

Ideas, Institutions and Organized Capitalism: Germany, Europe
and 21st Century Path Dependent Economic Policy Models*

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Introduction

For much of the past two decades since unification, the literature on the German economy has largely focused on the erosion of the German form of organized capitalism, or Coordinated Market Economy (CME) and emphasized institutional decline and the corresponding rise of neo-liberalism. Yet, since 2008, the world-wide economic crisis has challenged the virtues of the apparent neo-liberal hegemony and perhaps opened up once again a debate regarding appropriate economic policy. Yet for all of the discussion of the apparent shortcomings of *Modell Deutschland* (which the first part of this paper will briefly review), most of this critical literature has focused on the demise of this postwar economic policy model. (Streeck 2009)

The second part of the paper takes a different focus and lays out the main rationale of the paper. It inquires why such a coordinated market economy was created in the first place and whether a renewed form of it might still be useful for Germany, the EU and other developed democracies in the early 21st century. Specifically, it argues that the formation of this CME not only in the postwar period but also during Germany's rapid industrialization in the late 19th century arose because an Anglo-American free market approach (often called a Liberal Market Economy, or LME) was insufficient for generating the economic growth and political development that each epoch required. It also argues that the creation of this CME policy regime was comprised of dynamic, flexible institutions and innovative ideas in the context of either state-building or state rebuilding.¹ With the sharp challenges that the crisis has confronted LME approaches, might there be opportunities for a revived CME?

¹ There is an active debate among scholars of path dependence and historical institutionalism concerning the origins and adaptation of institutions over time. Earlier literature in this wave emphasized exogenous

The third part of the paper process traces the origins of the institutional and ideational components of these CME approaches, during both the Bismarckian and Social Market Economy periods, using an historical institutional, path dependent framework. It also suggests that the context of state formation (Bismarck) and state reformation (the Federal Republic and Social Market Economy) were fundamental processes that made the institutions and ideas greater than the sum of the parts.

The final section of the paper inquires whether the failure of the contemporary LME approach in the wake of the worldwide financial collapse and severe recession represents a possible opening for the creation of a third CME not only for Germany but for a redesigned European Union. It outlines three possible scenarios: a renewed LME, in spite of its apparent demise; a hybrid LME-CME formation in which neither dominates but elements of both are clearly present; or a path that contains institutional and ideational elements recognizable from earlier CME models that would extend beyond Germany to other continental Western European countries and perhaps to the EU itself.

Before proceeding further, it's important to clarify terminology. Through significant portions of the postwar period, the German CME has been called *Modell Deutschland* (Markovits 1982; Kitschelt and Streeck 2004). As much as this term has been used, one thing is clear: economic policy “models” are characterizations of institutional arrangements that are only fully recognized after their creation, sometimes

factors and distinct visions of models of capitalism. Hall, P. A. and D. W. Soskice (2001). Varieties of Capitalism: The Institutional Foundations of Comparative Advantage. Oxford, UK ; New York, Oxford University Press. More recent scholarship Pierson, P. (2004). Politics in Time: History, Institutions, and Social Analysis Princeton, Princeton University Press, Thelen, K. (2004). How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States and Japan. New York, Cambridge University Press.; suggests that the process is slower, more endogenous, more incremental, and accompanied with unintended consequences. In general, Thelen's and Pierson's arguments have great merit. However, this paper will suggest that coupling literature on incremental change with literature on the power of ideas in the context of state formation may produce broader more transcendent perspectives.

many years thereafter. Since this paper is focusing primarily on the origins of Germany's CME experiences and only secondarily on their decline, it is more important to identify both the specific institutional and ideational components that shaped these two CMEs, as well as the processes with which they were formed. Thus, while the paper examines the origins of these two earlier periods, it will generally avoid using the term "model." As Thelen, and Streeck and Thelen (2004; 2005), respectively, have argued, the creation of these CME regimes was an iterative, experimental, trial-and-error process that owed much to the innovative capacities of the economic and political actors and the institutions they were creating. They also had unintended consequences, for example, being created to serve a specific purpose at one moment, only to serve a very different purpose as circumstances had changed and institutions had adapted. The point that this paper stresses in this context was that a more free-market LME was not a serious option as Germany industrialized in the late-19th or reindustrialized in the mid-20th centuries. Thus, what came to be recognized as a CME "model" was not visible from the outset of either period, but what all of these experiments shared is that they were not embarking on a laissez faire path. There was no "system designer" for this CME, but given the pressure to industrialize and develop politically in providing access to resources, markets, and capital, these material pressures forced forms of cooperation as the only way to industrialize rapidly since the LME option was off the table. To extent that Bismarck or Adenauer/Erhard "planned" these particular CME regimes, they were in the context of state formation and re-formation.

1. The Demise of *Modell Deutschland*

The litany of shortcomings of the postwar form of German organized capitalism is by now well known. Since the 1990s, the German economy has been beset with increasingly uncompetitive industries, persistent structural unemployment, and continued stagnation in eastern Germany. (Kitschelt and Streeck 2004; Dyson and Padgett 2006; Prasad 2006; Leaman 2009) In addition the large German banks, which for more than a century served as a guardian for dozens of German firms, began to sever their “*Hausbank*” relationships with large German firms in favor of focusing on global opportunities and global profits. (Deeg 1999; Vitols 2003) Within the formerly cooperative corporatist industrial relations system, we have seen for more than a decade German employers deserting their employer associations in favor of “going it alone” with negotiations among the unions. (Silvia 1997; Lehmbruch 2003; Thelen and Wijnbergen 2003; Kinderman 2005) In addition, the latter have fared poorly in the past two decades with the share of German workers in trade unions dropping by almost half, now representing less than 20% of the German workforce. (Dyson and Goetz 2003) Finally, the Social Democratic Party (SPD), once the exemplar of “capitalism with a human face” after its first years as the leading party in government in the 1970s, has recently turned to serious retrenchment in the form of the Hartz IV labor market reforms that victimized many of its own supporters during the Schröder governments of the early 2000s, only to lose control of government in the 2005 election. (Braunthal 2003; Camerra-Rowe 2004; Beck and Scherrer 2005; Allen 2009)

The inglorious end of Germany’s “model” organized capitalist economy came to be characterized as one comprised of cumbersome, limiting, sclerotic institutions incapable of adaptation and that only a turn to neo-liberal market approaches could pull

the German economy out of the doldrums. (Alesina and Giavazzi 2006) While the 2008 financial crisis and subsequent severe recession has clearly cut short the enthusiasm for neoliberal solutions both in Germany and elsewhere, the standard consensus still remains that the current version of the Germany's organized capitalist economy doesn't offer much promise.

2. Institutional Innovation, Visionary Ideas, & State (re)building

One can tell a great deal about the organization of a nation's economic policy by understanding the country's timing of industrialization and democratization. (Moore Jr 1966) Countries that industrialized early tended to have laissez-faire, free market economies that gradually evolved into the world's leading economies because their good fortune and path breaking industrialization allowed them to assume that they could have relatively easy access to natural resources, control of their markets and easy and plentiful capital. The UK and the US are the prime examples of this pattern. (Hartz 1955; Kemp 1985) Countries that industrialized later, such as Germany and Japan, faced a different set of choices. (Streeck and Yamamura 2001) Lacking ready and predictable access to resources, markets and capital, they needed to construct a different set of institutions if they were to catch up to the earlier industrializers. In short, they needed to construct an institutional configuration that: maximized efficient access and use of resources; targeted foreign markets since their own domestic markets were so underdeveloped; and allocated capital so that each investment had a high probability of success. Unlike the "trial and error" economies of the earlier industrializers, the later industrializers had much less margin for error.

Thus, with neither classical liberalism nor dirigisme (in the post-WWII period) possible what other option was there? The most likely alternative was one that organized and mobilized major producer groups via the framing guidance of the state. This was not an easy task. Rather than waiting for capitalism to slowly evolve as it had in the Anglo-American world, it needed to be “force-fed” quickly to take the most profitable paths. Thus in both the late-19th and mid-20th centuries, the state both encouraged and allowed large firms to form that had tight coordination with their financial partners. Resources had to be acquired and used efficiently, foreign markets had to be identified and targeted (since domestic demand in the early years of both models was quite underdeveloped), and capital investment had to have a high expectation of success. “Trial-and-error” capitalism was simply not sufficient enough or fast enough. And because production for domestic consumption was a second order priority, providing some sort of social protection for the majority of citizens who were not favored in these top-down CMEs was crucial. In essence, this was an “all eggs in one basket” set of economic policies – especially during the non-democratic Bismarckian era – that required the emphatic provision of social order. To be sure, the democratic Federal Republic, the prospect for dissent and social disturbance was less regime-threatening than it was during the late-19th and early 20th centuries.

In essence, to make this form of capitalism work at both the economic and political levels the founders of these two CMEs developed a conception of institutions that were both dynamic and flexible. Such a path was only possible with visionary ideas to imbue institutions with innovative, transformative policies. Theoretically, this is captured much more effectively by institutional characteristics closer to the views of

Hirschman (1970) than those of Olson (1965). Finally, what enabled these institutions and ideas to achieve and then transcend the very effective incremental adaptation at the beginning of these regimes was that the process of state formation and re-formation. This larger geopolitical perspective gave the respective sets of leaders a broader tableau upon which to make their case for these institutional and ideational innovations.

Most contemporary varieties of capitalism & comparative historical institutional scholars focus on the decline of these CMEs. To understand the synergy of ideas, institutions & state (re)building, this paper argues that we also need to see origins as well as decline of these organized capitalist regimes. It draws heavily on the major “historical institutionalist” and path dependence literature (Pierson 2004; Thelen 2004) that examine both the decline and the origins of such regimes. But the value-added to this project is connecting this institutional analysis to the literature on ideas (Hall 1989; Ziegler 1997; Berman 2001; Blyth 2002) and to selected literature on state formation. (Tilly 1975; Evans, Rueschemeyer et al. 1985; Maier 1987; Dobbin 1994; Eley 1996; Ertman 1997; Culpepper 2003; Mares 2003; Kitschelt and Streeck 2004; Ziblatt 2006; Tiberghien 2007)

Latecomers such as Germany – and other continental western European nations – needed to create a set of institutions that could accomplish economic and political development quickly (Gerschenkron 1989; Berman 2001) because following the gradual, evolutionary path of the UK and the US would have been disastrously insufficient, and ultimately too late. While Bismarck was able to use the state as an entrepreneur, (Tilly 1966) that option was not possible in the post WWII period due to the Nazis’ colossal abuse of state power. However, both epochs did share the use of a universal banking system (Deeg 2002; Fohlin 2007) and close coordination among major producer groups

(Chandler and Hikino 1990; Blackbourn and Evans 1991; Herrigel 1996) as significant entrepreneurial forces. They were called cartels in the 19th century and the more palatable *Verbände* in the mid-20th. The larger point here is that neither the universal banks nor organized German business were individually decisive. But together they anchored a set of economic policies that could industrialize – and re-industrialize quickly – and make maximum use of resources, target markets, and use capital efficiently. Not surprisingly, rapid economic transformation based upon industrial development and largely export-led growth did not offer much immediate benefit to ordinary Germans. Both Bismarck (Hicks 1999; Hennock 2007) and the “fathers” of the Social Market Economy, Konrad Adenauer and Ludwig Erhard, (Röpke 1960; Nicholls 1994; Spicka 2007) realized that such social dislocation required protective social policies. Such policies were not offered out of the goodness of the hearts of these leaders, rather they were preventive policies to minimize social tension and political opposition while the economy grew. Bismarck’s creation of the first social insurance schemes (while simultaneously banning the then revolutionary Social Democratic Party) was one mechanism. (Manow 2007) Another was the less draconian implementation of the Social Market Economy (Müller-Armack 1982) which provided the beginnings of the postwar German welfare state in Germany’s first stable democracy.

3a. Bismarck and the 1st Organized Capitalist Model

Unlike more open free-market oriented economic policy models that had few constraints in terms of resources, markets and capital, an organized capitalist or coordinated market economy is very much an “all eggs in one basket” phenomenon. To

make this work required people with visionary ideas to imbue these institutions (banks, firms, Verbände, works councils, unions, para-public service providers, etc) with innovative, transformative policies (Jackson 2001; Lehmbbruch 2001) that provided a total that was greater than the sum of the parts. Institutions may turn into inefficient Weberian bureaucracies when allowed to atrophy. But when imbued with a larger public purpose such as invigorating an economy when the usual market approaches are not available or when building or re-building a nation state, (Tilly 1975; Tilly 2005) in the right hands and with far-reaching vision, they can be much more dynamic than conventional wisdom holds. In fact we have the proof of the capacity of institutional transformation in the presence of Germany's largest banks (Deutsche, Dresdner, Commerz) and firms (Siemens, Daimler-Benz, BASF, Bayer), all of which have existed for over a century amidst periods of great turmoil.

What specifically were the institutions and the ideas and the state-building context that made these two epochs possible? During the latter half of the 19th century, first Prussia and then a united Germany created a universal banking (Pohl 1986) system (the idea borrowed from Louis Napoleon's *Credit Mobilier*) that focused on long term, targeted investment and worked closely with the dominant industries of the "second industrial revolution" (coal, steel, chemicals, machine tools, railroads, industrial electronics). This required large sums of money but the newly created firms in these sectors were unable to raise the funds themselves from the primitive stock markets of the time. By virtue of loans, ownership of company stock, holding proxies for the firms' shareholders, and having seats on the board of directors, the banks – aided by the Prussian and then German state – played a significant role in the industrial direction of

these firms.(Neuburger 1977) And by having deep pockets and a longer term horizon, thus knowing intimately the details of firm operations, this bank-firm relationship enabled these firms to establish their position in world markets. The *Verbände* (cartels at the time) were essential since the members of the cartel did not see themselves primarily as competitors of one another. (Feldenkirschen 1984) Rather they viewed their competition as principally other industries in other countries and the members' collaboration allowed them to maximize their respective strategies. Skilled labor was also increasingly important for most of these industries and these firms were able to build on the legacy of the guild system which produced workers of exceptionally high skills. (Thelen and Kume 2001; Thelen 2004) Finally, Bismarck used the state more as an architect rather than in a micro-managing interventionist way. It supervised and facilitated – but did not direct – the evolution of what was to be later called a “Modell”.

What were the visionary ideas that embodied these institutions? One was the “marriage of iron and rye” that Bismarck forged between the feudal Prussian lords (*Junker*) who needed a way to get their grain to market and the new money industrialists who needed cargo to transport on the new rail system. (Dunlavy 1994) The second was Bismarck's “iron fist in a velvet glove” that saw him first ban the SPD in 1878 but then initiate one of the SPD's major demands, namely the creation of a welfare system, in the 1880s. (Manow 1997; Manow 2007) When the SPD was made legal again in 1890, they were a much less revolutionary party.

This juncture of ideas and newly created institutions took place in a context of state building that made many of these actions possible. To be sure, this was not a stable foundation that Bismarck had built, as he had to rely on aggressive nationalism and

considerable political repression as major tools. This autocratic version of the organized capitalist model was economically and politically successful for a time, but it contained the seeds of its own destruction as World War I, Weimar, the Great Depression, and the Third Reich painfully show. But if Germany was to industrialize and unify in the 19th century, it is hard to see another viable path.

[extend and amplify decline and destruction of first model]

3b. The Social Market Economy: The 2nd Organized Capitalist Model

Many observers of contemporary Germany have seen the post WWII period as “*die Stunde Null*” and the 1949 founding of the Federal Republic as a sharp departure from all that had happened in Germany over the previous century. Politically this was true in the sense that the Federal Republic of Germany was the country’s first stable democracy. With respect to the postwar economy, one scholar suggests that the reason for the rapid growth in the mid-1950s was a legacy of the Nazi period. (Reich 1990) Yet, for those who looked closely at the foundational elements of the political economy of the FRG, there was an unmistakable continuity with the late 19th century. (Abelshauser 2005; Berghahn and Vitols 2006) The Allies’ original plan for Germany after the war as proposed by US Secretary of the Treasury Henry Morgenthau was to de-industrialize Germany and emphasize agriculture. However, the Cold War and imperatives to restore a functioning German economy trumped such fanciful concerns. Thus both public and private sector German actors chose familiar patterns of industrial organization to rebuild the country since a trial-and-error free market option was once again off the table. Since speed of industrial development was paramount, German banks and large German firms

adopted familiar organized patterns and universal banking, with its deep ties to larger German firms was quickly reestablished providing a stable and profitable link between finance and manufacturing. But since this form of organized capitalism took place under democratic auspices, other institutions re-emerged to act as a check on arbitrary power by the financial and manufacturing community. German unions expanded the concept of the earlier *Betriebsräte* (works councils) to establish a democratic corporatism in which labor played a much more prominent part than it did under Bismarck. The trade unions and their allies in both the SPD and the CDU/CSU agreed to *Mitbestimmung* (codetermination) which gave trade unions membership rights on the boards of all large German companies. (Eichengreen 2007) This second CME in Germany also saw a unique form of framework regulation (*Rahmenbedingungen*) which acted not like American-style regulation that tries to belatedly address specific market failures like a fire brigade; rather *Rahmenbedingungen* regulated the general rules of the game, more like an architect. (Dyson 1992) Significant examples of this were encouraging banks to maintain extra high capital adequacy reserves and vetting all of those who held responsible positions in the financial sector. These framing regulations proved crucial for the health of the economy since, once again, Germany was creating an “all eggs in one basket” set of institutions.

The visionary ideas that animated this second iteration of a coordinated market economy came from a group of economists who were collectively known as the Freiburg School. Acknowledging that a laissez-faire policy would not work in a country with no history of it, and that the use of the state as an entrepreneur had been fatally compromised by the Third Reich, the Freiburg School economists developed an economic theory of

ordoliberalism (Labrousse and Weisz 2001; Lehmbruch 2001; Manow 2001) that refused to frame economic policy as a stark choice between state and market that was most succinctly articulated by Wilhelm Röpke during the early years of the Social Market Economy:

“...(our program) consists of measures and institutions which impart to competition the framework, rules, and machinery of impartial supervision which a competitive system needs as much as any game or match if it is not to degenerate into a vulgar brawl. A genuine, equitable, and smoothly functioning competitive system can not in fact survive without a judicious moral and legal framework and without regular supervision of the conditions under which competition can take place pursuant to real efficiency principles. This presupposes mature economic discernment on the part of all responsible bodies and individuals and a strong impartial state...”(Röpke 1982)

The second visionary idea that emerged as a guiding principle of the Social Market Economy was a particular conception of innovation. In liberal market economies that celebrate the role of the individual, innovation is generally characterized by lone individuals or small firms discovering new products. But in coordinated market economies without this laissez-faire tradition, innovation came to be defined in very different ways. Rather than inventing new products, the large German firms would adapt inventions developed elsewhere and then integrate them into the production process and improve existing products that they already produced.(Hirschman 1970; Chandler, Hagström et al. 1998; Amable 2000; Culpepper 2003; Streeck and Thelen 2005) Perhaps that most obvious manifestation of this pattern is the long-running television commercials (shown in

the US) of the German chemical firm BASF that conclude: “We don’t make (product x); we make (product x) better.”

These renewed institutions and context specific ideas took place at a time when Germany could not function as a “normal” nation state and when many questioned its ability to “behave” as a democratic polity. The country’s ability to renew these economic institutions but frame them in a way that enhanced rather than retarded political democracy enabled Germany to emerge over succeeding decades as the economic, and eventually, the political lynchpin of Europe. To put this more directly, Germany’s “economic giant, political dwarf” period in the early years of the postwar period, allowed it to rebuild a German state that would be anchored solidly in a democratic Western Europe yet not project the centralized power that its neighbors feared for much of the previous half-century. By building a semi-sovereign (Mayntz and Scharpf 1975; Katzenstein 1987) federal state that diffused strong central power but still produced economic growth and political accountability, state re-formation provided an overarching context for the specific mix of ideas and institutions that produced the second variation of German CME.

The erosion of this second model of Germany’s organized capitalist economy did not go the way of the first, with a “bang”; rather it eroded more with a “whimper”. Ideas and institutions that were once congruent to specific purposes and needs do not always maintain their efficacy. In some cases they contain the seeds of their own destruction and, in their failure to adapt to changing conditions, can precipitate catastrophe. In other cases, at the time of German unification in the early 1990s, they erode slowly and almost imperceptibly. Without a conscious effort by the actors that inhabit these institutions to

find organizational and ideational renewal, a once coherent economic policy model can erode.

To be sure, at the beginning of the 1990s, Germany faced three exogenous shocks which contributed to the erosion of the efficacy of this second iteration of organized capitalism. The combination of accelerated globalization, the expansion of the EU with its neoliberal directives that whittled away the nationally-specific German coordinated market institutions, and finally the stresses of unification have been powerful forces that have challenged this CME.¹ There also were endogenous forces that eroded it. First, this particular set of institutions thrived in both epochs as one that was created to “catch up” with economic powers that were more advanced. Yet by the 1980s, Germany was seen as rivaling Japan as the two leading candidates to displace the US as the leading capitalist country. This did not come to pass, of course, but it raises the larger issue of whether a CME is still dynamic once it “catches up”. Part of the problem here is that while non-Germans could see and articulate how it worked, Germans themselves were remarkably reticent about touting it as an explicit model. But they were also complacent about assuming that their Social Market Economy would keep working, even though the Freiburg school economists whose ideas animated the model had long expired. This ambivalence prevented them from understanding how much a threat the neoliberalism of the Anglo-Americans in the 1980s, and later the EU itself, were a threat to Germany’s nationally specific economic and political institutions. In the 1990s and 2000s, much of

¹ German unification here is initially viewed as an exogenous shock, but it has now become endogenous. The European Union is viewed principally as an exogenous shock, even though Germany’s role as a founding member of the organization suggests an endogenous role. The point here is that the neoliberal ethos of the EU’s economic policy was very much at variance with that of Germany’s organized capitalism.

the architecture of this CME, while still physically present, had lost much of its original functionality; and more important the ideas that once animated it.

Economic policy models can erode in different ways: dramatically and catastrophically, as well as slowly and quietly. But what is similar in both forms of erosion is that the institutions that once were their foundation and the ideas that once animated them were no longer capable of responding to newer challenges.

[extend and amplify erosion of 2nd model + citations]

4. Towards a Third Organized Capitalist Model?

[extend and elaborate – citations]

One of the virtues of writing a paper that attempts to extrapolate from the past to the future is that it is very difficult to know what the outcome will be, thus leaving the writer somewhat “off the hook”. Perhaps, but if using frameworks that embrace historical institutionalism and path dependence, two schools of thought upon which the larger project of which this paper is drawn, are to be useful, there should be some reasonable expectation of a payoff. What this conclusion will offer are three scenarios that assess the likelihood of Germany and the EU developing a set of economic policies that bears some resemblance to the first two epochs articulated above.

4a)

The first scenario would hold that, for all of the financial crisis and attendant economic dislocation, the neoliberal agenda, particularly as instituted by the EU and apparently embraced by most European social democratic parties, has simply progressed

too far. Furthermore, this view would argue that the age of national models has passed and that globalization is just too powerful a force to allow for the social protections that the older models embodied. Together with the hyper mobility of both capital and labor, the erosion of the core organized capitalist institutions, “hard” laissez-faire policies and the role of the EU in eroding national sovereignty in both monetary and fiscal policy, it is easy to make the case that the easy “exit” from these institutions has destroyed the capacity for use of the “voice” necessary to rebuild them. But the great unknown in the wake of the international financial crisis and extremely serious recession that began in 2008 is whether these forces can dislodge the power of neoliberal forces within the EU and among many of the national governments of Europe.

4b.

The second scenario would see no dominant model emerge. Even now within Germany, one can see evidence of this trend. While the large German banks have “gone global” (to the recent consternation of some of them), many of the smaller regional and local banks still maintain a “*hausbank*” relationship with firms in their local regions. This second scenario would see a number of unfocused experiments with no coherent policy. In other words there would be regional and sectoral examples of both organized and laissez-faire economic policy models with neither becoming hegemonic in Europe.

4c.

Finally there could be a third scenario that would produce an organized capitalist model reminiscent in the spirit – but not the letter – of the first two models. Until the

economic crisis exploded in mid-2008, this was likely the least likely of the three scenarios. But let us step back and look at the conditions when these two earlier organized models in the late-19th and mid-20th centuries tended to thrive: when markets either were not available or had failed. We are now, once again, in one of these moments. When the essential features that are the core assumptions of liberal market economies (unfettered access to resources, markets and capital) are no longer easily attained, then neoliberalism looks far less hegemonic, or even attractive as an economic policy model. Among the questions that have not been asked during the neoliberal ascendancy of the last two decades are existential ones about the purpose of capitalism itself. Is capitalism concerned only with financial innovation for its own sake with little concern for the production of needed goods and services in the “real economy”? Is long term oriented investment, necessary for larger projects with slower expectations of profitability no longer important? Is human capital formation, essential for productivity growth, no longer seen as a collective good for all firms or is it proprietary for only those firms who can afford it at the moment? Is a functioning social welfare state that can soften the blow for those who are displaced by this economic transformation no longer necessary?

If these are important goals for modern 21st century developed economies, then adapting the spirit of earlier organized models might be of much greater use than continuing to press for a neoliberalism that has shown some extremely serious shortcomings at the end of the first decade of the 21st century and apparently offers no better options for the near future. But there is one large problem that a third generation of organized capitalist “model builders” must face: the age of national models in Europe is over. Any such construction would have to confront the redoubtable architecture of the

EU. In the late-80s “Europhoria” days, many Europeans believed that they could embrace the advantages of Europeanization without any serious consequences. But when increasingly neoliberal treaties and directives were adopted and individual nation states saw their sovereignty eroded in the form of reduced control over fiscal policy (the 3% mandate regarding deficit spending) and monetary policy (for those 16 countries that have joined the Eurozone), political power had clearly been transferred to Brussels without the possibility of return. If these policies are to be changed and a coordinated market economy is to replace it, Europeans would need to address the lack of political accountability that the EU has not yet addressed; namely a democratic polity and not just a market. This scenario is clearly a long term project, but if Europe wishes to avoid economic catastrophe and create a stable political environment, then there are clearly options that offer more promise than the neoliberalism that seems to be coming apart.

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