Divergent Constitution of Liberal Regimes: Comparison of the U.S. and German Automotive Supplier Markets

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This article investigates, based on in-depth interviews and mail surveys, the different ways liberal market regimes are constituted by looking at two small market societies, the U.S. and German automotive parts markets. In a situation in which neoliberal paradigm is being challenged and prior norms about contracts and contractual relations do not work either, this article explores how different conceptions of fairness and divergent market regimes are constituted. This article claims that divergent market regimes result from different kinds of problem-solving practices in a novel context among reflexive agents—public deliberation versus isolated dyadic deliberation of conflicts.

Keywords: *market regimes; fairness; U.S. and German automotive parts markets; norm-creation; civic public sphere*

In the so-called liberal era, the neoliberal paradigm is being challenged. Traditionally, liberalism paralleled the development of markets. But the recent changes in market relations reveal limitations of market liberalism. This article posits an alternative understanding of the manner in which liberal regimes are constituted, in other words, the manner in which new social norms and a stable liberal order are established.

The primary evidence for this article is personal interviews with main figures of the U.S. and German automotive parts markets. I also conducted interviews through e-mail. In the Notes section, "Interview with G" refers to interviews with a German supplier, while "Interview with A" refers to an interview with a U.S. supplier. "Email interview" refers to an interview conducted by e-mail.

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During the final two decades of the twentieth century, the domain of the market in society increased as state regulation continued to be discredited and hierarchical production systems were decentralized. In particular, as technology changed more rapidly and markets of end products became more volatile, existing mass producers began to disassemble their hierarchically integrated mass production and created more contracts with independent parts suppliers. Contrary to prevalent belief, however, the apparent revival of contracts has not involved the rejuvenation of a neoclassical market of discrete exchange based on anonymity. Instead, agents in the new supply markets pursue collaborative relations based on long-term contracts. The new form of long-term and closely interactive markets challenges the idea of neoliberal market governance. In addition, the emerging differences between the U.S. and German markets cannot be attributed to the continuity of prior norms about contracts and contractual relations but are rather created by different kinds of problem-solving practices in a novel context of division of labor.

This article asks: If the existing modes of market governance, such as liberal contract law and traditional norms, are less relevant, how are the new market relations constituted and, more importantly, sustained? How are stable and fair regimes of a liberal society constituted? How do new norms emerge? What explains the differences among emerging liberal regimes? Market rationality and market governance are not predetermined by the abstract, universally relevant market rationality or by justice. This article claims that market rationality and meaningful fairness in liberal society is continuously constituted in the process of deliberating and adjudicating conflicts. Divergent liberal regimes result from different manners of problem-solving practices in a novel context. This article investigates the different ways liberal societies are constituted by looking at the transformation of market practices in a single sector—the automotive industry—in two liberal societies.

To investigate the ways of creating social order in liberal societies, this article examines contractual relations in the American and German automotive parts markets. Liberalism has been the philosophy of civil society, expressed primarily in the contractual relations in market. Contracts and the law of contract in the market are, as legal theorist P. S. Atiyah says, "an instrument for the implementation of a basic moral principle that is itself a key feature of liberal theories of justice."[1] By looking at the governing problems of contractual relations inherent in the market, this article reveals drawbacks of the existing neoliberal paradigm and posits an alternative for a theory of dynamic liberal order. The argument focuses on the automobile industry not only because it has a large impact on each nation's economy but, more importantly, because it clearly shows the transformation from a traditional neoclassical market to a new form of long-term, collaborative markets.[2] Germany and the United States were selected for this study because they are both liberal market societies with very strong automobile industries. Furthermore, the

orders created by the new long-term and collaborative markets differ significantly in America and Germany.

The primary empirical methodology of this article is in-depth interviews for qualitative data and postal surveys for quantitative data in the American and German automotive industry sectors. Personal interviews were conducted from 1999 to 2001 with key figures in the U.S. and German automotive sectors, such as automakers, suppliers, associations, and regional governments. Through the entire process of field research, I conducted forty-five personal interviews in the U.S. market and sixty-two interviews in Germany. Most of these discussions were with supplier companies. The in-depth personal interviews were supplemented by interviews conducted via e-mail. I conducted the e-mail interviews with seventy-one automotive suppliers, five trade associations, and one legal association in the United States; e-mail interviews were also conducted with eighteen suppliers and two associations in Germany. I also conducted a mail survey for quantitative data, based on the most popular directories of American and German automotive parts suppliers that are mainly first- or second-tier suppliers.[3] I received 173 relevant answers from the U.S. automotive suppliers (a response rate of 15 percent) and 147 relevant answers from German counterparts (a response rate of 18 percent).

This article endeavors to explain the dynamic process of norm creation, resulting in divergent market regimes in the U.S. and German automotive parts markets. This article first reviews prevalent ideas of market societies; it then investigates the extent to which newly emerging markets in both the United States and Germany depart commonly from the neoliberal market paradigm. Yet the cases in the two countries also diverge in the manner in which fairness and social order for legitimate governance of liberal societies are constituted. The differences between these two markets in the matter of market governance and the causes for these differences will be examined. Finally, this article tries to conceptualize the constitution of market regimes based on the empirical findings.

PREVALENT PARADIGMS OF THE MARKET

Three main paradigms dominate the debate on market regimes. Each contains a specific view of how markets actually function and the grounds for the normative evaluation of the fairness of these institutions. The neoliberal paradigm emphasizes universal relevance of market rationality and a strictly market-based concept of justice; power theorists argue that market processes are inherently structured around power inequalities and conflict and that since justice requires at least rough equality of power, justice is generally absent from market processes; institutionalists focus on conventions and cultural heritages, as both shaping the way markets work and their norms of fairness. Before launching the empirical investigation, this section briefly explores prevalent theoretical views on market societies.

In the 1980s and 1990s, neoliberalism (or market liberalism) gained ascendancy by emphasizing the failure of hierarchical governance, specifically discrediting the Keynesian welfare state and exposing the problem of hierarchical corporate governance. As hierarchical governance of state or vertically integrated corporation was discredited, neoliberals proposed markets as an alternative to hierarchies.[4] In particular, citing the success of the American liberal economy and the recession of so-called institutional economies such as Germany and Japan in the 1990s, market liberals argue that national economies will converge toward a liberal market in imitation of the United States.[5]

The market that the neoliberals assume refers to the neoclassical market, characterized by snapshot contracts, easy changes of partners by vigorous pursuit of self-interests, and impersonal and anonymous relations.[6] The neoliberal governance of market society is based on the assumption that high mobility of recontracting for self-interest maximization in so-called perfect competition is most efficient. The weaker are the social constraints such as customs and political regulation, the more efficient the market becomes. Therefore, politics and morality should only minimally intrude on market processes. Justice in the neoclassical market is derived from "natural reason"; thus, so long as one has a well-functioning market, its outcomes will necessarily be just. Recently, the neoliberals of comparative legal systems argue that legal systems of nation-states are converging due to the development of the market.[7] Based on the universal rationality of the neoclassical market, the market liberals expect that national societies will converge toward the neoliberal market regime.

However, the replacement of hierarchies by markets does not confirm the rejuvenation of market liberalism, as will be highlighted later in this article. First, the newly emerging markets in the 1980s and 1990s challenged the neoclassical market. In the new form of market relations, agents make long-term contracts rather than choosing short-term mobility and emphasize close and cooperative relations instead of arms'-length bargaining based on the anonymity principle. Furthermore, market regimes are not converging, as this article will show. In facing novel problems, the U.S. and German markets created divergent regimes of market governance through conflict-laden politics.

Meanwhile, power approaches contest the neoliberal paradigm of universal justice and market rationality. The scholars of power approaches regard contracts as a representation of asymmetrical power relations in which the weak parties are dominated by the powerful. For example, power theorists like Sauer, Bieber, Bennett Jr., and Semlinger argue that the recently developed long-term contractual relations between automakers and suppliers resulted in the automakers' domination and fundamental injustice, a development that proves there is no justice in market societies.[8] The contract law and shared norms are not relevant in correcting the injustice of contractual relations. The solution to these power approaches is that the relations should be transformed into more egalitarian ones or, as

Bennett argues, that a court or state should intervene in the market to reverse the domination.

Although power approaches correctly point out the conflicts in markets, they fail to explain why a new form of market emerges, how differently authorities are distributed and justified in the diverse forms of markets, and why some markets develop fair partnerships while others do not, as shall be highlighted later. Market regimes are tremendously different in the sense of how an authority is legitimated and on what basis it is justified. The way of exercising power is continuously constrained and guided by shared rules that agents can create by adjusting their different ideas of rationality and fair norms.

In the sense that particular institutions and norms influence the constitution of different market regimes, this article is basically in agreement with institutionalism. Norms and institutions not only constrain agents' interests but also provide agents with a repertoire that can be used in searching for solutions. This article will focus on different traditions that facilitate different ways of deliberation and thus generate divergent market regimes. Nevertheless, this article has some distance from "rigid" institutionalism that ignores agents' active reflectivity.[9] Many rigid institutionalists in the debate on so-called lean production expected that the national pattern of American economy, that of short-term contract and high vertical integration, would not adopt the Japanese-style lean production and closely interactive, long-term contractual relations due to particular norms and institutions such as liberal contract law and fluidity of financial system. Germans were also expected not to adopt Japanese-style cross-functional team structure due to their traditional craft-system heritage.[10]

However, the U.S. and German markets have undergone tremendous changes contrary to the expectation of rigid institutionalism. Agents in the U.S. and German markets adopted similar new forms of long-term and closely interactive market relations, reflecting on the drawbacks of their traditional markets and production systems. Contrary to theorists of comparative institutional advantages, Americans have developed new institutional arrangements of social networks and training systems instead of passively retaining their free-market institutions.[11] Contrary to the claims of rigid institutionalists, prior norms about contracts and contractual relations were reconsidered and changed by agents in the U.S. and German markets. This article differs from some rigid institutionalism in arguing that prior norms and institutional arrangements were not unreflective. The divergent consequences of market regimes are mainly due to differences in organizing discourse among reflexive agents. This article will focus on norms about deliberation and norm creation, instead of prior norms about contracts and contractual relations as such, to explain divergent constitution of market regimes. The repertoire of norms about norm creation, rather than norms about contracts and contractual relations, influences the manner of agents' deliberation, which in turn generates different market regimes. In Germany, a tradition of self-governance by

associations facilitated the initiation of public deliberation in a novel context of conflicts, while in the United States, individual and dyadic deliberation rooted in a strong tradition of "utilitarian liberalism" failed to establish a fair and trustful regime.

NEW MARKETS AND NEW PROBLEMS

In the past two decades of the twentieth century, Western manufacturers, particularly automakers, restructured their production and market relations against the background of the high wave of international competition and apparent success of the Japanese automobile industry. Just as Fordism in the early twentieth century had significant effects not only on way of production but also on an entire society, so-called lean production or "Toyotaism" has contributed to the reorganization of societies by affecting the old division of labor. This section analyzes why market relations—in contrast to vertical integration—became increasingly prevalent in both the United States and Germany in the 1980s and 1990s; it highlights to what extent the new form of markets in the United States and Germany both depart from the neoliberal paradigm.

Most industrial experts agree that the trend of the creation of contractual relations through de-integration of existing vertically integrated in-house production marks a meaningful change. From the perspective of transaction costs, high vertical integration was a rational approach. But as technology changed rapidly and the market of end products became volatile, rigid hierarchical governance under vertical integration became suboptimal. American and German automakers disassembled their existing vertical integration, reversing the trend of vertical integration initiated in the early decades of the twentieth century. Throughout the 1990s, for instance, GM reduced their vertical integration from about 70 percent in the late 1980s to 47 percent in 1993, liquidating their parts-making operations; Ford from about 50 percent in 1988 to 38 percent in 1993; and Chrysler from about 40 percent in 1983 to 34 percent in 1993.[12] German automakers also contracted out more for parts production, increasing the outsourcing on average from 32 percent in 1985 to 62.2 percent in 1993 and 70.7 percent in 1999. First-tier suppliers also increased contracting out for parts production from 40 percent in 1980 to 70 percent in 2000, on average.[13]

But this apparent revival of contractual relations does not confirm the neoclassical paradigm. Agents in the U.S. and German automotive parts markets reorganized their contractual relations, in ways quite different from the neoclassical market model: instead of short-term contracts, they made long-term contracts. Agents in the new form of market emphasized close cooperation instead of anonymous relations. From the perspective of easy re-contracting, short-term contracts might be rational, whereas from the perspective of collaborative application engineering, they become suboptimal. From the perspective of transaction costs, standardization might be optimal, whereas from the perspective of rapid innovation, it

becomes burdensome. The nature of market rationality is thus neither universal nor apparent. Market rationality is contextualized by the rationality of the division of labor and contested by different perspectives. The next step delves into how the newly emerging markets in the United States and Germany differ from the neoclassical market and how they departed from their traditional markets.

The traditional markets in both the United States and Germany closely followed the rationality of mass production. Although mass production seemed to contradict the free-market model held by neoclassical economists insofar as it encouraged vertical integration of large corporations (thus reducing the scope of market exchanges), the market remaining after vertical integration in the historical period of mass production resembled the neoclassical market in a number of important respects. The ideal type of neoclassical market assumes the homogeneity of products in the industry to facilitate an easy switch between contracting partners. Standardization of products and the simplification of tasks because of mass production indeed paralleled central features of the neoclassical market.

In the United States, the traditional automobile parts markets were reshaped with the initiation of mass production in the 1910s and 1920s.[14] To realize a stable process of mass production, American automakers internalized the production of specialized components but left the simple and standardized parts to independent vendors in the market. Due to the fear of suppliers' opportunism and the possibility of disruption in the smooth flow of the production process, automakers broke down each system into small, simple parts and developed detailed specifications after internalizing the development capacity. Standardization in mass production made the commodities more homogeneous and enabled agents to easily change partners, as the neoclassical paradigm holds. Because they did not need to worry about the exploitation of suppliers' specialties, automakers easily switched vendors simply based on the index of prices.

German market relations during the first period of adoption to mass production, which intensified after the Second World War, also took the form of distant neoclassical markets, although the process in Germany did not mirror the American counterpart.[15] Due to the strong legacy of their craft system, German workers did not undergo as much Tayloristic de-skilling as their American counterparts. The German model, termed "diversified quality production (DQP)," "a variant of Taylorism," or "flexible specialization," realized more flexible production through skilled workers' fast retooling and incremental innovation than did the American model.[16] Strong small- and medium-sized companies (*Mittelständler*) also contributed to the flexibility of the German production system.

Still, in spite of their flexible production relative to American strict mass producers, German markets were also short-term and distant contractual relations. German automakers internalized parts production and development capacity as they adopted more or less mass production after the Second World War. German suppliers did not have such development capacity in most cases. Although they

were production specialists involving highly skilled workers, German automotive parts suppliers followed customers' detailed specifications. The feedback information by suppliers to automakers was neither systematic nor regular. German suppliers were excluded from the automakers' development processes. Most suppliers were a kind of buffer zone (*Verlängerte Werkbank*) that absorbed the shocks of business cycle. Like American customers, German automakers could easily switch contracts carrying the customer-developed blueprints.[17]

In the context of the reconsideration of the liabilities of mass production, in particular in a situation in which the international competition became tougher, Americans and Germans began to reorganize their market relations and production systems in the mid-1980s. The fundamental organizational changes in the United States and Germany reversed the extreme separation between conception and execution, which was a feature of the rationality of mass production. In the lean production system, workers in a company and suppliers constitute a team in which they integrate various jobs by closely interacting with one another. For example, on the shop floor, workers integrate separate jobs in a team, such as assembling and quality management. In a similar fashion, suppliers also work with customers, sharing their specialties to improve quality management and develop new products. In application engineering, customers and suppliers work together to reduce costs.[18] These closely interactive relations, from early development to delivery stage, differ sharply from distant, non-information-sharing relations of traditional markets.

Contrary to rigid institutionalists' initial expectations, American automakers began to restructure their mass production systems based on their recession and international comparisons of automotive industries. German automakers also undertook similar reorganization, reflecting on the fact that existing professional specialization was not sufficient to compete with Japanese and American lean producers. Many international studies in the early 1990s revealed that the German flexible system turned out to be more rigid than that of the new lean producers and that customer-supplier relations in Germany were if anything *less* cooperative than that of American lean producers.[19] The strict professional specialization, which had been main source of strength in German production compared with mass production until the 1980s, turned out to deter more flexible collaboration between different functions as well as between customers and suppliers.[20] The functional department-oriented structure of German companies caused delay in the time a product took to reach the market, and it raised huge costs from double engineering. However, through the crisis in the first half of 1990s, German agents reflected on the traditional culture of narrow-minded specialties and established the new flexible system of cross-functional teamwork and collaborative interactions.

The new form of closely interactive markets with long-term relational contracting, which both the U.S. and German markets adopted, contradicts the

neoliberal paradigm based on the neoclassical market. First, unlike the situation in neoclassical distant markets, suppliers in both the U.S. and German markets shared much information with their customers from the early stages of development. In the 1980s, about 81 percent of U.S. suppliers received detailed drawings developed by customers.[21] But at the end of 1990s, according to my mail survey, only 15 percent of American suppliers simply received the final drawing, as had been traditional. Likewise, a majority of suppliers (79 percent) in Germany are currently actively involved in the early stages of development, which was rare in the German traditional markets. Many empirical studies confirm the trend of closely interactive collaboration between customers and suppliers.[22] For example, according to an extensive international survey of automotive suppliers conducted by Sako, Lamming, and Helper, the proportion of suppliers that provide customers with detailed information on their production has increased from 1989-90 to 1993-94 in almost all Western countries: from 50 percent to 80 percent in the United States, from 51 percent to 90 percent in the United Kingdom, and from 42 percent to 69 percent in the rest of Europe. Only in Japan, where the level was already high, was there no change (81 percent in 1989-90 and 80 percent in 1993-94).

In addition, long-term contracts began to prevail in order to realize the efficiency gains of collaborative markets. To encourage suppliers' relation-specific investment and to realize application engineering, customers offer suppliers long-term contracts. For example, in the 1970s, about 99 percent of American automotive parts markets were short term, with less than one-year contracts.[23] German markets were not markedly different from their American counterparts. In German markets, 88.4 percent of contracts in 1973 were less than one-year contracts, 81 percent in 1982, and 81.2 percent in 1988. These statistics are contrary to the rigid institutionalist description of German contracts as long term due to regulatory law and courts.[24] However, as Table 1 shows, the recent development of long-term contracts in both the U.S. and German automotive parts markets departs from the traditional pattern of short-term contracts that lasted until the late 1980s. Until the late 1980s, almost all contracts were for less than one year, whereas at the end of 1990s, about 62 percent of American contracts and 68 percent of German contracts were multiyear ones; many contracts in the United States (26 percent) and in Germany (44 percent) are for more than 5 years.

Another characteristic of the new market is the reduction of the number of vendors. As automakers tried to develop close relationships with suppliers in order to realize collaborative engineering, they reduced the number of direct suppliers. For example, Ford reduced the number of suppliers from about 700 for the 1994 Tempo and Mercury Topaz to only 227 for their successors, the 1995 Contour and Mercury Mystique. Until the late 1970s, six to eight suppliers offered similar products in the U.S. automotive parts market. The number of competitors for similar products, on average, fell from 2 in 1984 to 1.5 suppliers in the U.S. automo-

Table 1
Length of Contract in the United States and Germany (in percentages)

Length of Contract	United States (*n* = 172)	Germany (*n* = 144)
Less than 1 year	38	33
2 to 3 years	36	24
4 to 6 years	24	38
More than 7 years	2	6

Source: Author's own survey conducted in 1999-2000.

tive parts market.[25] German automotive parts market also followed the same trend. For example, Volkswagen (VW) has reduced the number of suppliers from 2,500 in 1989 to 1,500 in 1993, Audi from 1,100 in 1989 to 900 in 1993, and BMW from 1,000 in 1989 to 900 in 1993.[26] This trend of reduction of vendors sharply departs from the traditional, neoclassical markets in which severe competition among numerous vendors was believed to maximize efficiency.

As a result, these commonalties in the U.S. and German markets do not confirm the neoliberal paradigm based on the neoclassical market. To the contrary, the similar markets in both the United States and Germany challenge the neoliberal paradigm. Neoliberal devices to control opportunism, such as the threat of exit and liberal contract law, do not work well. For example, in long-term and mutually committed contracts, it is not so easy to change contract partners as the neoclassical economists assume.[27] In addition, liberal contract law based on the neoclassical market has difficulty governing incomplete long-term contracts. Liberal contract law defines a contract as a promise in a model of bargaining. In liberal contract law, all promises are not enforceable; only the "perfect contract" in the "perfect competition" is strictly enforceable. The perfect contact assumes almost perfect information, which enables contractors to present a future situation.[28] This assumption of perfect information might have little problem in snapshot transactions of perfect competition. But as the term of contract becomes longer, perfect information hardly works because contractors have difficulty in predicting the fluctuating situation during the long-terms of the contracts. Clearly specified prices in short-term contracts of the traditional markets were easy to observe. An empirical survey shows that 98.8 percent of traditional, short-term contracts were not transgressed.[29] By contrast, in recent long-term contracts, there are many complaints of insecurity of price and volume. A supplier compares the past contracts with recent long-term ones: "In the past, agreements were very clear and customers kept the contracts. But recently agreements are not so clear and customers change their promise easily. In the past, say 1980s, contracts kept clear contents."[30] In long-term contracts, costs, prices, and volume are hard to predict for several years because of technological and design changes as well as volatility of end-product market. The gap between current presentation and real condi-

tions in the future is too large for liberal contract law to fill. The new form of markets does not confirm the neoliberal paradigm but challenges it.

One might expect that although liberal contract law does not work, long-term contracts can solve opportunism by generating trust between contractors.[31] Actually, many industrial legalists and industrial experts believe that long-term contracts generate trust. But long-term contracts do not automatically generate trust. Long-term contracts are plagued by opportunism because the powerful party can easily take advantage of incomplete and unclear items within the contracts. This is why many suppliers needed fair norms in both the U.S. and German automotive parts markets. The new form of long-term and collaborative markets generated new problems for governance due to the unclear and incomplete terms of the contracts, which left room for new divergence, as will be highlighted in the next section.

DIVERGENT LIBERAL REGIMES

The similar form of markets, which the U.S. and German markets took on in the 1990s, leaves room for new divergence due to their incomplete and unclear governance. Even in the closely interactive and long-term markets, the American automotive parts market still suffers from rancorous conflicts and distrust, while the German market has successfully established "trustful and fair partnerships." One possible explanation of these different outcomes might be that they simply reflect long-standing cultural differences in norms about appropriate contract behavior and market practices. I will argue against this view. These divergent patterns of market governance are not predetermined by prior norms about contracts and contractual relations. On the contrary, fair norms and partnerships have been newly created, and the divergent market regimes come from the different ways of deliberating about norms and mutual adjustments, or what might be called *norms about the creation of norms*. This section investigates first how the U.S. and German markets differ in governance of market relations and then examines what causes the differences.

Differences in Market Governance

Before delving into the explanations of differences of market governance between the U.S. and German automotive parts markets, one must clarify in what dimension they differ and why fair norms matter. To better understand the differences of market regimes, this article differentiates between *forms of markets* (short-term, distant market vs. long-term, interactive market) and *governance of relationships* (adversarial vs. trustful relationships). In this sense, this article contradicts the prevalent but false dichotomy between short-term, distrustful relations and long-term, trustful relations. The prevalent belief in the analysis of markets is that the long-term and collaborative form of market is trustful while short-

Table 2
Four Types of Market Settings

Forms of Markets	Governance Relationships	
	Adversarial	Trustful
Short term	Neoclassical competitive markets	Normatively regulated conventional markets
Long term	Liberal utilitarian collaborative markets	Publicly mediated collaborative markets

term contractual relations are adversarial or distrustful. These are the two diagonal cells in Table 2. But even the traditional forms of markets based on short-term contracts were not always plagued by distrust. Trustful relationships could exist even in the form of short-term and not-so-closely-interactive (distant) contractual relations.[32] In contrast, the form of long-term and collaborative (or closely interactive) markets does not automatically generate trustful relationships. On the contrary, agents have more risks to consider, such as confidentiality of information. The closer the relations are, the higher the risks of hurting one another. Many suppliers, in interviews with me, complained that they had more difficulty governing the relationships of the collaborative markets than they did the simple relationships of old distant markets—for example, "customers want to know too much," "partners abuse my know-how that I gave for collaborative works," "customers revise the price and volume arbitrarily," and the like.

As long-term and collaborative markets develop, the market governance often becomes unclear and unstable. In a situation in which existing devices of market governance, such as liberal contract law and traditional norms, have difficulty governing new problems, agents need to build "more formalized rules or ethical standards to govern these new and developing relationships."[33] In particular, fair rules and stable governance become more important in a situation in which unfairness and distrust cause economic pathologies. For example, even the same suppliers perform differently according to the relationships in the market. According to Liker and Wu's research, the ninety-one U.S. suppliers perform better when they work with Japanese customers than with U.S. customers. Customers' unfairness and distrust deter the collaborative relations from working well.[34] In this dimension of the governance of long-term and collaborative contractual relations, American and German markets differ from each other. The next step is to investigate how different the U.S. and German automotive parts markets are in the establishment of stable relationships.

To estimate the levels of trust and fairness in the U.S. and German automotive parts markets, I conducted mail surveys. Because the same questionnaires, proofread by native Americans and Germans, were sent to all suppliers in the well-known directories in each country and all responses are based on voluntary partic-

ipation, there is little possibility for bias caused by favorable selection in comparison between two countries. There might be bias between respondents and nonparticipants in the survey. However, the nonresponse bias is not significantly large, considering that the test for nonresponse bias shows no significance at any variable, based on comparison between the responses of the first comprehensive survey and the responses at the second follow-up survey—at the significance level of .1.[35] Furthermore, many other empirical studies in each country confirm my findings. My intensive and extensive personal and e-mail interviews—with 110 American suppliers and 74 German suppliers—also confirm the result of the mail survey: that Americans in the market suffer from distrust and unfairness while Germans have substantively improved their relationships.

To estimate the levels of fairness and trust in the U.S. and German automotive parts markets, participants in the survey were asked to evaluate each statement with five categories of Likert-type scales: *strongly agree* = 2, *agree* = 1, *neither agree nor disagree* = 0, *disagree* = –1, *strongly disagree* = –2.[36]

First, I estimated two indices of trust. In a collaborative market, a supplier and a customer are required to share much information. In many cases, however, they seem to share their information while actually hiding it due to the fear that a trading partner might take advantage of their information. In the survey, participants evaluated the sentence, "Given the chance, our customers might try to take unfair advantage of our business" (item 1 in Table 3). A majority of Americans agreed or strongly agreed that their customers might take unfair advantage of their business, while a majority of Germans disagreed or strongly disagreed with this statement (the difference between countries is significant at the $p < .001$ level). American suppliers worry significantly that their customers might abuse their information and know-how if the chance arises, whereas German suppliers are less likely to believe this might happen.

Another question inquired about the openness and transparency of the information exchange. Participants evaluated the sentence, "We believe that the exchange of information between our firm and customers is open and transparent" (item 2, Table 3).

As the distribution of responses shows, a small portion of Americans (22.5 percent) agreed that their relationships are open and transparent, whereas a majority of Germans (59.2 percent) agreed that their information exchange is open and transparent (the countries differ at the $p < .001$ significance level). This test shows clearly that American suppliers worry about exchanging information with their customers, whereas Germans show high levels of trust in the exchange of information with their customers.

As many suppliers revealed in my interviews and former researchers in the automotive supplier markets hold, shared norms of fairness are key factors for the development of trustful relations.[37] To assess different regimes of long-term and collaborative markets, I assessed several indices of fairness in a formal as well as a

Table 3
Comparison of Trust and Fairness in the United States and Germany

Question	Distribution of Responses (in percentages)					Mean	Significance of Mean (difference from 0)	Significance of Difference of Means in United States and Germany
	Strongly Agree (2)	Agree (1)	Neither (0)	Disagree (–1)	Strongly Disagree (–2)			
1. *Possibility for customer abuse*: "Given the chance, our customers might try to take unfair advantage of our business."								
United States	13.9	46.8	18.5	15.6	5.2	0.49	$p < .001$	$p < .001$
Germany	3.4	12.2	33.3	38.1	12.9	–0.45	$p < .001$	
2. *Openness and transparency*: "We believe that the exchange of information between our firm and customers is open and transparent."								
United States	5.2	17.3	30.6	42.8	4.0	–0.23	$p = .002$	$p < .001$
Germany	10.2	49.0	29.9	9.5	1.4	0.57	$p < .001$	
3. *Violation of confidentiality*: "If we give information of our product and production to our customers in collaborative work, our customers often transfer it our competitors in order to increase competition and reduce price."								
United States	9.8	38.2	20.8	24.3	6.9	0.20	$p = .023$	$p < .001$
Germany	4.1	14.3	32.7	36.1	12.9	–0.39	$p < .001$	
4. *Abuse of information*: "Our customers often use the information we give to check up on us rather than to solve problems."								
United States	9.2	43.9	19.7	24.9	2.3	0.33	$p < .001$	$p < .001$
Germany	4.1	17.0	34.7	36.7	7.5	–0.27	$p < .001$	

5. *Disregarding contracts*: "Our customers disregard the contract and move to another supplier when a favorable alternative in market emerges."								
United States	11.1	18.7	29.2	33.3	7.6	–0.08	$p = .379$	$p < .001$
Germany	3.4	13.6	21.8	48.3	12.9	–0.54	$p < .001$	
6a. *Supplier to customer information exchange*: "We believe that our firm gives to our customers new ideas for improvement of quality and reduction of costs."								
United States	32.9	54.9	10.4	1.7	0.0	1.19	$p < .001$	
Germany	30.6	56.5	12.2	0.7	0.0	1.17	$p < .001$	
6b. *Customer to supplier information exchange*: "We believe that our customers give our firm new ideas for improvement of quality and reduction of costs."								
United States	6.9	19.7	40.5	28.3	4.6	–0.04	$p = .585$	
Germany	2.7	38.1	41.5	15.6	2.0	0.24	$p < .001$	
6c. *Asymmetry of information exchange* (mean of 6a – mean of 6b)								
United States						1.23		$p < .001$
Germany						0.93		
7. *Price pressure*: "Our customers press the price to the degree of 'zero-profit' or 'minus-profit' without considering the cost-conditions of suppliers or without considering the conditions of our production."								
United States	21.4	35.3	25.4	14.5	3.5	0.57	$p < .001$	$p < .001$
Germany	11.6	23.1	35.4	25.9	4.1	0.12	$p = .161$	
8. *General appreciation of fairness*: "We believe that our relations with customers are fair."								
United States	7.6	44.2	34.9	10.5	2.9	0.43	$p < .001$	$p < .001$
Germany	13.7	52.7	29.5	4.1	0.0	0.76	$p < .001$	

Source: Author's own survey conducted in 1999-2000.

substantive sense. I asked first about the issue of confidentiality. Powerful customers often transfer the information that suppliers provide for the collaborative works to the suppliers' competitors to increase competition. First, the participants in the United States and Germany evaluated the sentence, "If we give information of our product and production to our customers in collaborative work, our customers often transfer it to our competitors in order to increase competition and reduce the price" (item 3, Table 3). A total of 48 percent of the American suppliers but only 28 percent of the Germans feel that they face this risk (difference significant at the $p < .001$ level). The fact that German suppliers have more trust and more transparency in the information exchange than Americans is closely related to the fact that German suppliers are less likely to experience their customers' violation of confidentiality than their American counterparts.

Suppliers also evaluated the sentence, "Our customers often use the information we give to check up on us rather than to solve problems" (item 4, Table 3). A majority of Americans (53.1 percent) agreed that customers abused suppliers' information, while only a small portion of Germans (21.1 percent) agreed with the statement (difference between countries significant at the $p < .001$ level). In an e-mail interview, an American supplier said that "customers use the information provided as a stick to beat us with; so we are careful not to give the customers a very large stick."[38] None of the Germans interviewed made similar comments. The results of this survey suggest that German markets are fair while American counterparts suffer from unfairness.

Another index for fairness is the frequency of switching contracts. This might not be unfair at all in the neoclassical market; on the contrary, easy re-contracting itself is an ideal type of neoclassical market. But it can be a problem in long-term and collaborative markets. In long-term and collaborative markets, it is unfair that a customer revises a given contract unilaterally. In particular, after a customer has requested that a supplier make an abundance of investments in development and production for collaborative works by offering long-term contracts, it would be unfair for the customer to give the business to another supplier who offered a lower price or to dictate another price cut by threatening to move business or reduce expected volume unilaterally.

In the mail survey, suppliers evaluated the sentence, "Our customers disregard the contract and move to another supplier when a favorable alternative in market emerges" (item 5, Table 3). Again, the two regimes of American and German long-term and collaborative markets are significantly different ($p < .001$). American suppliers are more likely to believe that their customers disregard given contracts, in order to search for a lower price, than their German counterparts. In the first half of the 1990s, particularly in 1993 when Lopez came to VW, many German customers also tore down current contracts while dictating huge price cuts unilaterally. But in the current German automotive parts market, such "unfair"

cases of disregarding contracts have been tapering due to painful social adjustments.

Three main indices of fairness have been tested so far—the violation of confidentiality, the abuse of information, and the disregarding of contracts. In these indices of fairness, American markets show significantly higher levels of unfairness while their German counterparts reveal higher levels of fairness, and the difference between the two market regimes are significant (all p values $< .001$). It is noteworthy that the three main indices are related to formal definitions of fairness such as "keeping confidentiality" and "keeping contracts." Formal criteria are in many cases good yardsticks to judge whether a behavior is a violation of fairness, but they may not suffice to generate a sense of fairness that would enable two parties to cooperate. For example, a customer may keep the original contract yet may arouse a sense of unfairness on the part of supplier companies if the customer does not consider that the cost of materials has skyrocketed. On the other hand, a customer may revise a fixed rate of price reduction, but the supplier can feel that this is fair, as they are trading off between an immediate price discount and future business. Furthermore, substantive fairness between a customer and a supplier often generates trustful cooperation because it enables the agents in collaborative markets to identify common benefits with their self-interests.

I have tested two issues to attain an index of substantive (rather than simply formal) fairness. One is asymmetry in exchange of information; the other is price pressure. For the asymmetry of information exchange, I assume that as the asymmetry of information exchange between a customer and a supplier becomes smaller, it more closely approaches fairness. To ascertain the degree of asymmetry of information, participants in this survey were requested to evaluate the following two sentences using a Likert-type scale: (1) "We believe that our firm gives to our customers new ideas for improvement of quality and reduction of costs" (supplier to customer information transfer—s-c info); and (2) "We believe that our customers give our firm new ideas for improvement of quality and reduction of costs" (customer to supplier information—c-s info).[39] For the index of fairness, I first measured the difference between "s-c info" and "c-s info" in each country; then, I tested the difference between the two countries to ascertain the extent of the asymmetry of information exchange. These measures indicate that the asymmetry of information exchange between a supplier and a customer in Germany is significantly smaller than that in the U.S. markets ($p < .001$). In the German automotive parts markets, customers and suppliers are more likely to exchange information in a "fair" way than their American counterparts are.

Another index for substantive fairness concerns the degree of price pressure, which indicates how a customer and a supplier distribute the common benefits resulting from collaborative works. In my interviews, almost all suppliers in both the United States and Germany admitted that the price pressure has been growing.

And many suppliers understand that automakers are also under international competition, and thus, suppliers themselves should reduce the price. But in some cases, the pressure is too much on suppliers. Many suppliers complain that customers' profits go up while suppliers' profits go down. Sometimes, the price pressure is "unreasonable" to suppliers.

For the index of the price pressure, participants in the survey evaluated the sentence, "Our customers press the price to the degree of 'zero-profit' or 'minus-profit' without considering the cost-conditions of suppliers or without considering the conditions of our production" (item 7, Table 3). In this question, I assume that as the one-sided pressure becomes higher, it is less fair in the sense of sharing collaborative benefits. The difference between the U.S. and German markets in sharing benefits is significant ($p < .001$). American customers are more likely to press prices without considering suppliers' conditions than their German counterparts. This result suggests that German markets are fairer than American markets in the substantive justice of sharing collaborative benefits.

All five indices of fairness tested above show the significant differences between the American and German automotive parts markets. German automotive parts markets clearly show prevalence of "fair" relationships between customers and suppliers, whereas "unfair" relationships dominate the American automotive parts markets. This is important because American customers' "unfair" behaviors deter trustful cooperation, which is counterproductive to economic performance.

Many empirical studies confirm my finding that the U.S. automotive supplier market has problems in the interfaces between customers and suppliers. Susan Helper's extensive survey, the survey conducted by OSAT and A. T. Kearney, Inc., and Jenet Hartley's survey conclude similarly that fair and trustful relationships between automakers and suppliers in the U.S. automotive parts market are exceptions rather than the rule.[40] In particular, extensive research conducted by Berlin Science Center (*Wissenschaftzentrum Berlin* [WZB]) from 1993 to 1996 shows that American automobile companies suffer dysfunction in the interfaces with suppliers more than German companies do. According to the WZB research, American automakers suffered from distrustful relationships with their suppliers to an "extraordinarily serious" extent, although they adopted a new, flexible organization. Andreas Bartelt's empirical research conducted in 1999, which gathered data from 283 German suppliers, also confirms my finding that German suppliers have improved their relationships. According to Bartelt's research, about 80 percent of German suppliers evaluate their relationships as "very successful"; German suppliers are less worried about the risk of customers' opportunistic behaviors, such as violation of confidentiality.[41]

Regardless of companies' tier position and size, German markets established "fair and trustful" relationships, whereas American counterparts "unfair and distrust." This runs counter to power theorists' expectation that small companies

could not build fair partnerships and would collapse under high pressure from customers. I conducted regression analyses between company size, represented by the number of employees, and all indices of trust; and regression analyses between tier position and trust both in the United States and Germany. The regression analyses do not show any significance of correlation between trust and company size or between trust and tier position; all the *p* values in these regression analyses are larger than.05. Through personal interviews and e-mail interviews, I also conducted another mini-survey about the relationships between first-tier suppliers and sub-tier suppliers. Worrying about a respondent's bias—that is, that a first-tier supplier might deny its own unfairness toward sub-tier suppliers—I raised questions with sub-tier suppliers about the relationships with their customers (first-tier suppliers) only after identifying the interviewee as a sub-tier supplier. To the question of whether first-tier suppliers treat sub-tier suppliers in the same way as they received unfair treatments from automakers, 90 percent of American sub-tier suppliers agreed that first-tier suppliers "pass the bucks" directly down to sub-tier suppliers; only 4 percent of respondents disagreed with the statement. By contrast, only 11 percent of German sub-tier suppliers agreed that the first-tier suppliers' behaviors were unfair, while 89 percent of German sub-tier suppliers answered that they had better relationships with first-tier suppliers. The survey conducted by the automotive journal *Ward's Auto World* in 2000 also confirmed that American first-tier suppliers are confrontational. Andreas Bartelt's extensive 1999 survey concluded that there is little difference between big and small suppliers in the fairness and trust indices.[42]These data indicate that fair and trustful relationships spread out in German automotive parts markets while unfair and distrustful relationships prevail in the American automotive parts markets regardless of the tier position and power. The information reveals that the reason that Germans established fair and trustful partnerships is not that German suppliers are more powerful than their American counterparts.

It is also noteworthy that fair partnerships are not predetermined by prior norms about contracts and contractual relations but are consequences of the actors' tremendous efforts. In the first half of 1990s, German automotive parts markets suffered from unfair behavior by powerful customers.[43] According to empirical research by *Mittelstandsinstituts Niedersachsen* based on 437 suppliers, 87.7 percent of German suppliers argued in the early 1990s that they felt discriminated against and pressed by their powerful customers. In addition, 84 percent of the suppliers held that they had to concede to "unfair" requests by customers.[44] But through the painful process of society-wide adjustments, the unfair cases began to taper off around 1995. According to Gernot Diehlmann's research, whose empirical basis is around 1995, the risk that customers might take advantage of suppliers' new technologies and information became relatively small. Many people, such as Hans Dieter Oelkers, the general manager of *Wirtschaftsverband Stahlverformung*, admitted that outstandingly unfair

cases became rare.[45] The two studies in 1993 and 1998 conducted by the *Forschungstelle Automobilwirtschaft* of the *Universität Bamberg* reveal that unfair cases decreased markedly during that time.

By contrast, Americans in the automotive parts markets have made little progress in establishing fairer relationships. Susan Helper's research on the American automotive parts markets, conducted in 1984, 1989, and 1993, reveals that Americans in the early stage of transformation to a new market suffered from distrust and unfairness. Many independent research projects, such as those conducted by Jürgens, Chotangada, Maloni, and *Ward's Auto World* in the second half of the 1990s, show that the relationships in the U.S. markets have not improved; agents still suffer from distrust and opportunism.[46]

I must note before concluding this section that the conception of fairness is not identical in American and German automotive supplier markets, although I have used it neutrally in this research. To ascertain the difference, I asked suppliers to evaluate the sentence, "We believe that our relations with customers are fair" (item 8, Table 3). As the test of mean difference on the issue of "general appreciation of fairness" shows, there is significant difference between the American and German estimation of fairness ($p < .001$). Nevertheless, it is noteworthy that a majority of American suppliers (52 percent) also believe that their relationships with customers are fair, and only about 13 percent believe they are unfair. The reason why American suppliers agree with the above statement, although they have experienced customers' opportunistic behaviors such as violation of confidentiality and arbitrary revision of contracts, is not only because participants tend to answer positively to an abstract question. Through my personal interviews and e-mail interviews, I came to know that fairness in the American automotive parts markets is judged different from that of their German counterparts.

Plentiful cynicism regarding partnership and fairness hangs over the U.S. automotive parts markets, due to long-lasting distrustful relationships and conflicts. By the late 1990s, although they felt distaste for the usual relationships, few people in the American automotive parts markets expected the fair sharing of substantive benefits between a customer and a supplier. Many American suppliers complained of the extreme pressure of price cuts, but they did not think that it is unfair. Many suppliers defined fairness as "all is fair in love and war."[47] The criteria for distribution of benefits resulting from collaborative works totally depends on personal taste and individual power. The "fair rules" in the American automotive supplier markets are not simply formal but are extremely determined by power. As a supplier defines it, the rules are "a jungle rule—perform or perish." Survival is justified. But this conception of fairness is not predetermined by prior norms about market relations. In the early period of transformation toward the collaborative market, people in the U.S. markets also had expectations of substantive fairness.[48] However, by the end of the 1990s, Americans in the markets believed that the so-called unfair behaviors were a kind of "given rule" in their markets. The

reason that Americans are reluctant to call it unfair is that customers' opportunistic behavior is a part of everyday life. American suppliers came to believe that their customers' behavior is fair insofar as they treat the competing vendors equally, whether the customers' rules are distasteful or not. In the American markets, the expectation of substantive fairness has receded to an extremely cynical formalism in which suppliers are excluded from the process of rule making.

By contrast, in addition to conceptions of formal fairness such as "to keep contracts and confidentiality," many German suppliers mentioned substantive aspects of fairness, such as a fair balance between quality and price, a fair trade between price concession and future business, and a reciprocity of openness and benefits between the customer and the supplier.[49] Many German suppliers said, "without fairness, no partnership (*Ohne Fairness, Keine Partnerschaft*)." But this does not mean that only an even distribution of benefits is fair. Many suppliers accept that powerful customers can take a bigger piece of the pie.[50]

The next subsection investigates what causes differences in market governance between the U.S. and German automotive parts markets.

Causes for Differences

Why have Germans successfully established fair substantive norms and trustful partnerships while Americans in the automotive parts markets failed to do so? Why have Americans in the markets not made progress in their relationships while the Germans have? Why does an extreme form of formal fairness prevail in the U.S. markets while an idea of substantive fairness works in the German markets? The basic explanation of the differences between the U.S. and German markets, I will argue, is the manners of deliberation in which particular traditions and institutional arrangements influence different methods of norm creation. This means that the divergence of the market regimes is not predetermined by prior norms about contracts and contractual relations as such or by prior institutions about these kinds of relations. Rather, it is the deliberation capacity over norms and norm creation that is the central issue.

Contrary to some rigid institutionalists' claim, fair partnerships in the German markets have not resulted from the peculiar German contract law and court systems.[51] In fact, it was not until the 1990s that Germans developed long-term and trustful contractual relationships. According to independent empirical studies by the Commission of Monopoly (*Monopolkommission*), Hamer, and Geck and Petry, German courts did not play an important role in prohibiting such unfair behaviors because they were hard to prove.[52] In addition, many empirical studies reveal that German markets also suffered from unfairness and distrust, as has already been mentioned in the previous section. More important, existing norms for market governance did not work in a situation in which new market relations caused unfamiliar problems. In the confrontational situation of the early 1990s, as

the chief of a German supplier company said, "the consensus of business norms in the automobile parts markets was to a high degree endangered."[53] Particularly, the traditional norm of fairness, such as "live and let live" (*Leben und Leben lassen*), did not work any longer in the new collaborative market, in which automakers and suppliers could not survive only with single in-house efforts (*Einzelkämpferdasein*) and had to collaborate, sharing their information.[54] The introduction of new collaborative markets under international competition required that new norms of criteria for stable governance be created. The divergence between the U.S. and German markets arises in the process of deliberating new norms.

Fair norms do not emerge automatically in the environment of dense networks of associations, despite the arguments of neoTocquevillians like Robert Putnam.[55] The reason that Americans failed to establish fair norms is not because of sparse associational networks. Contrary to prevalent beliefs, U.S. companies in the automotive parts markets are not playing alone. The agents in the U.S. automotive parts markets are involved in as many associations as Germans are. Most American suppliers in the automotive parts markets take part in one or two specific associations, like their German counterparts. In each technical segment of the U.S. automotive parts markets, there are specific associations on the regional as well as the national levels, also like their German counterparts. In addition, the expectations of the institutionalists of comparative institutional advantages were proved wrong as U.S. companies did not stick to the strategy of enjoying the institutional advantages of "sparse associations" unreflectively. On the contrary, people in U.S. markets have also developed various institutional networks such as training centers.[56] What makes the difference in market governance is not the *number* of associations but *the way that agents interact in associations*.

The central reason for divergent market regimes is that Germans in the automotive parts markets created a distinctively public way of confrontation and deliberation, unlike their American counterparts. Under strong traditions of self-governance by associations, suppliers' collective resistance against automakers' confrontational policies in 1992 initiated public deliberation, although the "rebellion" did not have immediate effects on current issues such as price cuts.[57] Since then, the German Automobile Association (VDA), as well as many social organizations and local governments, tried to mitigate the severe conflicts in numerous meetings. For example, major German newspapers and magazines criticized automakers' unfair cases. *Lower Saxony*, which has 20 percent of share values and 40 percent voting rights for VW, opened many public meetings between VW and suppliers. The SPD-*Bundestag* faction organized a meeting to discuss unfair cases and called a hearing in congress, criticizing automakers' abuse of power. Trade unions like IG Metall and IG Chemie articulated positions against automakers' confrontational policy.[58] Not only the German Industry Association (*Der Bundesverband der Deutschen Industrie* [BDI]) but also a confederation of supplier

associations such as forging and dye-casting associations (*Arbeitsgemeinschaft Zulieferindustrie* [ArGeZ]) organized public deliberation.

The fair norms in the German markets were thus newly created by agents' realization of traditional norms' inadequacy in new situations through the process of public debate. In the early stages of confrontation, automakers' new policies also had legitimacy; thus suppliers' early resistance did not achieve immediate effects. The reason for the initially small effects of suppliers' resistance is that German suppliers did not develop a clear alternative to automakers' policies in the early 1990s. During this time, most suppliers did not deliberate about kinds of collaborative markets but considered whether to establish a new form of collaborative market. From the traditional perspective of an "independent player in a market" (*Einzelkämpferdasein*) or a live-and-let-live (*Leben und leben lassen*) policy, customers' requests for a new form of collaborative market, such as just-in-time delivery and "open information" (*gläsernen Taschen*), were seen as unfair and a restriction of supplier freedom in the market.[59] In addition, the adoption of a new collaborative relation itself meant an increase in the burdens of suppliers. Thus, at the inception of transformation toward a new form of collaborative markets, German suppliers rejected the collaborative market itself by confusing a form of collaborative market with unfair governance of collaborative markets.

But the direct resistance to new policies of collaborative markets—such as just in time, open information, and cost reduction—did not offer a solution to the tough international competition. In particular, in a situation in which numerous studies revealed the backwardness of German auto industry's productivity, German suppliers could not achieve legitimacy by claiming that they had improved productivity more than automakers in the last decade or by the strategy of "demystification" of Japanese lean production. German suppliers came to recognize that neither "soft trust" between automakers and suppliers nor the rigid stability based on traditional distant market relations would offer any solution in their market. Through the mid-1990s, German suppliers made tremendous efforts to restructure their production systems and became more competent as a development partner for collaboration with customers.[60] Once they accepted a new form of collaborative markets, German suppliers developed their alternative of fair norms in opposition to the automakers' confrontational model in the process of criticizing unfair behaviors.

The legitimate fair rules developed by associations—the VDA's "guidelines for collaborative works" (*Leitfaden für die Zusammenarbeit zwischen den Automobilhersteller und ihren Zulieferern*); the BDI's "guiding rules for supplier relations" (*Leitsätze für Zulieferbeziehungen*); the ArGeZ's "recommendation conditions" (*Konditionenempfehlung der ArGeZ*)—are hard for a single company to transgress without losing legitimacy. The ArGeZ's fair rules (*Konditionenempfehlung der ArGeZ*) were admitted by the Federal Cartel Office as announcement no. 151/99. In addition, as German suppliers became more com-

petent development partners in the mid-1990s, fair partnerships became more convincing than the confrontational model. A chief of a supplier industry association says the following:

> Customers are convinced that they will never succeed when they are fighting with suppliers. Even big customers cannot disregard the criteria formed by social adjustments and discussions. If they disregard it continuously, they will lose legitimacy, facing conflicts or solving the conflicts only by power. But it can hurt the big company's own interest and market competitiveness.[61]

In a situation in which there is a socially shared alternative of fair norms, bare power loses legitimacy and rarely generates voluntary cooperation by suppliers.

On the other hand, in the process of deliberation and adjustment in the public realm, automakers had the burden of publicly justifying their policies. Given the existence of an alternative type of efficient relations, the simple emphasis on the necessity of restructuring for a new form of collaborative market loses legitimacy. For example, in the early 1990s when the confrontation occurred between automakers' requests for collaborative markets and suppliers' immediate resistance, automakers' justification, based on tough international competition, was relatively effective against the background of economic crisis. However, as German suppliers developed an alternative of fair cooperation to the confrontational model within the new form of collaborative markets, the customers' confrontational model lost legitimacy.

Nevertheless, the most important point in the process of forming fair partnerships is the participatory process itself, in which agents in the markets express their own rules and build social forces for self-governance in civil society. In particular, numerous formal and informal meetings provide the occasion for legislating self-norms. In the process of criticizing unfair behavior, German suppliers express their own fair criteria; thus they were bound to observe their own rules. "Self-binding by self-legislation" in the democratic participatory process contributes to solidarity among suppliers themselves, particularly between first-tier suppliers and sub-tier suppliers. For example, a supplier and member of the Bayern Metal Association (VBM) reports the following in my interview:

> In the VBM, there are not just first-tier suppliers, but also second-, third-tier suppliers. While they discuss unfair behaviors, first-suppliers had difficulty in treating sub-tier suppliers in a similarly unfair way as they criticized in the protest against automakers.[62]

The discussion, through the effect of "self-binding by self-legislation," established solidarity among suppliers. In this sense, the activities of the ArGeZ, whose members are mostly sub-tier suppliers, are very important for the formation of society-wide fair partnerships because their protest against unfairness enabled first-tier suppliers of the VDA to reflect on their relative position in the entire sup-

ply chain. This stands in contrast to American first-tier suppliers, who easily transferred the pressure initiated by automakers to sub-tier suppliers in dyadic relations without considering burdens of justification in the public. In the process of criticizing unfair behaviors, that is, in expressing their own criteria of fair governance, German suppliers expanded their solidarity for fair norms because they could hardly violate their own rules expressed in the public realm.

By contrast, Americans in the automotive parts markets have not developed a public realm for deliberating governance problems even though social networks and associations might be sufficient for the "public deliberation," if they intend to deal with them in a public way. Americans in the automotive parts markets have failed to build society-wide norms because they tried to solve so-called unfair issues in individual, dyadic relations. In the absence of a process for verbalizing their own rules in the public realm by criticizing opportunism and justifying their own behavior, Americans in the automotive parts markets have little chance to objectify their own behaviors and build their own criteria in the public eye. In the absence of society-wide norms and without the burden of justifying their own behavior in the public realm, American customers can easily transfer burdens to their own suppliers when they feel pressure from their own markets.

Why have Americans in the automotive parts markets not deliberated so-called unfair problems in the public realm? The first reason for the American associations' reluctance to organize such public deliberation is that many American associations are not interested in discussing "ethical issues" due to their narrow specialty orientation in the competition over memberships. Local associations like the Tooling & Manufacturing Association do not organize a public way of deliberating fair criteria and adjudicating conflicts because such activities are not necessary for attracting members. However, the fragmented structure of American associations might not sufficiently answer why the American associations have not organized a public way of deliberating unfair cases. Some American associations like the Automotive Original Equipment Suppliers Association (OESA) might be in the position to deal with such unfair cases. The OESA was founded to increase supplier bargaining power and to deal with hot issues in the collaborative markets. National automobile and supplier associations such as the Automotive Industry Action Group, the Motor & Equipment Manufacturers Association, the OESA, and the National Association of Manufacturers could have organized a public way of adjudicating conflicts and developing fair norms if they had intended to do so.

A more important reason that American associations and suppliers have not addressed so-called unfair behaviors in a public way is that under the influence of "utilitarian liberalism,"[63] agents in the U.S. automotive parts markets limit not only the problems they can address but, even more crucially, also the way in which they deal with issues. Under the understanding of public/private dichotomy based on utilitarian liberalism, there is little room for a "civic public realm" in which

agents in civil society discuss common issues. As an American manager in one of my e-mail interviews stated,

> In order for there to be public rules, legal laws must already exist. The other issues should be personal and private issues within the public law; so-called "unfair" cases ought to be problems between two private contractors; so-called "unfair" cases shouldn't be the problems which associations ought to deal with, but the problems which the "public" court should rule upon only if the private contractors desire this.[64]

Under the influence of utilitarian liberalism, which regards the public only as the governmental realm, Americans in the automotive parts markets disregard the civic public realm, neither governmental nor personal (family or intimate) realm, in which agents could deliberate common problems and act in concert. American associations restrict the problems they deal with to neutral issues. They will not involve themselves in political issues in civil society.

The ideal of utilitarian liberalism generates the individual, dyadic way of adjudicating conflicts in American civil society; this is reinforced by the practice of individualist solutions. In particular, formal associations are discouraged from organizing a public deliberation when they consider members' reluctance to discuss unfairness; conversely, without the guidance of formal associations, individuals and informal groups are discouraged from developing collective deliberation. Ideas and practices are mutually reinforced. Without active efforts by the associations to create public realm, the specific contractors to the conflicts rarely choose the collective solution because the risk and burden assumed by each supplier in the absence of the associations' initiation are too large. In the absence of a collective solution, suppliers respond to unfairness mainly by increasing their own leverage. The easy way to increase leverage is to consolidate their market by buying out other companies.[65] Adversarial acquisitions among suppliers contribute to the atrophy of horizontal relationships. Adversarial acquisitions, few horizontal relationships, and the absence of a public way of deliberation reinforce one another's effects.

The reason that Americans take an extreme form of formal rules for fair norms is not that formal rules are derived from "natural reason." The reason for the extremely power driven, formal rules lies in the manner of deliberating conflicts and norms. At the inception of collaborative markets, Americans expected to achieve substantive fairness through the distribution of risks and benefits. But due to long-lasting unfairness on the part of the customers, Americans in the automotive parts markets receded to an extreme form of formal rules. In the absence of adjustments of conflicts in the public realm, Americans in the automotive parts markets hardly accumulate rich common grounds, unlike their German counterparts. In the individual dyadic way of adjudication, the powerful party easily defines the rule. With little possibility of collective adjustments, weak suppliers come to believe that customers' "unfair" behavior is a part of life or a given condi-

tion. The customer-made rules are also justified by a liberal idea of "freedom of contracts," although there is little freedom to suppliers in actuality—"it is wholly up to your free choice to end the relationship."[66] The customer-made rules become justified as fair insofar as they treat suppliers equally in market competition, whether or not they are distasteful. By contrast, the conception of fairness in German automotive parts markets is much thicker and richer than those of the American markets. Germans in the markets expect substantive aspects of fairness such as a fair balance between quality and price, a fair trade between price concession and future business, and reciprocity between openness and benefits. The reason for the establishment of such thicker fair norms in the German markets is that agents in the markets share their common experiences and develop larger "common ground" for governance through adjustments in a public realm. The public way in which agents deliberate social norms together is more likely to create the expectation of substantive fairness.

CONCLUSION

Liberalism has paralleled the development of markets throughout modern history. But the recent development of markets challenges market liberalism. The neoliberal paradigm's universal relevance of market rationality has difficulty explaining the dynamic process of the constitution of new social order. The newly emerging, long-term, and closely interactive markets not only challenge the neoliberal paradigm based on neoclassical economics but also left room for new divergence since their governance was unclear. Divergent market regimes are constituted not by prior norms or institutional arrangements about contracts and contractual relations but rather by ongoing politics of problem-solving practices in particular contexts of norms and institutions about norm creation and norm transformation. This conclusion highlights the theoretical implications for the constitution of liberal regimes, reconceptualizing the market and politics.

Market societies are governed neither by universal justice nor by the apparent single necessity of market rationality as the neoliberal paradigm assumes. On the contrary, ideal types of market rationality are multiple, and they are constituted by politics. In the sense of Weber's ideal type,[67] there are many different ideal types of rationality for economic efficiency. For example, from the perspective of transaction costs, vertical integration might be rational, but from the perspective of flexible innovation, vertical integration can be burdensome. From the easy mobility of contractual relations, short-term contracts based on the anonymity principle might be optimal, but from the perspective of flexible application engineering, they can be suboptimal. Contrary to the belief of the neoliberals that market rationality is independent of politics, market society is constituted by contests and conflicts between different perspectives, not between well-understood and misunderstood rationality.

Not only is market rationality context dependent but so also are the norms of fairness in a market society. To adjudicate conflicts, fair criteria should be impartial guidelines for adjudication. But the impartiality need not be in the form of a formal procedure; it can also exist in forms such as "fair wages" and "fair price." Even though the Golden Rule of fair rules, reciprocity, prevails across societies, the meaning and forms of reciprocity are different. For example, non-ethical behaviors such as dishonesty and hiding information are legitimate in the neoclassical market, insofar as the behavior does not violate formal law. In contrast, in a society in which the subordinate and the superior relationships are emphasized or in which agents in markets collaborate with one another, hiding information might be unfair. In addition, impartial fairness or common ground as guidelines for adjudication are not predetermined by prior norms about contracts and contractual relations. Existing norms and institutions are continuously contested and reinterpreted. As a new division of labor or a new market rationality emerges, societies face new problems for governance.

How are fair norms and regimes created and, more important, sustained? Fair rules in the market should be continuously reconstituted by politics. The impartiality of fair rules emerges from the "reciprocal recognition" by members of a community: we cannot expect others to respect our interests unless we respect theirs. In the process of constituting impartial and common grounds, divergent market regimes result from different kinds of problem-solving practices in a novel context of problems, that is, the manner in which agents organize deliberation of conflicts and new solutions. In Germany, deliberation of norms and conflicts in the civic public realm, influenced by a set of traditions about public, deliberative practices of norm-creation and self-governance by associations, facilitated substantive fair norms and trustful relationships by enriching the impartial, common grounds as reference points to adjudicate conflicts. By contrast, in the United States, the isolated and dyadic forms of problem-solving practices, rooted in utilitarian liberalism, resulted in extremely formal rules and distrustful relations.

The civic liberal regime characteristic of the German case is an alternative to the utilitarian liberal regime. Through deliberation and adjustments in the civic public realm, Germans have created rich common ground for fair rules. The "public place" (*öffentliche Raum*), neither government nor private households, stems from Aristotle's politics—a place where members of the community can deliberate common issues. Civic liberalism has been rediscovered by Tocqueville's conception of "political society," Hannah Arendt's conception of the "public realm," and Habermas's conception of the "public sphere." This public way of deliberation is more likely to activate substantive fair norms and the stability of fair partnerships than isolated dyadic approaches. In the attempt to activate the public realm for democratic and active participation, utilitarian liberalism can be an obstacle. Civic liberalism, on the other hand, should be encouraged to develop rich fair norms and society-wide fair partnerships.

APPENDIX
Test for Nonresponse Bias

By comparing the responses to the first survey and the responses to the second follow-up survey, this article tests for nonresponse bias. After receiving responses in the first comprehensive mail survey, I sent the same questionnaires to the nonrespondents of the first survey, randomly selected two hundred suppliers in each country. To test for nonresponse bias, I tested the difference of means between the participants of the first survey (first group) and the participants of the second follow-up survey (follow-up group), assuming that the follow-up group might have more in common with those who did not respond at all than the first group. The test shows no significant differences between the first group and the follow-up group on all variables used in this article at the significance level of .1.

Test for Nonresponse Bias

	t-Test for Equality of Means		
Variable	Mean Difference	*t*	Significance (two-tailed)
United States			
Possibility for customer abuse	–.13	–0.536	.595
Openness and transparency	.21	1.147	.257
Violation of confidentiality	–.13	–0.572	.570
Abuse of information	.07	0.306	.761
Disregarding contracts	.06	0.282	.779
Asymmetry, s-c info	.06	0.382	.704
Asymmetry, c-s info	–.21	–1.306	.196
Price pressure	–.16	–0.822	.415
General appreciation of fairness	–.19	–1.053	.298
Germany			
Possibility for customer abuse	.07	0.397	.698
Openness and transparency	–.06	–0.406	.686
Violation of confidentiality	.07	0.345	.731
Abuse of information	–.03	–0.174	.863
Disregarding contracts	–.09	–0.504	.616
Asymmetry, s-c info	.13	1.028	.308
Asymmetry, c-s info	.14	0.936	.353
Price pressure	–.06	–0.279	.781
General appreciation of fairness	–.10	–0.763	.448

Note: For the United States, first group $n = 139$, follow-up group $n = 34$; for Germany, first group $n = 109$, follow-up group $n = 38$. s-c info = supplier to customer information transfer; c-s info = customer to supplier information.

NOTES

1. P. S. Atiyah, "Contract as Promise," *Harvard Law Review* 95 (1981): 509.

2. Just as Fordism effected reorganization of other industries, recent changes initiated by Toyotaism have generated restructuring in not only the automobile industry but also many other industries, such as steel, electronic and electric, semiconductor, machine tools, computer, biotechnology, textiles, and the like. See Horst Wildemann, *Entwicklungs-, und Vertriebsnetzwerke in der Zulieferindustrie* (Munich, Germany: Transfer-Centrum GmbH,

1998); Ulrich Jürgens, "Communication and Cooperation in the New Product and Process Development Networks," in *New Product Development and Production Networks*, edited by Ulrich Jürgens (Heidelberg, Germany: Springer-Verlag, 2000); Arnold de Meyer, "Product Development in the Textile Machinery Industry," in *Managing Product Development*, edited by Toshihiro Nishiguchi (New York: Oxford University Press, 1996).

3. The three directories of the U.S. and German suppliers are *The ELM Guide to U.S. Automotive Sourcing* (East Lansing, MI: ELM International, 1997); *Automobil-Zulieferer in Deutschland* (1997-98 edition); *World Wide Automotive Supplier Directory* (Warrendale, PA: Society of Automotive Engineers, 1996).

4. The ascendancy of markets in the 1990s is contrasted to hierarchies in the 1970s in which, for example, Oliver E. Williamson proposed hierarchies as an alternative to markets in his famous book, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: Free Press, 1975). For recent ascendancy of market liberalism, see John L. Kelley, *Bringing the Market Back In: The Political Revitalization of Market Liberalism* (New York: New York University Press, 1997); David Boaz and Edward H. Crane, eds., *Market Liberalism: A Paradigm for the 21st Century* (Washington, DC: Cato Institute, 1993); Andrew Gamble, *The Free Economy and the Strong State* (Basingstoke, UK: Macmillan, 1994).

5. For the convergence toward market economy and market liberalism, see Susan Strange, "The Future of Global Capitalism: Will Divergence Persist Forever," in *Political Economy of Modern Capitalism*, edited by Colin Crouch and Wolfgang Streeck (Thousand Oaks, CA: Sage, 1997); Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (New York: Cambridge University Press, 1996); Joseph A. Camilleri and Jim Falk, *The End of Sovereignty? The Politics of a Shrinking and Fragmenting World* (Brookfield, VT: Edward Elgar, 1992); Kenichi Ohmae, *Borderless World: Power and Strategy in the Interlinked Economy* (New York: Harper Business, 1991); Lowell Bryan and Diana Farrell, *Market Unbounded: Unleashing Global Capitalism* (New York: John Wiley, 1996); Richard O'Brien, *Global Financial Integration: The End of Geography* (London: Printer, 1992); World Bank, *World Development Report: The State in a Changing World* (New York: Oxford University Press, 1997); Walter B. Wriston, *The Twilight of Sovereignty: How the Information Revolution Is Transforming Our World* (New York: Scribner, 1992); Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle between Government and the Market Place That Is Remarking the Modern World* (New York: Simon & Schuster, 1998); David M. Andrews, "Capital Mobility and State Autonomy," *International Studies Quarterly* 38, no. 2 (1994): 193-218; Jonathan W. Moses, "Abdication from National Policy Autonomy," *Politics and Society* 22, no.2 (1994): 125-48.

6. For the neoclassical market, see George J. Stigler, *The Theory of Price* (New York: Macmillan, 1946); "Perfect Competition, Historically Contemplated," *Journal of Political Economy* 65, no.1 (1957); "Competition," in *International Encyclopedia of the Social Science*, ed. David L. Sills (New York: Macmillan & The Free Press, 1968); Frank H. Knight, *Risk, Uncertainty and Profit* (Chicago: University of Chicago Press, 1971). For the criticism of the neoclassical market within the liberal tradition, see Friedrich Hayek, *Individualism and Economic Order* (London: Routledge Kegan Paul, 1949); "Competition as a Discovery Procedure," in *New Studies in Philosophy, Politics, Economics and the History of Ideas* (London: Routledge Kegan Paul, 1985).

7. For the convergence of legal system, see Konrad Zweigert and Hein Kötz, *An Introduction to Comparative Law* (Oxford, UK: Clarendon, 1992); Michael Bogdan, *Comparative Law* (Deventer, the Netherlands: Kluwer, 1994); Basil S. Markesinis, ed., *The Gradual Convergence: Foreign Ideas, Foreign Influences, and English Law on the Eve of the 21st*

Century (Oxford, UK: Oxford University Press, 1994); Richard Helmholz, "Continental Law and Common Law: Historical Strangers of Companions," *Duke Law Journal* 39 (December 1990): 1207-68.

8. Dieter Sauer, "Auf dem Weg in die flexible Massenproduktion," in *Vernetze Produktion: Automobilzulieferer zwischen Kontrolle und Autonomie*, edited by Manfred Deiß and Volker Döhl (Frankfurt, Germany: Campus Verlag, 1992); Daniel Bieber and Dieter Sauer, "Kontrolle ist gut! Ist Vertrauen besser? Autonomie und Beherrschung in Abnehmer-Zulieferbeziehungen," in *Zulieferer im Netz*, edited by Hans Gerhard Mendius and Ulrike Wendeling-Schröder (Köln, Germany: Bund-Verlag GmbH, 1991); Robert B. Bennett, Jr., "Just-in-Time Purchasing and the Problem of Consequential Damages," *Uniform Commercial Code Law Journal* 26, no. 4 (1994): 332-58; Klaus Semlinger, "New Developments in Subcontracting: Mixing Market and Hierarchy," in *Towards a New Europe? Structural Change in the European Economy*, ed. Ash Amin and Michael Dietrich (Brookfiled, VT: Edward Elgar, 1991); Markus Pohlmann et al., *Industrielle Netzwerke: Antagonische Kooperation an der Schnittstelle Beschaffung-Zulieferung* (Munich, Germany: Rainer Hampp Verlag, 1995).

9. There are many streams of institutionalism. *New institutionalism* varies according to different fields. In political science, *old institutionalism* refers to the formal and legal approaches on the government before the Second World War, while new institutionalism emphasizes informal norms and culture. In economics, new intuitionalism refers to the writings of Williamson and North, while the old institutionalism means social norms and culture as Veblen's writings show. In sociology, new institutionalism emphasizes the "cognitive revolution," while old institutionalism means Parsonsian ideas of institutions that emphasize the assimilation of norms and evaluation of culture. For the various streams of old and new institutionalism in different fields, see B. Guy Peters, *Institutional Theory in Political Science: The New Institutionalism* (New York: Printer, 1999); Geoggrey M. Hodgson, "The Return of Institutional Economics," in *The Handbook of Economic Sociology*, edited by Richard Swedberg (Princeton, NJ: Princeton University Press, 1994); Victor Nee, "Sources of the New Institutionalism in Sociology," in *The New Institutionalism in Sociology*, edited by Mary C. Brinton and Victor Nee (New York: Russell Sage Foundation, 1998); Paul J. DiMaggio and Walter W. Powell, eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991); Arthur L. Stinchcombe, "On the Virtues of the Old Institutionalism," *Annual Review of Sociology* 13 (1997): 1-18.

10. Steven W. Casper, "The Legal Framework for Corporate Governance: The Influence of Contact Law on Company Strategies in Germany and the United States," in *Varieties of Capitalism*, edited by Peter Hall and David Soskice (New York: Oxford University Press, 2001); J. Rogers Hollingsworth, "Continuities and Changes in Social Systems of Production: The Cases of Japan, Germany and the United States," in *Contemporary Capitalism: Embeddedness of Institutions*, edited by J. R. Hollingsworth and R. Boyer (Cambridge, UK: Cambridge University Press, 1997); Ronald Dore, *Stock Market Capitalism: Welfare Capitalism—Japan and Germany vs. the Anglo-Saxons* (New York: Oxford University Press, 2000); "The Distinctiveness of Japan," in *Political Economy of Modern Capitalism*, edited by Colin Crouch and Wolfgang Streeck (London: Sage, 1997); Charles W. Hill, "National Institutional Structures, Transaction Cost Economizing and Competitive Advantage: The Case of Japan," *Organization Science* 6, no. 1 (1995); Peter A. Hall and David Soskice, "An Introduction to Varieties of Capitalism," in *Varieties of Capitalism*, edited by Peter A. Hall and David Soskice (New York: Oxford University Press, 2001); Wolfgang Streeck, "Lean Production in the German Automobile Industry: A Test Case for Convergence Theory," in *National Diversity and Global Capitalism*, edited by Suzanne Berger and Ronald Dore (Ithaca, NY: Cornell University Press, 1996).

11. For the creation of new social networks, see Paul Osterman et al., *Working in America: A Blueprint for the New Labor Market* (Cambridge, MA: MIT Press, 2001); Charles F. Sabel, "Experimental Regionalism and the Dilemmas of Regional Economic Policy" (paper presented to the Conference on Socio-Economic Systems of Japan, the United States, the United Kingdom, Germany and France, 1996).

12. Christoph Scherrer, "Governance of the Automobile Industry," in *Governance of the American Economy*, edited by J. L. Campbell, J. R. Hollingsworth, and L. N. Lindberg (New York: Cambridge University Press, 1991), 217, 220; Paul D. Ballew and Robert H. Schnorbus, "Realignment in the Auto Supplier Industry," *Economic Perspectives* 18, no. 1 (1994): 7; Jeffrey R. Yost, "Components of the Past and Vehicles of Change: Parts Manufacturers and Supplier Relations in the U.S. Automotive Industry" (Ph.D. diss., Case Western Reserve University, 1998), 354; Robert E. Cole and Taizo Yakushiji, "The American and Japanese Auto Industries in Transition." Report of the Joint U.S.-Japan Automotive Study. Ann Arbor: Center for Japanese Studies, the University of Michigan, 1984.

13. Horst Wildemann, *Die Deutsche Zulieferindustrie im europäische Market—ein Blick die Zukunft: Ergebnisse einer Delphi Studie* (Minich, Germany: Technische Universität München, 1993); IKB Deutsche Industriebank, "Autmobilzulieferer 1996," *IKB Branchenbericht* (December 1997); "1997- ein erfolgereiches Jahr für die deutschen Automobilzulieferer," *IKB Branchenbericht* (December 1998); "Die Automombilzulieferer 1998—Kräftiges Umsztzwachstum, differenzierte Ertragsentwicklung," *IKB Branchenberit* (December 1999); "Die Fähigkeit zur perfekten Abstimmung ist oft noch allzu schwach ausgeprägt," *Frankfurter Allgemeine Zeitung* (hereafter *FAZ*), 24 May 2000.

14. Michael E. Porter, *Cases in Comparative Strategy* (New York: Free Press, 1983): 278-79; Susan Helper, "Supplier Relations and Technical Change: Theory and Application to the U.S. Automobile Industry" (Ph.D. diss., Harvard University, 1987), chap. iv; Yost, "Components of the Past"; James P. Womack, Daniel T. Jones, and Daniel Ross, *The Machine That Changed the World: The Story of Lean Production* (New York: Harper Perennial, 1990): 59, 142-44.

15. The diffusion of mass production had been delayed in Europe until the second half of 1940s, due to economic chaos, narrow nationalism, wars, and strong attachment to the craft system traditions. Womack et al., *The Machine That Changed the World*, 45; Steven Tolliday, "Enterprise and State in the West German Wirtschaftswunder: Volkswagen and the Automobile Industry, 1939-1962," *Business History Review* 69 (1995): 277-338.

16. The German production system has not undergone de-skilled Taylorism as much as its counterparts in the United States. See Wolfgang Littek and Ulrich Heisig, "Taylorism Never Got Hold of Skilled White-Collar Work in Germany," in *The New Division of Labor*, edited by Wolfgang Littek and Tony Charles (Berlin, Germany: Wlafter de Gruyter, 1995). For the German model of production systems, see Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide* (New York: Basic Books, 1984); Horst Kern and Michael Schumann, *Das Ende der Arbeisteilung?* (Munich, Germany: Beck, 1984); Wolfgang Streeck, *Social Institutions and Economic Performance* (London: Sage, 1992).

17. Johann Heinrich von Brunn, *Wettbewerbsprobleme der Automobilindustrie* (Köln, Germany: Carl Heymanns Verlag KG, 1979), 64-65.

18. Interview with A22 on 9 December 1999 and interview with A12 on 1 December 1999.

19. For studies of international comparison, see Womack et al., *The Machine That Changed the World*; Michael A. Cusumano and Akira Takeishi, "Supplier Relations and Management: A Survey of Japanese, Japanese-Transplant and U.S. Auto Plants," *Strategic Management Journal* 12 (1991): 563-88; M. N. Baily and H. Gerbach, "Efficiency in Manufacturing and the Need for Global Competition" (Brookings Paper on Economic Activity,

Microeconomics, 1995): 307-58; J. H. Dyer and W. G. Ouch, "Japanese-Style Partnerships: Giving Companies a Competitive Edge," *Sloan Management Review* 35 (1993): 51-63. See also Stephan Schrader and Henrik Sattler, "Zwischenbetriebliche Kooperation: Informaler Informationsaustausch in den USA und Deutschland," *DBW* 53, no. 5 (1993); Laura M. Birou and Stanley E. Fawcett, "Supplier Involvement in Integrated Product Development: A Comparison of US and European Practices," *International Journal of Physical Distribution & Logistics Management* 24, no.5 (1994): 4-14.

20. For the problems of the German production system, see Gary Herrigel, "The Limits of German Manufacturing Flexibility," in *Negotiating the New Germany*, edited by Lowell Turner (Ithaca, NY: Cornell University Press, 1997); Gary Herrigel and Charles F. Sabel, "Craft Production in Crisis: Industrial Restructuring in Germany during the 1990s," in *The German Skills Machine*, edited by Pepper D. Culpepper and David Finegold (New York: Berghahn Books, 1999); Andreas Genter, *Entwurf einer Kennzahlensystems zur Effektivitäts- und Effizienzsteigerung von Entwicklungsprojekten, dargestellt am Beispiel der Entwicklungs- und Anlaufphase in der Automobilindustrie* (Munich, Germany: Franz Vahlen, 1994); Hand Grabowski and Kerstin Geiger, eds., *Neue Wege zur Produktentwicklung* (Stuttgart, Germany: Raabe Verlag, 1997); Bruno Cattero, *Lavorare alla Fiat: Arbeiten bei VW: Technologie, Arbeit, und soziale Regulierung in der Automobilindustrie* (Münster, Germany: Westfälisches Dampfboot, 1998); "Beruf und Berufausbildung—Mythen und Widersprüche im 'deutsceh Modell,' " in *Modell Deutschland, Modell Europa, Problems Perspectiven* (Opladen, Germany: Leske + Budrich, 1998); Ulrich Jürgens, "Anticipating Problems with Manufacturing during the Product Development Process," in *Automation in Automotive Industries*, edited by Anna Comacchio, Giuseppe Volpato, and Arnaldo Camuffo (Berlin, Germany: Springer Verlag, 1999); Ulrich Jürgens and Inge Lippert, "Schnittstellen des deutschen Productionsregimes: Innovationshemmnisse im Produktentstehungsprozess," in *Ökonomische Leistungsfähigkeit und institutionelle Innovation*, edited by Frieder Nashold et al. (Berlin, Germany: Sigma, 1997).

21. Cusumano and Takeishi, "Supplier Relations and Management," 565. On the other hand, for German traditional practices, see "Schlechte Noten für Zulieferer," *Süddeutsche Zeitung*, 2 November 1993; "Die Verbesserung der Qualität ist meistens nur eine Reation auf Reklamationen," *Handelsblatt*, 10 December 1992; "Die Zulieferer befinden sich im Stimmungstief," *Handelstblatt*, 23/24 July 1993; "Niedersachsen fördert Fahrzeug-Zulieferer," *FAZ*, 1 September 1994.

22. Many independent empirical studies confirm the trend of closely interactive markets in which suppliers receive a so-called black box instead of customer-developed drawings and detailed specifications. See Mari Sako, Richard Lamming, and Susan Helper, "Supplier Relations in the Multinational Automotive Industry," in *The Organization of the Firm: International Business Perspectives*, edited by Ram Mudambi and Martin Ricketts (London: Routledge, 1998); Susan Helper, "How Much Has Really Changed between U.S. Automakers and Their Suppliers?" *Sloan Management Review* (summer 1991); Susan R. Helper and Mari Sako, "Supplier Relations in Japan and the United States: Are They Converging?" *Sloan Management Review* (spring 1995); Gunter Lay and Werner Wallmeier, "Automobilzulierer—Quo vadis? Strategien, Produktionsstrukturen und Leistungsindikatoren der Autombilzulieferindustrie Deutschlands," Mitteilungen aus der Productionsinnovationserhebung, Frauenhofer Institut für Systetechnik und Innovationsforschung. My personal visits to fifty-six German and forty-five American supplier companies confirm the fact that almost all suppliers in both countries receive more or less a black box instead of customer-developed detailed drawings.

23. Susan Helper, "Strategy and Irreversibility in Supplier Relations: The Case of the U.S. Automobile Industry," *Business History Review* 65, no. 4 (1991): 799-800; Yost, "Components of the Past and Vehicles of Changes," 344.

24. See also Hideo von Kubota and Herman Witte, "Strukturvergleich des Zulieferwesens in Japan und in der Bundesrepublik Deutschland," *Zeitschrift für Betriebswirtschaft* 60, no. 4 (1990): 393, Table 12. According to research conducted by Wildemann, 84.4 percent of contracts in 1987 were below one year, 11.8 percent were two years, and 3.4 percent were more than three years. See Jürgen Hanke, *Hybride Koordinations-strukturen: Liefer- und Leistungsbeziehungen kleiner und mittlerer Unternehmen der Automobilzuleferindustrie* (Köln, Germany: Verlag Josef Eul, 1993), 162, 166; Marcus Reeg, *Liefer- und Leistungsbeziehungen in der deutschen Automobilindustrie: Strukturelle Veränderungen aus unternehmerischer und wirtschaftspolitischer Sicht* (Berlin, Germany: Duncker & Humbolt, 1998), 92-93; Monopolkommission, *Mißbräuche der Nachfragemacht und Möglichkeiten zu ihrer Kontrolle im Rahmen des Gesetzes gegen Wettbewerbsbeschränkungen* (Baden-Baden, Germany: Nomos Verlagsgesellschaft, 1977), 71; Hinrich-Mattias Geck and Günther Petry, *Nachfragermacht gegenüber Zulieferern: Ein Untersuchung am Beispiel der Automobil- und der elektrotechnischen Industrie* (Köln, Germany: Carl Heymanns Verlag KG, 1983), 40, 74.

25. Dennis L. Marler, "The Post Japanese Model of Automotive Component Supply" (IMVP International Policy Forum, MIT), 12; "The Auto Industry Meets the New Economy," *Fortune* 130, no. 5 (5 September 1994): 52-60; Helper, "Supplier Relations and Technical Change," iv-17, v-31; Helper, "How Much Has Really Changed," 19; "New Research Indicates 77 Percent of North American Tier-1 Automotive Suppliers Will Reduce Supplier Base," *PR Newswire*, 6 August 2001.

26. Hanke, *Hybride Koordinationsstrukturen*, 94; "Autohersteller," *VDI nachrichten*, 16 July 1993; "Eine organizatiorische Innovation in Zulieferketten," *Handelsblatt*, 3 July 1990; "Verhältnis zwischen Automobilkonzernen und Lieferanten wird immer 'japanischer,' " *Handelsblatt*, 7 June 1990.

27. For example, Ford suffered a loss of DM 200 million due to the delay in delivery of parts from its supplier Kiekert in 1998, but Ford could not easily go to open market because the exchange of contract partner in the short-term period was too dangerous to secure quality, and more important, it was too expensive, compared with the price based on their long-term relations. See *AP Worldstream-German*, 17 June 1998; *Süddeutsche Zeitung* 14 October 1998.

28. For liberal contract law, see Jack Beatson and Daniel Friedmann, "From Classical to Modern Contract Law," in *Good Faith and Fault in Contract Law*, edited by Jack Beatson and Daniel Friedmann (Oxford, UK: Clarendon, 1995); Charles Fried, *Contract as Promise: A Theory of Contractual Obligation* (Cambridge, MA: Harvard University Press, 1981); Morris T. Cohen, "The Basis of Contract," *Harvard Law Review* 46, no. 4 (1933); Robert Cooter and Thomas Ulen, *Law and Economics* (New York: HarperCollins, 1988); Charles J. Goetz and Robert E. Scott, "Enforcing Promises: An Examination of the Basis of Contract," *Yale Law Journal* 89, no.7 (1980); Atiyah, "Contract as Promise"; Anthony T. Kronman and Richard A. Posner, eds., *The Economics of Contract Law* (Boston: Little Brown, 1979); Richard A. Posner, *Economic Analysis of Law*, 4th ed. (Boston: Little Brown, 1992); Victor P. Goldberg, "Toward an Expanded Economic Theory of Contract," *Journal of Economic Issues* 10, no. 1 (1976); Daniel A. Farber, "Contract Law and Modern Economic Theory," *Northwestern University Law Review* 78, no. 2 (1983).

29. Markus Pohlman et al., *Industrielle Netzwerke: Antagonistische Kooperationen an der Schnittele Beschaffung-Zulieferung* (Munich, Germany: Rainer Hampp Verlag, 1995), 160-61; *Handelsblatt*, "Der selbständige Zulieferer muss erhalten bleiben" (15 June

1966); Monopolkommission, *Missbräuche der Nachfragemacht und Möglichkeit zu ihrer Kontrolle im Rahmen des Gesetzes gegen Wettbewerbsbeschränkungen* (Baden-Baden, Germany: Nomos Verlagsgesellschaft, 1977).

30. Interview with G22 on 21 March 2000.

31. Cooter and Ulen, *Law and Economics*, 244-45.

32. This article defines trust as "the mutual confidence that no party to a contract will exploit the trading partner's vulnerability whether it arises out of self-interest or out of social norms." A party is trustworthy if she or he chooses to refrain from opportunism. The problem is that collaborative markets need a higher level of trust than the traditional distant markets. For a similar definition of trust, see Charles F. Sabel, "Studied Trust: Building New Forms of Cooperation in a Volatile Economy," in *Industrial Districts and Local Economic Regeneration*, edited by F. Pyke and W. Sengenberger (Geneva, Switzerland: International Institute for Labour Studies, 1992), 215.

33. OSAT and A. T. Kearney, Inc., *The 21st Century Supply Chain: the Changing Roles, Responsibilities and Relationships in the Automotive Industry* (A.T. Kearney, Inc., 1996), v., 3.

34. J. K. Liker and Y. Wu, "Japanese Automakers, U.S. Suppliers and Supply-Chain Superiority," *Sloan Management Review* 42, no. 1 (2000).

35. See the appendix.

36. Five Likert-type scales might have problems in estimating the degree of agreement or disagreement because the distance between categories—for example, the distances between *strongly agree* and *agree* and between *agree* and *neither*—do not mean the same degree of agreement (scale 1). To ascertain the clear difference between two market regimes, I also tested for the differences by collapsing five categories into three categories (yes, neither, no). But the results of this test in the dyadic form show the same as those in the Likert-type scales.

37. OSAT and A.T. Kearney, *The 21st Century Supply Chain*, 31.

38. E-mail Interview with US18 on 4 November 1999.

39. Suppliers in both the United States and Germany answered similarly, indicating that they give more information to their customers than their customers give to them. The reason for this apparent asymmetry might be respondents' biases—for example, "I give more information than my customer"—or might be due to the fact that suppliers are required to hand over more information to their customers.

40. Helper and Sako, "Supplier Relations in Japan and the United States"; Ram Mudambi and Susan Helper, "The 'Close but Adversarial' Model of Supplier Relations in the U.S. Auto Industry," *Strategic Management Journal* (August 1998): 775-92; OSAT and A.T. Kearney, Inc., *The 21st Century Supply Chain*; Janet L. Hartley, "Collaborative Value Analysis: Experiences from the Automotive Industry," *Journal of Supply Chain Management* (fall 2000): 27-32.

41. Jürgens, "Communication and Cooperation in the New Product and Process Development Networks"; Andreas Bartelt, "Vertrauen in Zulieferbeziehungen der Automobilindustrie," Lehrstuhl für Betriebswirtschaftlehre und Marketing (Julius-Maximilians-Universität, 2000), 16, table 7 of p. 32. This is a summary pamphlet of Bartelt's research. Bartelt corrected some misprints in a personal meeting with me; particularly, the figure of fairness-trust on page 26 is wrong and should be reversed.

42. See "Ward's Auto World 22nd Supplier Survey," *Ward's Auto World*, August 2000, 19; Bartelt, "Vertrauen in Zulieferbeziehungen der Automobilindustrie," 16, Table 7, p. 32.

43. Germans in the automotive parts markets also suffered from unfair behavior and conflicts in the early 1990s. See Hendrik Heinze, "Ein Virtuell-flexibles zuliefermodell—Neue Positionen für Autombilieferunternehmen" (Ph.D. diss., Universität St. Gallen,

1996), 105-09; "Schlechte Noten für Volkswagen," *Blick durch die Wirtschaft*, 12 September 1995; Manfred Deiß and Volker Döhl, eds., *Vernetzte Produktion: Automobilzulieferer zwischen Kontrolle und Autonomie* (Frankfurt, Germany: Campus Verlag, 1992); Hans Mendius and Ulrike Wendeling-Schröder, eds., *Zulieferer im Netz—Zwischen Abhängigkeit und Partnerschaft: Neustrukturierung der Logistik am Beispiel der Autonombilzulieferung* (Köln, Germany: Bund-Verlag GmbH, 1991); Pohlmann et al, *Industrielle Netzwerke*, 134-67.

44. Eberhard Hamer, "Zuliefererdiskriminierung: Machtwirtschaft statt Marktwirtschaft?" in *Zulieferer im Netz*, edited by H. G. Mendius and U. Wendeling-Schröder (Köln, Germany: Bund-Verlag GmbH, 1991), 75-76.

45. Gernot Diehlmann, *Vorentwicklungsmanagement in der Automobilzulieferindustrie* (Frankfurt am Main, Germany: Peter Lang GmbH, 1998), 208, 224-25; "Nur Wenige Firmen schaffen Sprung zum A-Lieferanten," *Handelsblatt*, 8 March 1995; "Die Zulieferer befürchten bereits die nächste Rezession,"*FAZ*, 8 April 1995; "Autozulieferer denkt an leichte Presierhöhung," *Handelsblatt*, 3 May 1995; "Zulieferer können nicht aufatmen," *Süddeutsche Zietung*, 9/10 September 1995.

46. Helper, "Supplier Relations and Technical Change"; "How Much Has Really Changed"; Helper and Sako, "Supplier Relations in Japan and the United States"; Mudambi and Helper, "The 'Close but Adversarial' Model"; Jürgens, "Communication and Cooperation in the New Product and Process Development Networks"; Rati Apana Chotangada, "Governance Systems That Facilitate Innovation: Changing Perspectives of Supplier Customer Relationships" (Ph.D. diss., University of Cincinnati, 2000); Michael Maloni, "Influences of Power upon Supply Chain Relationships: An Analysis of Opportunism" (Ph.D. diss., Ohio State University, 1997); "Ward's Auto World 22nd Supplier Survey."

47. E-mail interview with U.S. supplier 16 on 3 November 1999.

48. "Risky Business in Detroit,"*Industry Week*, 4 March 1991.

49. Interview with G29 on 12 April 2000; interview with G30 on 13 April 2000.

50. Interview with G41 on 28 April 2000; interview with G38 on 26 April 2000.

51. See Steven Wayne Casper, "The Legal Framework for Corporate Governance: The Influence of Contract Law on Company Strategies in Germany and the United States," in *Varieties of Capitalism*, edited by Peter Hall and David Soskice (New York: Oxford University Press, 2001).

52. Hamer, "Zuliefererdiskriminierung," 68-69; Monopolkommission, *Mißbräuche der Nachfragemacht*; Geck and Petry, *Nachfragermacht gegenüber Zulieferern*.

53. "Autoindustrie gefährdet industrellen Konsens," *Handelsblatt*, 25/26 June 1993.

54. "*Leben und Leben lassen*" means literally "to live and let live" in English. This refers to the idea that people should not interfere in the affairs of others. This norm is based on classical market relations. Each agent calculates his or her costs of input and margins. Hiding the information of real costs and demand power, they compromise at a price, assuming that the price is within the satisfaction of the trading partner; otherwise, the trading partner will exit the deal. To have a fair situation, there must be sufficient freedom to exit and search for another deal. But this norm does not fit for the situation in which trading partners have to increase their common pie by sharing information and working together. See "Autohersteller brauchen die Zulieferer," *FAZ*, 5 March 1993.

55. Robert Putnam, *Making Democracy Work* (Princeton, NJ: Princeton University Press, 1993); Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000). For similar arguments based on automotive parts markets, see Benri Asanuma, "Manufacturer-Supplier Relationships in Japan and the Concept of Relation-Specific Skill," *Journal of the Japanese and International Economics*

3 (1989): 1-30; M. Gerlach, *Alliance Capitalism: The Social Organization of Japanese Business* (Berkeley: University of California Press, 1992); Naoki Tabeta, "The Kigyo Keiretsu Organization and Opportunism in the Japanese Automobile Manufacturing Industry," *Asia Pacific Journal of Management* 15, no. 1 (1998): 1-18.

56. For the emergence of new social networks in the United States, see note 14 of this article. My research confirms it, and I am also indebted to professor Gary Herrigel's empirical research.

57. For the tradition of self-governance by German associations, see Gary Herrigel, "American Occupation, Market Order, and Democracy: Reconfiguring the Steel Industry in Japan and Germany after the Second World War," in *Americanization and Its Limits: Reworking US Technology and Management in Post-War Europe and Japan*, edited by Jonathan Zeitlin and Gary Herrigel (Oxford, UK: Oxford University Press, 2001); Gary Herrigel, *Industrial Constructions: The Sources of German Industrial Power* (New York: Cambridge University Press, 1996); Toni Pierenkemper, "Trade Associations in Germany in the Late Nineteenth and Early Twentieth," in *Trade Associations in Business History*, edited by Hiroaki Yamazaki and Matao Miyamoto (Tokyo, Japan: University of Tokyo Press, 1988). On the other hand, for the initiation of German suppliers' protest against automakers' "unfairness," see "Noch einmal mit Gefühl," *Manager Magazin*, March 1993; "Die Jagd ist auf," *Manager Magazin*, December 1993; "Gereizte Stimmung bei den Zulieferern der Autoindustrie," *FAZ*, 7 December 1992; "Teves: Böse Überrachung im kommenden Jahr," *FAZ*, 15 December 1992; "Automobilhersteller verlangen harte Preiszugeständnisse," *VDI nachrichten*, 23 April 1993.

58. "Schröder: Wir wollen die VW-Standorte stärken," *FAZ*, 27 August 1993; "SPD pranger 'Faustrecht' der Autohersteller an," *Handelsblatt*, 7 July 1993; "Kunststoffverband: Pkw-Hersteller missbrauchen eindeutig ihre Marktmacht," *Handelsblatt*, 15 April 1993.

59. Hamer, "Zuliefererdiskriminierung."

60. According to the research of IG Metall, only 4 percent of automotive employees in 1990 participated in teamwork. The figure grew rapidly after crisis—9 percent of employees in 1993 and 22 percent in 1994 took part in the teamwork. See Michael Schumann, "The German Automobile Industry in Transition," *Economic and Labour Relations Review* 8, no. 2 (1997), 230-31; Dirk Riesselmann, "Entwicklung der Automobilzulieferindustrie: Strukturen, Lieferantentypen und Erfolg" (Ph.D. diss., Universität Bundeswehr, Hamburg, 1998), 156-57.

61. Interview with the ArGeZ on 23 June 2000.

62. Interview with G31 on 13 April 2000.

63. The meaning of *liberalism* is also contested. *Utilitarian liberalism* refers to a strain of liberalism in which the assumptions of utilitarianism and neoclassical economics dominate; thus, it is differentiated from the Kantian strain of liberalism. Utilitarian liberalism is called an economist model of liberalism or market liberalism. This utilitarian liberalism assumes that a society is constituted of rational individuals and their voluntary relations on one hand and the public state on the other. See Jeff Weintraub, "The Theory and Politics of the Public/Private Distinction," in *Public and Private in Thought and Practice*, edited by J. Weintraub and K. Kumar (Chicago: University of Chicago Press, 1997).

64. E-mail interview with the AIAG on 22 December 1999; 12 January 2000; and 3 December 1999.

65. According to a survey conducted by PriceWaterHouse Coopers on global automotive supplier deals, the number of deals on U.S. soil has beaten that of any other countries. For example, there were a total of 320 deals among automotive suppliers in the world in 1998. American companies were involved in 56.6 percent (180 deals), whereas German

counterparts comprised only 6.9 percent. See PriceWaterHouse Coopers, "Global Automotive Deal Survey 1998" (PriceWaterHouse Coopers, 1998).

66. Email interview with U.S. supplier 42 on 17 November 1999.

67. The conception of "ideal type" refers to neither the accumulation and combination of empirical data nor to the consensus of agents with diverse motives in the real world but is an analytical tool that is produced through an analytical accentuation of certain elements of reality.

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