system which, at its best, is unrivalled anywhere (see Chapter 2) and even France has a better-educated élite than Germany, the reverse is true of intermediate levels of training. According to the DGB (the largest German trade union), in a representative sample of 100 people and their qualifications, the top 15 in France are educated to a higher standard than the top 15 Germans; but the other 85 are far better trained in Germany. This emphasis on a more egalitarian pattern of education means that Germany has been able to build a dynamic, competitive

economy on the bedrock foundation of a generally well-qualified workforce, as a report commissioned by the French Department of Industry admitted in 1990. In France, as in the English-speaking world, professional training is like polo: a sport for the élite. In Germany, it is more like angling or jogging, a popular activity that anyone can do.

3. Further education is for the most part financed by employers, with help from government subsidies. As for its content, the emphasis is on behaviour and attitude: training is designed to impart values such as accuracy, reliability, even punctuality. As such, it meshes perfectly with the qualities needed for advancement. The pathway to promotion in Germany almost always involves an itinerary of further education and qualification: nine out of ten apprentices finish their training and are awarded a certificate; 15 percent of those will then go on to do more training. It would seem that, in the final analysis, professionalism is more highly esteemed in Germany than elsewhere. As one report put it, ‘In West German companies, one does not usually reach executive level until the age of 40 and only then on the basis of proven performance, not just diplomas. But there are solid links between business and higher education: virtually all the top business leaders take on some teaching duties’ (Michel Godet, *Futuribles:* April 1989).

If only because it is a factor in determining company loyalty, training is of the utmost importance for both models of capitalism. It is an issue that can no longer be ignored: it concerns literally every worker and every workplace. To sum up, the 'battle' pits two rival systems against one another:

- The Anglo-American model of employment, in which a company seeks to maximize its competitiveness by sharpening the competition between individual employees. This entails a relentless drive to recruit the best and brightest, whatever the cost, and then to keep them by paying the 'going rate' as dictated at any given time by market forces. Salaries, like jobs, are fundamentally individualized and highly negotiable.
- The Rhine-Japanese model has an entirely different set of priorities. It rejects the notion that employers have the right to treat staff as so many productive units or raw materials to be bought and sold on the market. The company-as-community has an obligation to ensure a certain level of job security, to earn its members' loyalty, and to provide educational and training opportunities – which do not come cheaply. As a result, it may not be able to pay each worker at his or her current market value; what it can do is lay the ground for a lasting career and smooth out some of the rough parts along the way. In this mode of employment, there is no virtue in promoting cut-throat (and ultimately destructive) in-house competition.

Ordo-liberalism*

Attitudes in the former West Germany on such questions as

* I wish to thank Jérôme Vignon for providing me with many of the arguments put forward in this section.

economic liberalism (strongly in favour) and the power of the state (deeply suspicious) mirror, or even surpass, those of the USA. Government interventionism is officially portrayed as the authoritarian regime's mark of Cain, notably for its association with Nazism. Beginning with the monetary reform championed by Ludwig Erhard in 1948, the Federal Republic formally rejected the notion of central planning in favour of a particular variety of liberal capitalism known as the social market economy (*Sozialmarktwirtschaft*), as espoused by the Frieburg school of economics. The social market economy posits two fundamental principles:

1. A dynamic economy depends on the market being as free as possible, notably with respect to prices and wages.
2. Market forces alone cannot govern all aspects of society: there are certain non-negotiable social requirements of which the state must be the guarantor. The German unitary state is, therefore, defined by its social dimension.

   There are a number of different components which interlock to form the German social market as we know it:

- The Welfare State component, along the lines set down by Beveridge, postulates that the state is responsible for social security in the broadest sense and that management-labour relations must be decided by free bargaining.
- Within the social democratic component, inherited from the

Weimar Republic, is enshrined the principle of employee participation in the management of companies and other institutions. Building on this earlier foundation, post-war Germany continued to refine the legal framework governing co-responsibility *(Mitbestimmung)*; it is still the subject of vigorous debate today.

- The Constitution of 1949 posits, as its most innovatory feature, the principle of monetary control as an autonomous mechanism for ensuring stability (in other words, to fight inflation and recession). The present role of the Bundesbank, while not directly enshrined in the Constitution, is the obvious example.
- In conjunction with central bank autonomy, the structure of commercial banking in general is designed with company financing in mind. It is understood that the policy of monetary stability depends on the commercial banks taking a leading role in long-term financing of industry.
- State intervention and central economic planning are seen as abhorrent largely because they distort free and open competition. This is a fundamental principle: competitors must be guaranteed a level playing-field.

In the 30 years that I have been studying the German economy and working with German colleagues, it has never ceased to amaze me how skeptical the rest of the world is on the question of Germany's liberal economic credentials. Yet there is simply no denying that the German economy is wholly based on free trade.

The one criticism that can be levelled is with regard to industry standards: it is true that German businesses have, over the last century or more, developed industry-wide standards which they defend jealously, particularly as they tend to be very high. These quality standards are recognized by a worldwide clientele of importers of German goods – a further argument for maintaining them.

But apart from this single reservation, the basic principle of the *Sozialmarktwirtschaft* holds firm, i.e. that there are only two cases in which the state has the *right* to intervene in the economy, but that in those cases the state has an absolute *duty* to intervene.

The first case is the abovementioned 'level playing-field' which guarantees free and fair competition. This is where the Bundeskartellamt (Federal Monopolies Board) comes into its own, ensuring that leading firms do not abuse their position or that would-be competitors cannot set up cozy, mutually beneficial arrangements. Furthermore, it is accepted that small and medium-sized companies need some assistance in competing against the giant groups and may therefore be granted special tax concessions and credit facilities (a similar situation exists in the USA under the terms of the Small Business Administration). Then there is the question of regional disparities: in order to guarantee that the laws of open competition apply equally in all parts of the country, the central government has a duty to assist the least-developed regions, notably in terms of infrastructure. German policy in this regard has been exemplary. Another area in which government intervention can be authorized on grounds of fair competition is research. If other countries subsidize an array of research programmes out of the public purse – usually under the guise of defense spending – why should Germany not do the same?

The second case in which state intervention is both justified and necessary concerns social welfare generally. A telling example is provided by the mining and shipbuilding industries: when the world economic climate made it imperative for these sectors to undertake massive structural changes and reconversions, government subsidies were made available in order to cushion the inevitable impact on jobs and living standards. This was the thinking behind the European Coal and Steel Community (forerunner of the EC) which successfully transformed Europe's ailing coal and steel industries. But the central government's social brief also extends, as previously stated, to ensuring workers' active involvement in all aspects of company management – not just on 'social' questions but in matters of finance as well.

Germany's emergence as a pillar of the Common Agricultural Policy (CAP) within the EC can be seen as a synthesis of the different strands of state intervention which its liberal doctrine authorizes. Enforcement of rules on fair competition, concern for social welfare, and action on regional development: all inform German policy in this regard. It should also be noted that German agriculture has recently made great strides, thanks to subsidies provided by Brussels, in the direction of environmental safeguards and protection of the countryside.

A final point: as explained earlier in this chapter, it is clear that, on the question of company ownership and shareholding, German policy shows a strong tendency towards protectionism.

The foregoing portrayal of a liberal economic regime in which the state plays a vigorous but strictly limited role is what some specialists call ‘ordo-liberalism’. The paradoxical result is that public expenditure as a proportion of GDP is nearly as high in Germany (47-48 percent) as it is in France (51 percent) and considerably higher than in Japan (33 percent). In Germany as in France, transfers of public monies to the private sector add up to about 2 percent of GDP. For many observers, these figures suggest that the liberalism of the federal government serves as a smokescreen, behind which the interventionist hands of the Länder are at work. This is not exactly the case. It is true that Germany is a federal, and highly decentralized, state in which the central authorities must constantly seek to promote dialogue and consensus among the constituent parts. More to the point, the federal government’s powers are conferred upon it by the Länder, just as the cantons are the ultimate granting authority for the Swiss confederation. Moreover, German cities have a long history of autonomy and they continue to exercise an impressive array of powers and prerogatives. Each tier of government has a well-defined set of responsibilities, as reflected in the allocation of public spending. The federal budget of DM 280 billion goes on general administrative services, welfare subsidies, and defense; the Länder, with an only slightly smaller budget of DM 270 billion, are responsible for education and law enforcement; and local government receives DM 180 billion to spend on social assistance programmes, sporting and cultural facilities, and so forth.

Devolution on this scale requires permanent consultation and a coherent redistribution of financial resources. In the case of the individual Länder, each is guaranteed a revenue per inhabitant within 5 percent of the national average. Generous terms indeed, when compared with France, for example, where there is a 30-40 percent difference between the richest and poorest regions. Again, there is a lesson to be learned here, which (in my experience) the French have not yet grasped. They assume, because France is by tradition so highly centralized and its local authorities so powerless in relation to the state – in spite of Francois Mitterand's devolutionary reforms of the early 1980s – that the fairest possible social and geographical redistribution of national resources occurs more or less spontaneously at the centre. All the evidence indicates that this is pure fiction: those in search of real national solidarity and concrete political action are better advised to examine German policy on regional development. No less impressive than the redistribution of funds is the planning process, which brings together all levels of government. Action is coordinated by means of contracts which set out the agreed terms for undertaking specific joint projects.

All the preceding examples are intended to show just how well-versed German politicians and institutions have become in the art of consensus-building. It is a technique applied to virtually every sector of public interest. Pay bargaining, for example, is not subject to direct government intervention; rather, the authorities exert informal pressure on employers and unions alike, urging them to observe certain limits and avoid upsetting the collective economic applecart. When it became clear that spending on health had to be reduced, for example, it was the federal chancellor (then Helmut Schmidt) who saw to it that employers, unions, and managers of health insurance funds got together and finally agreed on the necessary measures. It is a form of intervention, certainly, but still a far cry from the French experience, in which the public sector has long played a leading role in determining wage settlement levels.

Trade unions: power and responsibility

None of this dialogue and consensus would be possible if it were not for the active participation of powerful trade unions which are both representative and responsible. Such is the case in Germany, so much so that union membership is actually rising (after a slight decline in the early 1980s), whereas everywhere else in Europe a deep disenchantment with organized labour is increasingly apparent. Around 42 percent of the working population is unionized in Germany – one of the highest rates in the world (in France the figure is nearer 10 percent). This means that unions can boast a membership base of some 9 million workers, of which 7.7 million belong to the Deutscher Gewerkschaftsbund (DGB). With representativeness comes financial clout, given that dues are relatively high (2 percent of members' wages, deducted at source). The German trade unions have prospered: they can afford to maintain more than 3,000 permanent national staff and control considerable assets, in spite of the financial reversals suffered by their bank (BFG), their insurance company (Volkfursorge), and especially their property group. Their principal trump card, though, remains the 'war chests' which, in case of strikes or lockouts, allows them to pay up to 60 percent of members' wages. Obviously, this is one economic weapon which wonderfully concentrates the minds of employers.

The trade unions do not leave the selection and training of their officials to chance. By maintaining their own research centres, whose analyses of social and economic issues keep key personnel informed and up to date, they ensure that their demands are taken seriously. Union negotiators are as well-versed as anyone else in the art of presenting coherent, convincing arguments for their proposals, backed up by facts and taking account of the medium-to-long term. And there is yet another powerful means of exerting pressure, this time from within the corridors of power: a number of important members of parliament come from union ranks – up to 40 percent of the Christian Democratic MPs elected under the CDU/CSU banner are trade union members. This interplay of the political sphere with that of organized labour is no doubt one more element in favour of consensus and the settling of differences without confrontation.

The above-mentioned report to the French Department of Industry stresses that German trade unions tend to wield their great power in a constructive way: to put it bluntly, they show a greater sense of economic responsibility towards the nation as a whole than many of their counterparts abroad. They cooperate wholeheartedly with employers in managing the system of apprenticeship; they openly discuss and debate the nature and content of continuing education; they are in charge of job-training centres which are instrumental in returning some 150,000 unemployed to work each year.

What no one disputes is that, on the whole, German trade unions eschew unreasonable, immoderate demands. They understand, and take full account of, the requirements of the whole economy and they know that consensus and compromise pay off – literally, as evidenced by their members' wages. There is a genuine concern on the part of union leaders, as well as among the rank-and-file, not to disturb the well-tested recipe of a successful economy, particularly with regard to the great German bugbear which is inflation. Two features of the negotiation process as practiced in Germany help to explain this fundamentally stable climate of labour relations:

1. Bargaining rounds are held with clockwork regularity and the agreements reached normally cover a period of 3 or 4 years
2. For the duration of the agreement, unions pledge not to dispute its terms in a confrontational manner. The happy result is the lowest level of strike activity in the Western World. One has only to compare West Germany's 28,000 working days lost through industrial action in 1988 with France's 568,000, Britain's 1,920,000, Italy's 5,644,000, or the USA's 12,215,000.

The picture of a relatively harmonious labour landscape, in which the power of the unions is wedded to co-responsibility and the search for consensus, would not be complete without a mention of the extraordinarily vigorous voluntary sector. Some 80,000

German researchers, for instance, belong to scientific associations which disseminate information to their members throughout the country, besides defending professional interests and scrutinizing working conditions. They constitute a kind of informal, flexible administrative arm of the scientific establishment. To take another example, environmental defense groups are strong not just in numbers, but in the preparation and argumentation of their cases.

In all, the voluntary sector plays a key role in mobilizing and bringing together the vital energies of people from all walks of life. It is a typical reflection of the inner workings of a Rhine society, in which institutions provide a means of expression for ordinary citizens and their concerns.

Yet it is doubtful that any of these institutions, whether political or civic, could fulfill their potential if there were not a shared ethical basis upon which to found their activities.

Shared values

The countries that I have included within the Rhine model all share a particular set of values, which fall mainly under two headings:

1. They are, first and foremost, egalitarian societies. Disparities between the highest and lowest wages (the income spread) are much less flagrant and fiscal policy aims for a far more comprehensive redistribution of wealth, than in the English-speaking countries. Direct taxation is favoured over indirect taxes and the top income bands are taxed at a higher rate than in the UK (40 percent) or the USA (33 percent). Moreover,

Rhine economies levy tax on capital and public opinion accepts this as right and proper.

2. The interests of the group are generally felt to take precedence over narrow individual interests. In other words, the communities to which a person belongs – whether company, town, trade union, or charitable organization – are regarded as crucial; they are the structures that protect the individual and provide stability for the whole society. Examples abound: the powerful IG Metall trade union, for instance, had patiently waited for 3 years and the new bargaining round in order to press its demand for a 35-hour work week, when German unification suddenly came onto the agenda. The demand was dropped in a *voluntary* gesture of solidarity. According to IG Metall's president, it was simply more important to meet the new challenge posed by reunification.

But if the interests of the community are paramount, that in no way amounts to an endorsement of collectivism or central planning; quite the contrary. The principle of the free market is written into the German constitution. Fair and open competition, as we have seen, is strictly patrolled by the Federal Monopolies Board, which has been known to block a German firm from taking over a foreign competitor, on the grounds that it would infringe the rules of competition. One can hardly imagine the same scenario occurring in France, where each French buyout of a foreign company is hailed with a chorus of patriotic self-congratulation. Moreover, the Germans (along with the Swiss, the

Dutch, and the Japanese) would never dream of prescribing the sort of grandiose national economic plans favoured by the French. In the Rhine view of economic life, the state may encourage the market, at most influence it in various ways, but never become an active player in it. The Rhine market is, nevertheless, a social market (as its German name indicates). This means, quite simply, that social institutions have traditionally been, and remain, hugely important. Social security as a state-run system was, after all, invented by Bismarck in 1881. Yet in today's Germany, the cost to the individual of national health insurance is modest, amounting to a 10 percent contribution (as against 20 percent in France and 35 percent in the USA). Pensions, too, are more generous in the Rhine economies, mainly because they are strongly supplemented by company-managed individual savings plans.

There is a political aspect to the Rhine social balance as well: a civic sense of active participation in the political process still prevails. Voter turnout remains high – particularly when compared to America, where public disaffection with politics is reaching crisis proportions. In Germany, political parties are powerful and well-structured; party officials and candidates are kept well briefed by such prestigious think-tanks as the SPD's Hubert Foundation or the CDU's Adenauer Foundation. Politicians are required by law to be active or at least present: fines are imposed on MPs who fail to turn up when Parliament meets. The free vote is the norm (i.e. MPs are not whipped on each and every division). And no public official may hold more than two posts simultaneously, in stark contrast to French practice. The

Rhine model is a unique, and highly successful, synthesis of capitalism and social democracy. Its sense of balance and proportion is no less impressive than the efficacy of its economic performance. Yet it remains astonishingly unheralded, almost ignored, by the rest of the world. Quiet contentment, apparently, is not the stuff of fame and publicity. As Tolstoy remarked, all happy families resemble one another: likewise, the story of a happy society lacks the drama and tears that can grip the public imagination.