

Moszynski, Michal

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**Social system of production in Germany – a model for  
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*Michał Moszyński*

**Toruń, Poland 2015**

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Michał Moszyński  
moszyn@umk.pl  
Nicolaus Copernicus University, Toruń

## Social system of production in Germany – a model for future?

**JEL Classification:** *J40, J52, L16, L23, P17*

**Keywords:** *Germany, labour market, institutions, social system of production*

**Abstract:** The concept of a social system of production (SSP) is one of the cognitive perspectives by which the institutional arrangements of modern market economies could be analysed. It allows reflections on the autonomy of institutional arrangements in each country, in line with the assumption put by the Variety of Capitalism approach, as well as to investigate problems of stability of the given institutional configuration and the complementarity of their components. The following study raises these issues on theoretical basis and carries out their preliminary verification on the example of German SSP, with special regard to the labour market. Basing on the critical study of literature a set of specific features of the German model is proposed, structured according to the concept of SSP in four main categories: institutions, organizations, social values and economic policy. Then, using a secondary statistical data and qualitative analysis, some trends has been identified occurring within these elements in order to verify the thesis of complementarity and the stability of the German social production system.

### Introduction

The literature has long been trying to fill a continuum stretched between the poles designated by a centrally managed economy and the market. The discrediting of the first redirected the scientific interests from an analysis of bipolar system competition to examinations of the variety within the capitalist model. Its diversity has prompted the development of many cognitive perspectives with the help of which attempts are made to categorize and analyse the economies of developed countries. One of the

research proposals on contemporary capitalism constitutes the concept of “social system of production” (SSP) by J. Rogers Hollingsworth and Robert Boyer (1997, p. 2) , in the centre of which institutional mechanisms for coordination of economic activities are located. The authors argue that markets are not perfect transaction coordination mechanisms between the actors of economic life and need to be supplemented.

An example of the SSP is the German Social Market Economy (SME). Using the narrative concept of the SSP, it can be concluded that its institutions, organizations and social values form a coherent system, and their relationships strengthen and stabilize the system. State economic policy promotes the binding of these relationships in a common, coherent whole and helps to alleviate discrepancies of goals among the most important actors. Economic order is strengthened as a complex set of social institutions “...embedded in a culture in which their logic is symbolically grounded, organizationally structured, technically and materially constrained and politically defended.” (Hollingsworth, Boyer 1997, p. 2)

The actual consistency and durability of the SSP is put into question. A German sociologist Wolfgang Streeck (2009, p. 2), takes the view that such a system cannot survive and eventually must degrade and successively fall apart as a result of changes running parallel within its individual components. He gives an example of the post-war model of capitalism: while in the three post-war decades the interconnectedness of elements strengthen the overall order, eventually some centrifugal tendencies emerged, undermining and disintegrating stable system so far.

Verification of these contradictory theses is essential for understanding the sustainability of models of capitalism in their present form. As particularly important there should be considered the causes and mechanisms of these changes and their directions. Some authors believe that there is some convergence in the framework of models of capitalism towards its neo-liberal, Anglo-Saxon variant. If this was true, models such as the German SME should gradually lose its special features and become more and more similar to the American version of capitalism. The hypothesis is also stated that the order of contemporary capitalism becomes subject to more general unintentional change of the nature of drift. The exploration of such drift would help explain the trends taking place among the various models of market economy (Pysz, Grabska, Moszyński 2014).

In this study, consideration will be conducted on an empirical example of the German SME, reduced to the area of the labour market. The article consists of four main parts. The starting point is the discussion on the concept of the SSP and on the mechanisms strengthening the coherence of its elements broken down by institutions, organizations, social values and

economic policy. Then the argument about the collapsing of the social system of production is explored. Subsequently theoretical concepts of differentiating models of capitalism are taken into consideration, and on their basis the specific characteristics of the German model are collected, with particular emphasis on the sphere of the labour market. Then an attempt is made to verify the stability of the elements of the German model, with special focus on the labour market.

### **Methodology of research**

The theoretical part of the article is based on the critical study of literature, in which the concept of SSP is subject of comparison to other approaches within widely defined institutional stream. A juxtaposition has been made of two contradictory statements formulated in the literature on the institutional coherence and complementarity as well as of its durability. This is followed by grouping the features of the German model of capitalism, considered as the “stylized facts” through the prism of the concept of the SSP. In the empirical part, the available secondary statistical sources have been used to illustrate trends in the context of the elements of the German social system of production to a preliminary verification of the thesis of relative durability and complementarity of its components. The analysis is provisional and should be the subject of further in-depth research.

### **The Hollingsworth’s and Boyer’s concept of social system of production – thesis on mutual coherence of its elements**

In the centre of the SSP concept there lie the different institutional mechanisms coordinating the economic activities, complementary to the market coordination, which alone cannot cope with the tasks of resource allocation and distribution of wealth. It matters especially in the face of changes in economic conditions, growing uncertainty about the future, technological shocks etc. By the SSP the authors understand the way the institutions and structures of a given country or region are integrated into the social configuration. They mention here: the industrial relations system, the system of employee and managerial training, internal structures of corporations, structured relationships within the companies of the sector and with suppliers and customers, financial markets, conceptions of fairness and justice shared by labour and capital, the structure of the state and its policies and country-specific customs, traditions, norms, morals, rights and standards of conduct. According to the authors, all these institutions, organizations and social values form a coherent structure and

their relationships strengthen and stabilize the entire system (lock-in effect). Each element has its own autonomous objectives, which may be partly contradictory to each other, and its specific trajectory of changes. Reconciling these divergent interests and stabilizing the whole system belongs to the tasks of economic policy.

SSP concept is also used by German economic historian Werner Abelshauser (2009), which employs it interchangeably to describe the category broadly defined as a “regime of production”. According to him to the elements enhancing the coherence of such a regime there belong high density and network of institutional framework, but also the friendly attitude of business partners, which helps to create trust – the basis of economic operations

Persistence of the SSP in the research carried out on the basis of comparative institutional analysis is explained by the concept of the institutional complementarity. It assumes that the coexistence of two or more institutions within a given institutional arrangements mutually enhances the performance of each institution individually, and the whole creates something more than the simple sum of their parts in line with the principle of synergy. While Bruno Amable (2005, p. 372) suggested that the complementarity of the institutions hampers the process of change, Richard Deeg (2007, p. 611-630) argues, that complementarity could be analysed in the dynamic terms, as the best institutional configurations should possess the ability to change. In his view, institutional coherence does not necessarily improve the functioning of the institutions. In the literature, there is no consent, as institutional coherence is sometimes interpreted as the consistency of operational logic of internal and external norms and is considered as an important determinant of their efficiency. According to Michał G. Woźniak (2009, p. 4) a degree of institutional coherence of the national economy can be inferred from the rankings based on components of indexes of economic freedom, competitiveness, ethical behaviour, corruption, transparency of law and so on. Institutional coherence is analysed in the framework of a set of formal institutions, but also at the interface between formal and informal institutions (Miszewski 2014, p. 139-154). The collision of these two types of institutions is a major source of loss of coherence by institutional order.

### **W. Streeck's counter-thesis about the breakdown of the social system of production of post-war capitalism**

SSP stability is questioned by the German sociologist W. Streeck. The process of decay is placed in a very broad context of the transformation of

the entire post-war model of capitalism, understood as an type of institutionalized social order. This order undergoes the process of decomposition of its modern stage of development, and such change is an inherent and permanent feature of capitalism. Therefore, the category of institutional order stability is, according to him, a product of politics and sociology and given institutional arrangements are only temporary moments in a continuous historical process of systemic change (Streeck 2009, p. 4). He puts the thesis of limited life of a particular institutional configuration, when the positive externalities of individual elements, strengthening the overall institutional coherence turns into negative. These changes are systemic in nature and run parallel in different sectors. Their original source lies in the spontaneous market processes initiated by Schumpeterian entrepreneurs-destructors and the Keynesian “animal instincts” of market participants. The development of capitalism is a constant game between the individual pursuit of an economic advantage and collective attempts to achieve and maintain social stability. Actors in capitalism are characterized by a constant search and an attempt to overthrow the order for their own benefit. The competition rooted deeply in the logic of an economic order means permanent undermining of collective institutions that have had to limit the expansion of the market and their replacement with contractual relations. Streeck argues that the post-war transformation of the capitalist system proves that its institutions cannot be seen only as tools for enhancing efficiency (e.g. in terms of reduction of transaction costs) and capitalism even destroys the relationships that serve its further persistence (Streeck 2009, p. 267).

Given that many impulses for change comes from the US, institutional convergence between the varieties of capitalism can mean the growing similarity of its varieties to the Anglo-Saxon model, and this process may be conditioned to greater efficiency of the American version.

The main idea of the “life cycle” of the institutional setup, sketched by Streeck corresponds to the Boyer’s proposals of the dynamic view of the institutional complementarity. Putting it simply, he argues that the process of creating the institutional complementarity means an increase of linkages among institutions in the course of time that can be initiated by a coincidence. The principles underlying these relationships are becoming more complex and consequently complementarity is growing. Actors do not need to be aware of it initially, but over time can try to capture its benefits, which can in turn weaken the complementarity. The crisis emerge that turns back initially positive trends and incentives appear to seek a new institutional configuration (Boyer 2005).

In the empirical attempts to verify the complementarity of the institutional sphere of work and corporate governance and their correlation

with economic growth Peter A. Hall and Daniel W. Gingerich (2004) defend the thesis of a persisting international institutional differences, despite the pressure of the convergence trend. Their research shows that higher economic growth coincides with institutional complementarity, i.e. either with the domination of coordination by the market or with the predominance of strategic coordination between actors. Regimes of a mixed type of coordination is, in their opinion, less effective. These findings fit into the ordoliberal hypothesis of interdependence of economic orders (Interdependenzthese) and proceed with the postulate that the various suborders within the overall economic order constitute a coherent whole. Empirical manifestation of the links among institutions in different spheres of the economy are the difficulties that arise when trying to introduce institutional reforms. Changes in one area are hampered by linkages with others, and a comprehensive transformation of the entire order exceeds the capacity of decision-makers.

### **The main elements of the German social system of production**

In the literature many specific features of the German model of capitalism are formulated. The following selection is classified according to the nomenclature proposed in the concept of the SSP, i.e. broken down by social values, institutions and organizations. Additional reference point is a state policy, aimed at strengthening the links among these elements. The exact assignment of all qualities is not always possible, because the boundaries between these categories are fluid. The analysis is narrowed to a labour market perspective, which in the conception of the SSP remains the central area.

#### **Social values:**

- The overarching value of freedom and individual responsibility, highlighted already by ordoliberal theorists and thought leader of the SME.
- The presence of institutionalized cultural patterns supporting long-term relationships and continuation (Streeck 1995) – so called long-term capitalism, associated with the order and Weberian Protestant ethic.
- The concept of social partnership leading to constructive conflict resolution between the partners in the labour market.
- The notion of participation of all stakeholders in the economic success of the company.



- The idea of subsidiarity, according to which the widest possible range of services<sup>1</sup> should be provided within the family and not charged to the state.

**Institutions:**

- Collective bargaining tariff, high level of self-regulatory organization of businesses and employees and sectorial collective agreements.

- The principle of co-determination (*Mitbestimmung*) in the company stemming from the idea of consensual industrial relations.

**Organisations:**

- Control over enterprises through the network of supervisory board members with representatives of employees and significant state influence, a control model called “Deutschland AG” (Germany PLC), instead of the typical control structures oriented towards capital market (Streeck, Höpner 2003, p. 11).

- A large and influential role of employer and employee organizations in the sense of “the corporate market economy”, such as under the “concerted action” (*konzertierte Aktion*).

- Strong orientation towards production of goods (and to a lesser extent – services), production of high-quality competitive goods for the world markets (and not mass production of cheaper goods on the basis of low wages) by highly paid specialists.

- Relatively low wage dispersion.

**Politics:**

- Indirect forms of state intervention in the economy and the use of instruments conform to the logic of the market.

- Provision of public goods (e.g. a dual system of education, research and development) relevant to the processes of production of goods and services in cooperation between the state and the business sector (Hoffmann, p. 124-130).

- The high degree of social protection, either through statutory regulation and corporate personnel policies<sup>2</sup>.

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<sup>1</sup> The functioning of the labour market relies heavily on a whole range of services provided by the public, allowing the reproduction of human capital (education, health, homework). On the other hand, there is a strong dependence of a family existence on the labour market – in Germany the income is obtained mainly from paid employment. Losing the job and family income is the most common cause of poverty.

<sup>2</sup> The links between the labour market and the social state are obvious – the German social security system has evolved since the days of Bismarck, realizing from the beginning the task of stabilization of the social position of employees.

- Linking social and economic policies – the state consciously shapes social and economic order, but market remains the main mechanism for the allocation of resources and distribution of wealth.
- The political culture that emphasizes the importance of stability, social security and social justice, and avoids unnecessary risks and excessive dynamics (Kocka 2006, p. 9-24).

### **Social system of production on the example of the labour market of the German SME – stabilization or destabilization?**

Outlined features of the German system of production, even restricted to the labour market, provide a wide area of research therefore in the study only its key selected elements will be considered and signalled some characteristic trends. They can provide directions for further research, since only their fuller analysis will deliver an answer to the question about consistency and probable future of the German model.

#### **Social values**

The data provided by Allensbach Institute's annual survey of the fundamental values of the German society show that in the period 1998-2012 “freedom” with a slight advantage dominates over the “equality and social justice”. Interestingly, there is here a significant difference between western and eastern parts of the country. Residents of eastern Germany, in contrast to their compatriots prefer the “equality” more than “freedom”, although in the younger generation “freedom” began to dominate. Almost half (48%) of residents in the west and 42% in the east agree with the statement that “everybody is the architect of his own fate” which identifies the individual responsibility for its own destiny. In the west the value of indications grew from 53% in 1955 to 62% in 1963 and remained at that level until 1975. Later it began to decline, and more and more respondents claimed that the existing conditions determine the individual capabilities and achievements (Petersen 2012). This means that after a period of

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The right to benefits is acquired through participation in the labour market and losses in income lead to reduction of them. Maintaining the welfare state requires, in turn, economic and demographic growth. As long as the economy grows, it is possible to distribute and divide the fruits of growth, and as long as there is population growth, it is possible to finance the intergenerational social contract. This aspect also emphasizes Richard Sennett (2006, p. 30-31), who argues that the social roots of capitalism date back to Bismarck, who came out with the assumption that workers with a stable social position, will be less susceptible to the currents of revolutionary.

“economic miracle” and finishing the period of full employment the views of the society began to evolve.

The crucial role of the acceptance of the economic system by the citizens has been emphasized in the writings of the “founding fathers” of the SME – Alfred Müller-Armack (1981, p. 90) and Ludwig Erhard (1957). They argued that the combination of commonly accepted norms and values, creates a moral basis of the market on which the economic order is founded. They included such values as freedom, self-responsibility, solidarity and subsidiarity. After the war the German society took up the challenge of realization of these ideals and the slogan “Prosperity for all” was associated with respect for pro-social values. In time, when the material needs have been compensated and consumer society has arisen, there has been a depreciation of the values and a greater emphasis on individual enrichment. As noted by Grzegorz Szulczewski (2014, p. 278), it is paradoxically the success of the SME which caused a departure from the original values.

An Allensbach Institute survey shows that in the second decade of transition the attitude to a market economy in the east of the country is quite different than in the western part. In the period 2000-2008 the percentage of respondents who agree with the statement, “a market economy automatically lead to social injustice” in the former GDR increased from 52 to 65%, while the percentage claiming that “only a market economy determines social justice” fell from 35 to 22%. It turns out that the western residents started to take over these views: change respectively from 28 to 45% and from 52 to 37% (Institut für Demoskopie Allensbach 2008). In Germany in the years 1995-2010 there is a growing proportion of people who assess the “existing in the country economic relations, what people have and what they earn” as unfair (an increase from 43 to 58%), while a declining proportion of those who consider it to be fair (from 39 to 21%) (Institut für Demoskopie Allensbach 2010). In 2008 the majority of respondents (75%) expressed the opinion that the adjective “social” has no basis in reality, but at the same time only 13% of respondents were able to imagine a better system than the market economy, and 40% did not see any alternative to the existing SME economic order.

The research that have been conducted by the Allensbach Institute since 1990 indicates that the acceptance of the economic system in Germany is steadily declining. Yet in 1990 in the former GDR it had a high opinion of 80% of the respondents, but in 2005 of only less than 20%. In the western part of the country, these opinions are better and more stable. After 2005, already during the global crisis, the trend has reversed and indications slightly increased. The correlation of opinions on the system with the labour market situation is particularly evident in the east of the country.

Answering the question on which economic model they would have voted for in a referendum in 2000 83% of respondents in the western part and 63% in the east, would choose the SME, and only 4 and 11% would vote for a socialist planned economy (cited after Vanberg 2009, p. 155). Referring to determine whether the SME model has proven itself in the period 1994-2005 about 10-percentage points difference remained between the two parts of the country with weaker rankings in the east (down from 64 to 44%) (Sesselmeier, Yollu-Tok 2010, p. 247).

These attitudes translate into demands on policies to increase interference in the economic processes, to have a greater impact on the distribution of income, to undo some elements of labour market reform package Agenda 2010 and to introduce an universal minimum wage, which centre- left party SPD managed to push the at the beginning of 2015. All of this is associated with expectations that the state should take away from the individuals the responsibility for the results of market processes and secure them against their effects. It is interesting to refer back to Erhard, who argued that social transfers are merely the correction of symptoms, leading to “socialization of income division”, and consequently – to breaking the link between earnings and the economic effects and resource (re)allocation conflict, typical for the welfare state.

The welfare state is deeply rooted in the consciousness of German society and the expectations for its maintenance are formulated. The main objective of the welfare state in 2006 was “to improve employability” (58% of respondents in the west and 72% in the east), and much less important “secure the standard of living” (respectively 28 and 33%) (Statistisches Bundesamt 2008, p. 291). Answering to the question which institution bears the greatest responsibility for social security, the majority of respondents pointed to the state (54%), employers (28%), and only in third place to the households (27%) (Nüchter et. al. 2009, p. 27).

The idea of social partnership is reflected in the peaceful conflicts resolution in the workplace. In Germany the level of strikes and lockouts – compared to other countries – is low. The number of lost days in this way per 1,000 employees in the period 2005 to 2013 amounts to amounted to 16 annually, according to the WSI (Institute of Economic and Social Research) (and only 4 according to the Federal Employment Agency). For comparison, in Denmark it was 135 days and in Canada 102. In Germany there is a strong correlation with the situation in the labour market: with the economic upturn the number of strikes grows. This pattern was also confirmed in 2014-2015.

### **Institutions**

The main institutional pillar of the German labour market and, more broadly, SSP is a constitutionally guaranteed freedom of collective bargaining. Since the 80s a phenomenon is observed of general decline in trade union membership. As indicated by international statistics, it happens in most developed countries (Visser 2009). Particularly strong drop was recorded in the eastern part of Germany, where the threshold of unionization rate was 50% in the beginning of transition and only less than 18% in 2004, which should be associated with the collapse of the former GDR industry and structural changes in the economy. In the former West Germany in 1980 the rate was 32.5%, in 1991 28.3%, and in the reunited Germany in 2012 only 20.6% (data from ALLBUS; Institut der deutschen Wirtschaft Köln).

The decrease in the degree of unionization is especially pronounced in smaller plants, which leads to a weakening of trade unions power and to the erosion of collective bargaining system. Yet in 1998 about 53% of the companies in the western part of the country and 30% in the east were bound by systems. In 2013 it amounted respectively to 32 and 20%. In addition, the collective agreements are “softened” by opening clauses allowing the possibility of different arrangements (*Öffnungsklauseln*) and in practice provide opportunities for more flexible shaping of working conditions at company level. Due to the fact that in large companies trade unions are stronger, the percentage of the employed bound by system is much higher than percentage of establishments (2013 amounted to 47% in the east and 60% in the west).

Despite the erosion of collective bargaining, their strength is greater than is consistent with the percentage of enterprises and employees covered, because a lot of firms are focused on solutions negotiated. As noted by Ursula Huws (2014, p. 34), in Germany wages and working conditions negotiated by insiders in the systems at the level of the industry are rather stretched generally for all the employed in a particular industry (outsiders) and not limited to a narrow group, as is the case in other countries.

The second key pillar of the German labour market and, more broadly speaking the SSP, is the principle of codetermination. While at the supra-firm level the workers are represented by unions, at the firm level this role is played by works councils. Also in this area of industrial relations the erosion is visible. According to a study conducted by the IAB (Institute for Employment Research), the percentage of workers represented by trade unions and works councils is decreasing steadily. In the western part of Germany, this value fell from 41% in 1996 to 29% in 2012; in the east in the period 1998-2012 from 29% to 15% respectively. Simultaneously, the percentage of workers who have no representation grows, in 2012 they

constituted a clear majority in both parts of the country (Ellguth, Kohaut 2013, p. 287).

### **Organisations**

A specific feature of corporate governance in Germany was mutual capital connection between companies and financial institutions, mainly banks and insurance companies. This relational network, called “Deutschland AG”, began to resolve gradually, starting from 1996, mainly due to leaving of six major financial institutions from the position of shareholders in the group of 100 largest German companies. In the period 1996-2006 within this group the number of interconnections has fallen from 62 to 39 (Monopolkommission 2007, p. 190). In the years 1996-2002, shares of these financial institutions in the capital the 10 largest companies fell from 15.9% to 9.3% (Beyer 2006, p. 127). Simultaneously, since the 80s personal ties between these companies have weakened through falling participation in the control bodies. Pulling back was due to financialisation of the global economy and the shift of German financial institutions to Anglo-Saxon investment banking business model with a shorter horizon, greater risk and profitability. As a result, large companies may feel partly relieved from the obligations towards society.

Germany – in contrast to most developed countries – have retained its industrial base. The share of industry in GDP in the period 1994-2014 remained virtually unchanged (down from 23.0 to 22.3%). For comparison, in France, this share was 11.4% and 15.3% across the EU. Maintaining the competitiveness of products in the global markets requires highly skilled employees whose productivity will keep a tight rein on unit labour costs<sup>3</sup>. On the German labour market skills level steadily increases, in 2010 over 70% of the work was done by qualified or highly skilled personnel, in 1991 – by only 62% (Abelshauser 2011, p. 527). Given the strong relationship between the status on the labour market and the level of qualifications, this trend may partially explain the decline in unemployment.

Skills development is an area of cooperation between the business sector and the public education system. The dual system of education, a German specialty, is a public good delivered in cooperation with the state, tailored to the needs of industry. In 1991 almost 725 thousand places for students were offered, in 2014 only 559 thousand, with demand exceeding supply (Bundesinstitut für Berufsbildung 2015, p. 15-18). This cooperation can be attributed at least part of the success, which is the lowest unemployment

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<sup>3</sup> In the period 1991-1996 the increase in unit labour costs clearly corresponded with the weak development of exports. In the period 1991-2013 the correlation coefficient of unit labour cost with exports growth was -0,67. See Schröder (2014).

rate among people under 25 years of age (7.7% in 2014 against 23.2% in the euro area, Eurostat).

### **Politics**

Germany is a country with a relatively stable political system. After World War II only 8 people served as chancellor. The party with the longest exercised power is a Christian Democratic Union CDU (5 chancellors). In the period 2005-2009 the power was exercised by so called grand coalition of the CDU/CSU/SPD, in 2009-2013, the CDU/CSU/FDP and after 2013 again a coalition of the two largest parties CDU/SPD. Policy in Germany, compared to other developed countries, should be considered as predictable and stable. All major political forces in Germany declare their commitment to a model of the SME. „The government is confident that the SME is still the best economic order [...]“, while freedom and competition bring success, especially in the labour market (Bundesministerium für Wirtschaft und Technologie 2009, p. 9).

SME supports the strategy of productive economic order policy, which is based on the assumption that the state is an important intangible factor stabilizing the aggregated economic production function. This constructive role of the state does not necessarily imply an increase in its expenses despite expanding its tasks, as evidenced by the relatively stable ratio of public spending to GDP persisting within 20-25% range in the post-war period (Abelshauer 2009, p. 34).

At the same time, however, in the long run the social policy was developed, aiming at support to reach a compromise between labour and capital and to finance social peace. Social security contributions grew from the early '70s with 26.5% of the gross income of the employee to over 40% in 2011, but it should be taken into account that their height was also produced by demography. After 2003 there was a slight reversal of this trend, mainly induced by the improvement in labour market conditions, which allowed a reduction in contributions to the unemployment insurance.

The rise of social security contributions translates into an increase in non-wage labour costs and force to labour-saving strategies and improve performance. In the long term an upward trend in expenditures on social security as a relation of GDP is observed – while in 1970 they accounted for 20%, in 2011 for almost 29% of GDP. The part that is financed by the state grows as a share of spending from the federal budget – in 1995 they made up a half, in 2011 more than 56% of total expenditures.

Germany against OECD countries has an average income inequality, but extremely high inequality in the distribution of property, since 10% of the richest holds 60% of the net wealth of households. In the 80s, the inequalities in gross income were stable, after the unification began to grow. In the period 1991-2005 the Gini coefficient for income before taxes

and transfers increased from 0.41 to 0.5, and for net income of 0.26 to 0.32 (Sachverständigenrat 2007, p. 458). This shows how much policy strengthens social cohesion and flattens income. As evidenced by Hans-Ulrich Wehler (2013), income and wealth inequality in Germany are permanent and structural, which is best illustrated by the fact that the top quintile accumulated in the late 50s 39.8% of revenues, and the same 60 years later. The actual dispersion of hourly wages does not grow as much as inequalities of income from work due to the expansion of part-time work and other atypical forms of employment.

The unification of Germany swallowed up great efforts, resources, energy and policy attention was directed towards the transfer of West German institutional order to the former GDR. Already in the mid-90s there was a widespread belief in the need to make fundamental reforms, mainly related to the functioning of the institutional setting of the labour market, but lacked the will to carry them out. This systemic failure was defined as reform backlog “Reformstau”. The origins of the governments of Gerhard Schröder, was characterized by uncertainty about the direction of economic policy, especially in connection with an attempt at directing it towards Keynesian style made by federal finance minister Oskar Lafontaine. The chancellor managed to win re-election, despite the failure to realise the basic promise – reducing unemployment. “Reformstau” was broken in 2003, in form of a reforms package under the banner of “Agenda 2010”, which included: the reform of the labour market, facilitation of taking up business activity, changes in education and social security reform.

The Chancellor has declared the need to “improve the economic framework for more growth and employment”. The depth of the reforms and the fact that social change difficult to accept has been made by coalition under the leadership of the SPD, can certainly be considered as a strong turnaround in economic policy. These decisions should be interpreted as a move towards greater liberalization, more flexibility, enhancing the responsibility of individuals for their own fate and more power market. Such changes lay in the well-understood business sector interest and, not until the prospect of a decade proved, have helped to achieve a significant improvement in economic processes. The number of economically active people went up, there are more jobs, decreased unit labour costs accelerated economic growth, but on the other hand, at the same time there grew the share of the employed in flexible forms of employment and the percentage of those working in a low-wage sector as well as there fell the real wages of the less-skilled.



## Conclusions

The idea of SSP is an interesting proposal for the analysis of institutional framework of market economies, which supports the processes of coordination among market participants. The concept corresponds with the wider stream of institutional economics, especially with the Variety of Capitalism approach, which was developed later. Consistency and durability of certain institutional configuration, does not necessarily mean the lack of adaptability and rigidity of a system. Consistency and durability can be seen in dynamic terms, analogous to the concept of the dynamic institutional equilibrium.

Some elements of the German model of the SSP are actually subject to change, which can be interpreted in favour of the theses put by Streeck about the alleged breaking-up of the post-war model of capitalism. Analysing the area of the labour market, layered in social values, institutions, organizations and policies, one may notice the existence of certain trends that mean phasing out or at least transition from a stage of economic development established for several decades after World War II.

Among the social values professed in Germany and underpinning the market, it should be noted, above all, the growing need for safety and equality, even at the expense of freedom. Security is to be provided primarily by the state, but also the other actors – employers and households bear the responsibility. However, there is a strong identification and trust in relation to the German welfare state, even though the costs of reunification and labour market reforms have reduced the level of satisfaction of its benefits.

The two pillars of the German labour market – autonomous collective bargaining and co-determination of workers are subject of clear erosion, which can affect the stability of current process of setting wages and working conditions. In the face of the weaker representation of the employee side, the government introduced in 2015 a statutory minimum wage, which can be regarded as an attempt of policy support, but also an expression of lack of confidence in the possibility of self-coordination of the social partners.

In the sphere of economic organizations, primarily businesses, some relaxation of the model of “Deutschland AG” is visible and as well as the fall in controlling relationships between the biggest companies and banks. Germany retained its industrial base, which together with continued high quality production, keeps the Germany among world export leaders and creates highly paid jobs for specialists.

The hypotheses about the depletion of the German model was already formulated in the early 80s, and later after the introduction of the euro in

1999 the Germany was labelled as “the sick man of Europe”. Meanwhile, a safe transition through the world crisis, and, above all, the improving situation on the labour market, meant that Germany came to be called “the economic superstar” (Dustmann et. al. 2014). Taking these results as an evaluation criterion of the social system of production, in the case of this study that is restricted to the area of the labour market, it should be admitted that the unemployment rate and the level of employment in Germany improves after 2007 and in 2015 both indicators beat the record.

Elements of the German SSP are complementary and mutually dependent. Social values form the foundation for the institutions that constitute the rules of the game for organizations (companies), and these relationships are reinforced by economic policy. SSP in Germany undoubtedly is subject to evolution, which occurs under the influence of globalization, liberalization, European integration and the information revolution. A convergence between the models, in the sense of accepting the characteristics of Anglo-Saxon model, occurs, but a clear identity remains (Hodgson 2015, p. 344). These changes are interpreted by Streeck (2009, p. 56) as a withdrawal from certain elements of the agreement between labour and capital from the decade of the 60s, when it was possible to reconcile full employment with decent profits for capital. The elements of this consensual formula included: politically guaranteed full employment, setting of generally applicable wage in the bargaining process with independent trade unions, co-determination of employees at workplaces and enterprise level, state control in key industries, large public sector with some employment as an example for the private sector.

These changes can lead to completely different conclusions, referring to the theoretical basis of the German model – ordoliberalism and the original concept of the SME. According to them the full employment was to be the result of the economic processes of autonomous entities in the flexible prices environment, and the role of policy would be to create the institutional framework and to assist the structural adjustments. At the same time private property is to be the dominant form, only supplemented by state, whose tasks do not involve creating jobs.

Wage setting in bargaining process and co-determination is well established institutionally, and despite the erosion is still running. Labour market reforms carried out under the slogan “Support, but require”, liberalization and privatization can be rather classified as a return to the demands of ordoliberalism and of the SME, and regarded as its new and refreshed look. Short term dominance of Keynesianism in economic policy in Germany resulted in a proliferation of the welfare state, which, as predicted by Erhard and Müller-Armack, weakened incentives to work and

helped to change social norms and values. It is worth noting that already Michał Kalecki (1943) predicted that the Keynesian model encounters a natural barrier: full employment demoralizes employees, capital will be interested in unemployment, which would discipline workers, and the state will cease to support the Keynesian policies of full employment.

In the world, the German model of the SSP is set as an example worthy of imitation. In the report prepared by the Center for American Progress, associated with the Democratic Party, the following features are praised: representation of employees on company boards, works councils and tripartite institutions of learning, helping develop effective and productive democracy in the workplace. These achievements include elements of inclusive capitalism, which complement inter alia, cooperative relationships between employees and management, participation of employees in business capital, participation in profits. However, the imitation of the models, according to theory and experience, is difficult, because every solution works differently in different conditions. What works in Germany may prove to be dysfunctional for the United States.

Thus, it appears that the conclusion of the relative permanence of the German system of production is justified, while maintaining the integrity of its components. It also shows the ability to adapt to changing conditions, which gives a chance for its survival.

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