

# CURRENT DEBATES in SOCIAL, HUMANITIES and ADMINISTRATIVE SCIENCES

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# Chapter 18

# Comparison of the Employment Opportunities and Threats Posed by the Coordinated Market Economies: The Example of Germany

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## Introduction

The Varieties of Capitalism approach is an attempt to understand the differences in working styles and freedom levels of national economies in a globalised, fast moving world. As in the present day the world is globalised, highly dynamic and continuously changing, it is becoming more difficult for states to make interventions on their economic systems to maintain national competitiveness. Governments no longer have enough control power on company decisions through using industrial planning or state banking. Instead, they focus on facilitating the conditions for local firms to gain competitive advantage in the international markets. Then the state's economy gets stronger in today's world. Because of these reasons, it is appropriate to adopt more micro focus and analyse the company behaviours in order to understand dynamics of capitalist approaches. The critical factors that orient the economy, and therefore needed to be analysed are; the type of skills that companies need, workforce cooperation that they have, technological potentials and the strategies which are used to gain financial support. Additionally, it's also important to consider the institutions of the states which constitute the working environment of the companies. These include established education and training systems, regulated labour market types, technologic transfer institutions and corporate governance systems of companies (Soskice, 2005).

## Comparison of the Liberal and Coordinated Market Economies:

Advanced economies are considered as two main different types of national economies that constitute ideal types (Hall and Soskice, 2009). The first one is called liberal market economies composed of Anglo-Saxon countries like USA, UK and Canada including Ireland and Israel (Soskice, 2005). Their training and education systems mainly focus on improving general skills of the people (Hall and Soskice, 2001). The companies in these types of economies generally follow short term focused corporate governance systems and the markets are highly competitive in terms of technological systems. However, their welfare state regulations are considerably weak and this is followed by low levels of unemployment and employment protection. Having such conditions causes high levels of recruit and lay off rates and employee transfers among companies (Estevez-Abe, Iversen and Soskice, 2001). In these circumstances, companies focus more on radical innovation and risk taking approaches in order to remain competitive in the open world economy (Vitols, 2001).

On the other hand, the second types of economies are called coordinated market economies. The education, training and employment system is much more regulated in these economies compared to liberal market economies. What is

more, company owners mainly focus on long term strategies and corporate governance systems allow more patient capitals (Hall and Soskice,2009; Soskice, 2005). In these types of economies, there is coordinated wage bargaining to prevent inequalities in terms of income. Additionally, welfare states and employee well-being is playing a crucial role. Hence, the employment and unemployment protection rates are higher in contrast to liberal market economies (Estevez-Abe et al, 2001; Soskice, 2005). Under these conditions, companies focus more on incremental innovation and long term strategies through developing specific skills of employees to obtain competitive advantage in a globalised world (Hall and Soskice, 2001).

In the second type of capitalist economies the companies' product market strategies determine the required skill types of workforce (Soskice, 1994). Therefore the workers need to invest in related specific skills. In fact, the intensity of such skills in these countries has contributed many for firms to have a comparative advantage in the international area (Soskice, 2005). On the contrary, the companies which perform in liberal market economies engage in different product strategies that need general skills such as university or master qualifications. This type of organising also brings competitive advantages through radical innovation (Vitols, 2001).

According to Estevez-Abe and her associates (2001) Germany, which has a coordinated market economy, uses a Hybrid product market strategy which is efficacious for producing high quality and large quantities of custom made products. Moreover, this hybrid product market strategy requires highly trained labour with firm specific skills (Streeck, 1992). However, from a workers point of view, it is risky to invest in firm specific skills as such abilities are only applicable for the particular firm. More to the point, when compared with liberal markets such a specific focus leads to weaker career agility. In fact, most skills are only improved and maintained through using, refreshing, updating and focusing on a particular skill that will degenerate other marketable skills of the employees. Hence, in this economic context, employees require some sort of protection, which includes job security and assurance for possible job loss, to invest in these specific firm skills for a long period (Estevez-Abe et al., 2006).

On the other hand, in countries which have adopted liberal market economies, such as the UK and the USA, there is a weak link between companies, government and workforce compared to coordinated market economies (Estevez-Abe et al, 2001). In this sense as companies adopt product market strategies that often require general and flexible skills, there is a considerably low level of employment and unemployment protection in such states. In addition, because companies generally focus on short term profits and look for radical innovation,

there is also a high level of hire and redundancy rates which cause intense flow of workforce among companies in the market.

In liberal market economies, companies look for employee productivity for radical innovation and success (Hall and Soskice, 2001). In other words, while high productivity workers are adequately rewarded, low-performing or skilled ones are exposed to the opposite. Therefore, there is often a high level of inequality between classes (Soskice, 2005). Although portable general skills substitute for social protection, this is generally for middle or high class workers. In addition, the absence of protection of the employees and unemployed people and collective bargaining as well as having low level of welfare state opportunities create difficulties for less-skilled people in liberal market economies (Mandel and Shalev, 2009; Soskice, 2005).

In contrast, compared to Liberal market economies in Germany, there is more egalitarian distribution of earnings because of the coordinated wage bargaining system. Through such system differences, incomes of the groups are prevented to be so high. It is also needed to be added that Germany not only have a more egalitarian distribution of income but also redistribute more through taxes and transfers (Soskice, 2005). Moreover, although less skilled people face limited opportunities in all situations, in coordinated market economies as Germany, there are protections for preventing modification of transfer payments and regulated employment conditions for all workforces. When it comes to education and training, in Germany and many other coordinated market economies, the education and training level of low skilled people is also higher compared to liberal market economy countries like the USA and the UK. As a result, these regulations in coordinated market economies create safer and more sufficient living conditions for low income groups. In fact, these people are better educated and trained. Besides, they are more secure and equally paid and benefit from redistribution in countries (Mandel and Shalev, 2009).

*The comparison between the states that have liberal market economies and Coordinated market economies*

| | Liberal Economies | Coordinated Economies |
|---|---|---|
| **Education for Employment** | *General Skills* | *Firm Specific Skills* |
| **Competitive Strategy** | *Short Term Focused Corporate Governance* | *Long Term Focused Corporate Governance* |
| **Innovation Type** | *Mainly Radical Innovation* | *Mainly Incremental Innovation* |
| **Employment Strategies** | *Weak Employment and Unemployment Protection* | *Strong Employment and Unemployment Protection* |
| **Employee Turnover** | *High* | *Low* |
| **Career Agility** | *Low* | *High* |

(Kaynak: Hall and Soskice, 2009)

**The Nature of the Coordination: Apprenticeship System in Germany**

In coordinated economies the existing institutions tend to support each other for the collective efficacy. Aoki (1994) introduced the "institutional complementarities" concept in order to underline the importance and effective results of mutual interdependence among key institutions of an economy. For instance, in Germany, there is high interrelation between government, companies and workers. As mentioned above, because economic improvement highly depends on firms' comparative advantages, welfare states also foster employment and unemployment protection in order to convince the workforce to invest in firm specific skills (Estevez-Abe, Iversen, Soskice, 2001). As a consequence, for companies that focus on firm based skills oriented market strategies, employment and unemployment protection is crucial for being cost effective and competitive in globalised markets (Koike, 1994; Oashi and Tachibanaki, 1998; Mandel and Shalev, 2009)

Moreover, in Germany, there is a highly structured education system called apprenticeships which basically helps to channel German students into the internal labour market while helping companies to train their own firm specific future workers. Apprenticeships are a dual system which requires apprentices to receive training both from the firms and public vocational schools. This system not only enables the German students to gain both practical and theoretical skills but also enables successful students to easily settle in companies. The German school children invest in this system because it is the main pathway to enter internal skilled companies. What is more, if students are accepted by large German commercial companies, they will obtain considerably higher wages compared to the semi-skilled workforce. Besides, they will occupy skilled jobs for long tenures (Soskice, 1994).

Apprenticeships also provide benefits for the German companies which are included in this system. Firstly, the firms' production market strategies require specific firm skills. Hence, managers of these firms think that it is more advantageous to train students themselves so that successful students who match with company specific skill needs and the culture will remain in the company and work on related jobs (Soskice, 1994; Estevez-Abe et al., 2001). Moreover, the cost of training German students is compensated by the German government, students themselves and companies. Government provides the public education part and apprentices contribute thorough low admission salaries and companies pay for the company training (Soskice, 1994). As can be inferred, government institutions, unions, German students and companies work in cooperation for this apprenticeship system, and as a result of these mutual incentives, success of this system reflects in numbers. Indeed, statistics show that post apprenticeship retention rates, particularly in big companies, can go up to eighty percent (Buchterman, 1991).

However, the quality of apprenticeships is not at the same level in all sectors. Soskice (1994) divides sectors in Germany into two parts which are hand work and industrial/commercial sectors. The hand work sectors are constituted by small firms, such as restaurants, bakeries, garages etc. In such contexts most students have lower educational backgrounds compared to large firms in the institutional/commercial sectors. More to the point, statistics show that retention rates in hand work small companies are considerably lower than those industrial firms. Besides, some students tend to quit the sector and look for middle skilled jobs after apprenticeships. In other words, they are persuaded to work as secondary workers in big companies (Soskice, 1994). Thus, in light of these findings, it can be said that apprenticeships generate good results for large industrial companies and apprentices with good backgrounds. However, it is a question of whether the apprenticeship system works for every German student or company or industry.

**Gender Discirimination Issue Lurking Behind an Effective Coordination System**

In coordinated market economies mutually interrelated strong protection regimes, production market strategies and apprenticeships, besides providing competitive and comparative advantages, on the negative side can also cause inequalities. Varieties of capitalism perspective is particularly gender neutral. Therefore, the gender inequalities and differences are not considered in this approach.

As mentioned above, strong employment and unemployment protection reinforce potential workforce to invest in company specific skills and apprenticeship systems, and this works for the companies as well (Soskice,1994). However, according to Estevez-Abe (2006) this apprenticeship system is inconvenient for women since employers of the firms which are involved in this system are likely to be rational and cost focused. Moreover, they are biased against women because there is already an existing pool of successful male students; therefore, the tendency of preferring females for company training remains low. As for employers, employees who continuously invest in related specific skills are crucial and in the case of maternity leave, employees tend to avoid recruiting women for work for efficiency problems and high costs. In fact, rational decision making requires this because managers have to manage temporary workforce inactivity as a result of maternity leaves. Another management burden is to reintegrate the workers that return for work and it's also costly to find another temporary employee who has the same specific skills and implement the task for the time being (Estevez-Abe, 2006; Becker, 1993). Therefore, these breaks those women have to take when they are pregnant in specific skill focused economies caused segregation between male and female workforce (Mandel and Shalev, 2009).

What is more, varieties of capitalism identify Scandinavian and Continental Europe as common and do not predict the differences between such areas. Although both regional countries adopted the coordinated market economy, Scandinavian ones created a public service market to encourage women to work with generous maternity leave options. Such states also support women to allocate more time for paid work (Mandel and Shalev, 2009). As a result, compared to continental Europe countries, like Germany, in Scandinavian countries, women labour force participation is considerably higher. However, it should be noted that the business communities of both continental Europe and Scandinavian countries continue to subsidise women for the private sectors (Soskice, 2005).

Moreover, According to Iversen and his associates (2005), this firm specific product strategies of companies and their mutually reinforcing relationships with welfare states also have an effect on divorce rates. In other words, women's segregation is high and women tend to fulfil all the care and house work in general, especially in continental European countries, like Germany. Such conditions increase women's dependency on their husbands and they may find themselves in a situation where they have to maintain marriage no matter what living conditions are. Infact, statistics support the idea that in countries where economies depend on specific skills and fewer opportunities for women to work,

divorce rates are also lower compared to ones that have less gender discrimination (Iversen, Rosenbluth and Soskice, 2005).

On the other hand, in Scandinavian countries, where public services and generous working conditions are provided for women, divorce rates are higher. As a result, Iversen and his associates (2005) interpret that the public sector and supportive policies of government give women more bargaining equalities with their husbands.

In contrast, in liberal market economies where general skills matter, there is no economic condition to prevent women from working in both public and private sectors as markets are relatively easier to leave or get jobs (Estevez-Abe, 2006). Thus, labour force participation is higher in liberal market economies. In fact, in such economies women can more easily compete with men for higher wages and are less likely to encounter the glass ceiling syndrome. As a result, because liberal market economies are more performance oriented it can be said that these countries' conditions for skilled women are more generous compared to coordinated market economies (Mandel and Shalev, 2009).

However, this situation in liberal market economies does not mean that every woman is in a better situation and has better opportunities compared to Germany as a coordinated market economy (Soskice, 2005). Although as Hall and Soskice (2001) in their Varieties of Capitalism approach explain that in liberal market economies, such as the UK and USA, general skilled workers are often preferred by employers and as Estevez-Abe(2006) outlines, women in a better situation, they fail to consider class differences. In liberal market economies, companies provide opportunities to only skilled women in order to reach their high performance targets (Mandel and Shalev, 2009). Yet, because there is a low level of protection and family policies, women in liberal market economies have no chance to obtain external support for reconciling both paid and unpaid work. What is more, the conditions and wages of low skilled women are also not controlled and protected by the states. Therefore, liberal market can only offer this class to low paid and unsecured jobs (Mandel and Shalev, 2009).

On the other hand, in coordinated market economies, low skilled women are in a better situation. The states provide protection to these low skilled women through social policy if they are workers and family policy if they are mothers. Particularly in social Democratic coordinated market economies, reasonably paid jobs are provided by the public service sector dominated by the state (Mandel and Shalev, 2009).

To conclude, the purpose of this study is to examine the employment opportunities and threats presented by coordinated market economies such as Germany. From this angle, it is important to first unearth the advantages and

disadvantages of coordinated market economies compared to the liberal market economies. At this point, varieties of capitalism theory provides a solid basis to examine both capitalist approaches. As the focus of this work is on coordinated market economies, it is salient to examine the mutual relationships among the organs of such social systems. In particular, this study considers the apprenticeship system in Germany and signifies that this system emerged as a result of the effective coordination among the main actors of the social structure and it is the core competence of such a coordinated economy. However, this study also aims to critically underline the disturbing bias behind the dynamics of coordinated economies. In this respect, according to the varieties of capitalism approach, another plus feature of countries with coordinated market economies, such as Germany, is that they have higher levels of welfare protection and lower inequalities compared to liberal market economies. Yet, this approach was gender neutral therefore the real limitation of gender inequality is overlooked and there is a considerable discrimination problem that female workers face in such states. In fact, profit-seeking company owners generally tend to employ male workers rather than female ones to avoid incurring the costs of maternity leave in jobs that require firm specific skills and long term commitment. As a result, compared to liberal market economies, such problems reduce women's participation in the labour market, especially in the German economy.

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