

STRUCTURING STABILITY AND FLEXIBILITY
The German and American Political Economies since the 1870s

Colleen A. Dunlavy
University of Wisconsin-Madison

Abstract

The U.S. and German political economies raise intriguing questions about the sources of stability and flexibility. Today the two are often portrayed as polar opposites, the U.S. representing “liberal market economies,” in which firms rely on markets to mediate relations with employees, other firms, and providers of capital, and Germany exemplifying “coordinated market economies,” in which firms engage in more social coordination of those relations. This yields impressive flexibility in the U.S. and troublesome inflexibility in Germany, or, put the other way around, troublesome instability in the U.S. and impressive stability in Germany.

Yet, for decades, what seemed more salient were signs of convergence. The principal challengers to British industrial power in the late nineteenth century, American and German firms proved equally adept at dampening competition by means of collective action (to produce mergers in the U.S. and cartels in Germany). Through two world wars and economic depression, despite other, very substantial differences, American and German firms proved equals in developing the methods and structures of managerial capitalism. By the 1960s, the planning that seemed the hallmark of “modern capitalism” was going on in the U.S. and the Federal Republic of Germany (unlike in Britain and France) largely under the auspices of the private sector.

How is it, then, that the American and German political economies have come to seem so different in our time? This essay explores the structural underpinnings of stability and flexibility – highlighting familiar aspects of the two political economies whose very familiarity has obscured their significance. At issue are two differences in the U.S. and German policymaking structures. First, in the American federal structure, the state governments have retained control of enterprise policy (incorporation policy, in American English) throughout U.S. history, and competition among them produced a “race to the bottom” that gutted state regulation of corporations. This much is well known. What is less appreciated is the extent to which this interstate competition severely disabled the American “state,” reducing it to a one-armed regulator with only competition policy at its disposal. In the German federal structure, in contrast, enterprise and competition policy have been national matters since unification in 1871, and German policymaking power, consequently, has not been debilitated by interstate competition. The second is that the more coherent structure of the German state has encouraged greater stability by making policy reversals more difficult, while the fractures designed into the American state create multiple “avenues of redress” that make American policy perpetually unstable and subject to reversal (“flexible,” some would say). The history of co-determination in Germany, and its non-history in the U.S., illustrates the ways in which these structural differences have ultimately produced two very different political economies.