Varieties of German Capitalism

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I.

If you are looking at Germany from a statistical point of view, you will see, that Germany is divided in two very different parts. These two regions correspond with the former state territories of the capitalist West-Germany and the socialist East-Germany. As you will know, both were reunited in 1990. Or better: the former German Democratic Republic was integrated into West-Germany. At that point of time most people thought, that only after some years East Germany would have caught up with the West.

Now the transition from a socialist planned economy to a capitalist market economy is completed since a long while. But still today – almost sixteen years later – huge socioeconomic differences remain. To give you some impressions of that East-West divide (BBR 2005; BMBF 2004; BMWA 2005; Bundesregierung 2004; Priewe 2004):

- The GDP per capita is about 28.200 Euros in West Germany and 18.000 Euros in East Germany.
- The average income per employee in East Germany is about one fifth below the average income in West Germany.
- The productivity of the East German economy lies about one quarter below the productivity in the West.
- The export share (of total turnover) in East Germany amounts to 25.5 %, in West Germany to 40.9 %.
- The rate of unemployment is about 8.5 % in West Germany and 18.5 % in East Germany.
- Unit labour costs are almost ten percent higher in East Germany.
- 46 % of West German companies have concluded a wage agreement with the trade union. In East Germany this is true for only 26 %.
- In West Germany one third of all establishments is offering apprenticeships. Given a far lower number of companies it's only one fourth in East Germany.

If you would look at these data in a time series you would find, that in the first half of the 1990s East Germany seemed to catch up with West Germany with rapid strides. But that progressive development almost stopped in the second half of the 1990s. A common interpretation, supported by well-known – mainly West-German – politicians and managers, economists and social scientists, is, that the transformation of East Germany has failed. Only last year the huge financial transfers from West Germany to East Germany were called into question, and there is an on-going public debate about how to bring back East Germany on course.

We don't want to go into this debate further. Instead we would like to look at the peculiarities of East Germany from a different angle and show you, that central elements of the West German way of capitalism don't work or don't work in the same way in East Germany. We will develop our argument in three steps. First we would like to relate the common view on East Germa-

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ny to the specific path of transformation of East Germany and work out some limitations of the common view on the socioeconomic development of East Germany. In a second step we will develop a hypothesis about successful companies in East Germany. Finally we will present some findings from an ongoing research project in the East German industry[1].

II.

In comparison to other East European societies East Germany had a good starting position in the transformation process: West Germany not only supported the transformation process with huge sums of money, it also became the main point of reference. In 1990 in a global perspective and especially in comparison to the East German planned economy, the West German model of capitalism was widely seen as a promising model. So transformation was planned as a process of adaptation to the West German model of capitalism. Its central institutions were replicated in East Germany. The West German model of a high quality / high price level production not only became a blueprint for the disruption and privatization of the socialist enterprises, but was widely praised as the recipe for a successful reorganization. So it is clear, that from the beginning the common perspective on East Germany has been one of making up from a position of economic backwardness and of adaptation to the West German development path.

But today it's obvious that these transferred role models and institutions never developed the same effectiveness. Compared to West Germany East Germany is characterized by a lack of apprenticeships, general problems in corporate financing, weak industrial relations etcetera. In this context it's interesting that the process of adaptation not only stopped in the second half of the 1990s. Moreover East Germany hardly profited from the short boom period at the end of the 1990s, while the recessionary phase of 2001 to 2003 was also stronger in East Germany (Land 2003). In short: From the common point of view the macroeconomic data have to be interpreted as a proof of failure.

If you now look at the different interpretations of this failure you will find two main attempts at explanation, that both refer to the specific East German path of transformation:

- A majority argues, that the central problem is rooted in the West German institutions that were transferred. Already at the time of transfer these institutions were in strong need of reform. In the course of the transformation process these institutions were not only replicated in their old form, the transfer also obstructed any attempt of a reform both in East and in West Germany. So in this view the failure of the transformation strategy goes back to flawed institutions.
- The second explanation is related to the first one. It says, the problem is not only rooted in the institutional setting but in the whole production model: In this view also the West German economy was not well prepared for the far-reaching processes of global economic change, that gained more and more importance in the 1990s. So given that the main transformation problem for East German companies was getting into the market, in this view the failure of the transformation strategy also goes back to changing business conditions like the accelerated globalization.

All in all both explanations are kind of different sides of the same coin saying, that East Germany has taken the wrong path already at the beginning of the 1990s.

III.

By contrast what we want to show is, that quite a lot of East German companies have not taken that development path. Despite an flawed institutional environment – at least from the West German point of view – there are quite a lot of companies, that obviously have reorganized themselves successfully and that have es-

1 The project „Die ostdeutsche metallverarbeitende Industrie in der Globalisierung" (The East-German metal and electrical industry and the process of globalization) is financed by the Hans-Böckler-Stiftung and the Otto-Brenner-Stiftung. It is carried out at SOFI in cooperation with the University of Kassel (Stefan Beck, Christoph Scherrer).

tablished themselves in the market. The point is, that despite the fact, that the transformation process was modelled on the West German society, there was no replication of the West German model. There are the same unions, but they don't have the same importance. There is the same apprenticeship system, but it often works differently. So the question is, how are successful companies in such an environment characterized?

In our research project we are focussing on such successful companies in East Germany. Our hypothesis is, that their success depends on whether these companies were able to kind of free themselves from the example of the West German model and to have a creative way in dealing with the new institutional environment. In the following we will try to give you some case evidence.

IV.

So given our hypothesis that East German companies had to free themselves from example of the West German model how do successful companies in East Germany look like? And how East German are East German companies?

One important group of East German companies are the branch plants of big western companies like the plants of the automobile industry and its main suppliers. They may be characterized as manufacturing specialists. Although it were big western companies that build up these new manufacturing facilities in East Germany, these plants were not set up just as copies of western plants and western practices. Building up their new plants in a time of upheaval the western companies rather made use of East Germany as an experimental stage for a more lean production strategy, that they were not able to realize in their western plants with their established structures and routines, interests and bargains. Although they are branch plants of western companies, these manufacturing specialists often are set up as incorporated companies that are characterized by a certain strategic independence. That is especially important with regard to the utilization of regional resources, because these plants are usually no Greenfield plants but are based on the competences of former GDR companies. So despite the fact, that these branch plants were newly build up in the 1990s there are a lot of threads that go back to previous local plants. In our case study companies the local management makes use of these competences to gain competitive advantages in the intra-corporate competition for new products and corporate investments.

A second group of companies can be characterized as product specialists. These are – large as well as small – companies that already had or were able to develop a marketable product, when starting their business. Often these companies already had market contacts to western customers and were familiar with global market conditions. Due to the shake-up of the whole East German economy these companies have not build up their strategy on regional production networks and regional markets. Instead they were able to position themselves in global markets and value chains. They are characterized by technologically advanced, high quality products that they are able to produce at lower price levels than their West German competitors or partners. Here again competitive advantages often go back to specific competences of former GDR companies and to the way these product specialists make use of them. For instance, due to their experiences in the planned economy these companies have comparative advantages in the small batch production of specialized high quality products like container vessels or food processing machines, that are usually custom-build in West Germany.

Another group of companies may be characterized by a strategy of flexible specialization. These mostly small and medium sized companies are mainly suppliers for other companies like the automobile industry, for shipyards etcetera. They follow a rather contrary strategy since they have no special product but differentiate themselves by a high adaptability to changing custommers' demands. Because of their high flexibility these companies are able and willing to occupy market niches that are growing out of the ongoing outsourcing and reorganization strategies of western companies and that initially may be unattractive for most of their West German competitors. Again these companies are often rooted in the maintenance and engineering departments of former GDR companies, where they had to learn flexibility in order to deal with the malfunctions of the planned economy.

So is there a specific East German production model? What we found is not *one* East German production model but at least different ways to deviate from the West German model. And what is especially apparent is, that each kind of these deviations makes use of competences that are rooted in former local East German production facilities.

V.

Our hypothesis is that the strategies of these successful companies also depend on a specific way in dealing with the weak or flawed institutional environment and in making use of regional resources. So how East German is the East German economy? We will present you just some results with regard to the vocational education and training system and the industrial relations system.

The vocational education and training system may be characterized as an institution that in the transfer has taken a similar, but sometimes not identical shape. The so-called dual system of vocational education in vocational schools and apprenticeship training in the companies is a central institution of the West German economy that was transferred to East Germany. So there is a given legal framework that defines the contents and course of the apprenticeship. But what is interesting is the way it is executed. Almost all companies of our sample are offering apprenticeships, but they are organizing these apprenticeships in a new, different way since they have broken with the traditional duality and have outsourced at least parts of the training to local training service providers. What is particularly interesting is that in these cases those third party training providers are rooted in the former centralized socialist vocational education and training institutions and the human resource departments of the large GDR enterprises. In one case the former training center of a big GDR automobile factory is now organizing about 400 apprenticeships for different companies of the new regional automobile industry. So again regional routines and resources have become important in the way the new institutions were set up. Another specific East German feature of the vocational education and training system we just want to mention is the high level of government assistance for apprenticeships. Nearly one third of all East German apprenticeships depend on government aid. In contrast in West Germany more than 95 % of all apprenticeships are financed without government aid. So apprenticeship in some way has also changed its character, which again is strengthening these third party training institutions since they are often providing the training.

What about the industrial relations system? Of course the weaknesses and malfunctions of the East German industrial relations system are obvious. But weaknesses and malfunctions may be only one side of the coin. On the other side economic actors have to deal with corresponding functional deficits or even may be able to make use of a less structured environment. So, for instance, in West Germany wage levels and working conditions are mostly coordinated by collective wage agreements. In East Germany due to the weakness of the unions far less companies are concluding wage agreements. On the company level this may result in individual bargaining processes, high internal wage differentials and corresponding internal conflicts and management problems. But given the high rate of unemployment it must not. What is far more interesting is that at the same time the weakness of the unions also establishes a certain room to manoeuvre. This is especially true for the big branch plants. These branch plants are usually unionized and their wages not far below the West German wage level. But in contrast to West German plants these plants are very lean manufacturing only a certain part of the whole manufacturing process. That also means that these East German factories are operating at the least possible staffing level. To ensure their flexibility and to keep their production cost down they depend on the fast availability of additional labour and the flexible utilization of external manufacturing capacities. Although these plants are unionized they are embedded in an environment that is – more or less – not unionized and that not only allows occasionally high levels of temporary work, but that is characterized by a highly graded regional hierarchy of employment relationships. And it is this regional hierarchy, that not only helps them to keep their own costs down, but to maintain their own high wage level, to keep highly qualified workers that are essential for their production strategy and that – last not least – is driving performance and motivation of their workers.

VI.

What we have tried to show is, that despite all problems of the East German economy there are quite a lot of East German companies that seem to develop very well in this apparently disadvantageous environment. The question is, how does that fit into an argument of failure. One could argue, that this is due to a successful adaptation of these companies, but adaptation to what? As we have shown, successful companies at least in our sample have developed their own strategies, that are all in a way East German. And these East German companies are embedded in their East German environment in some kind of an East German way. It could also be objected, that these cases are rather exceptional, since there are still a lot of companies that are rather vegetating than prospering. We know, our case evidence is not representative. But if being East German is part of the recipe for success in our case studies this may be true also for other successful companies.

Even if our findings are describing just one typical East German constellation, what does that mean for our view on East Germany? Transformation was designed as a process of replicating West German models and institutions. The results are no copy one-to-one. But is that just a proof for failure? Our case studies suggest, that there also evolved a different, specific East German structure of opportunities, that may be overlooked, if you are just looking for deficits and failures.

Apparently not only East German but also West German protagonists have been able to deviate from given western strategies and practices. May be this was not always the result of an intentional approach, but often the result of a long and reciprocal learning process. But what is important, is that they were able to make use of resources and competences that were build up in former times and that were rather depreciated in the transition process. And they were able to make use of East German business conditions – business conditions that are normally seen as rather disadvantageous.

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