

## Introduction

# Up Against the Fallen Wall: The Crisis of Social Partnership in Unified Germany

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**It is** commonplace for both eastern and western Germans to remark, not always in jest and often with bitterness, that they were better off before the Berlin Wall came down. Westerners resent the high economic costs of unification, which have translated into higher taxes and lower paychecks to finance an enormous resource transfer from West to East (about \$100 billion per year since unification in 1990). Easterners resent the collapse of their economy, mass unemployment in a formerly full employment society, the stripping away of social benefits ranging from free child care to government-subsidized vacation homes, and the occupation of their territory by Western business, labor, and government officials.

These complaints are symptomatic of the contemporary crisis of social partnership in unified Germany. And indeed it is quite clear that the German social market economy is under extraordinary pressure from a number of directions. Competition on the global market is becoming more and more intense; European economic integration continues to demand social, political, and economic concessions that Germany cannot easily afford. Added to these are the immediate and protracted pressures of German unification. Yet the fate of the German model of economic and social regulation is important far beyond the new national borders: on it depends not only the relative success of German exports in world markets but also the prospects for democratic stability here at the center of the new, post-cold war Europe and the very future of social democracy.<sup>1</sup>

1. This is not to say that West Germany was ever as fully social-democratic as other, smaller countries such as Sweden. The interplay between the major postwar political parties blended

This book addresses two central and related sets of questions. First, what type of political economy is emerging in unified Germany? How "West German" is it? Is Germany permanently polarized into East and West or converging on a single, integrated political economy? To what extent is the "coordinated market economy" (Soskice 1991) becoming less, or differently, coordinated? The answers to these questions will affect the outcomes of issues ranging from policy and politics to production organization.

Second, what has happened to the famous German "social partnership" since unification? Do the employer offensives of 1993-1996 in the pattern-setting metal and electronics industries, and in other industries as well, indicate a serious hollowing out or simply a readjustment of the social partnership? What has happened to employer associations and unions since German unification? What will happen to them in the near future? Can German industry hold its own in increasingly competitive world markets with its social partnership relations intact, or is this an outdated and expensive model of the past? Can the social partnership survive decentralization and lean production, or will they undermine and eventually dissolve it?

The articles in this collection focus on the conditions for institutional adaptation in new market circumstances. In the "new world disorder" of an increasingly globalized economy, what happens to the German political economy will have wide repercussions for the pace and shape of economic development throughout Europe. The questions addressed above illuminate broader ones: Will any sort of social market capitalism persist in Germany (and other parts of Europe) as an alternative to the U.S. and Japanese variants of capitalism? Or are we all in time headed down the same road of deregulation, lean production, and union decline? Is Germany now falling apart, as some observers claim, a victim of high costs and/or unification, or are there good prospects for future economic, political, and social success? What does the future hold for social democracy in Germany, Europe, and elsewhere?

On the front lines of contemporary social science research into rapidly changing world events, such questions rarely have "correct answers." Rather, they usually provoke ongoing and sometimes heated debate based on contrasting empirical evidence and analytical approaches. In this book, therefore, we present not one answer to each of these questions but rather

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important elements of social democracy, Christian democracy, and liberalism in the making of economic and social policy as well as political and economic institutions. But with its strong unions, comprehensive collective bargaining, and other arrangements for labor-inclusive negotiation throughout the political economy and with its expansive welfare state, West Germany—and unified Germany today—has certainly been the large industrial society that most closely approximates a social-democratic model.

a variety of well-argued answers from different perspectives. In the presentation of diverse opinions, our hope is both to offer the truth—none of us in this uncertain world can be absolutely certain that our own well-researched findings and persuasively argued analyses are correct, yet somewhere in this diversity the truth *does* lie—and to stimulate the reader's own critical thinking about changing global markets and the prospects for socially responsible regulation.

## THE GERMAN MODEL

This book can only introduce the contemporary debates; it is beyond our scope to spell out in great detail how the German economy works and how its social partnership orientation distinguishes it from other variants of capitalism found in Japan, the United States, and elsewhere. Yet the careful reader will travel behind the scenes and into the workings of social partnership capitalism in a number of areas, from economic policy, to industrial relations, to vocational training. Those seeking a more schematic and detailed presentation of the organization of the German economy should consult other sources.<sup>2</sup> To understand the arguments presented in this book, a thumbnail sketch of the German model should suffice.

Germans refer to theirs as a “social market” economy. By this, they mean an economy organized around market principles such as supply and demand and free trade, yet subject to extensive social regulation. The emphasis on *market principles* means, for example, that the Federal Republic and its major interest groups have throughout the postwar period supported expanding free trade (and indeed the German economy is significantly dependent on exports) and European economic integration. In addition, monetary policy is regulated by a strong and independent central bank, committed at all costs to keeping inflation low in order to ensure the strength and stability of the currency with which market exchanges are transacted. The emphasis on *social regulation* is intended to ensure that the impersonal workings of markets do not interfere with or undermine basic social needs, ranging from adequate income and health care, to organized representation in the workplace, to comprehensive vocational training. Social regulation includes both a safety net and broader social benefits (includ-

2. See, for example, Streeck 1984, Berghahn and Karsten 1987, Katzenstein 1989, Thelen 1991, and Wever 1995. For a concise and useful history of Germany from World War II through unification, see H. Turner 1992. On the problems and processes of German unification, see Huelshoff, Markovits, and Reich 1993; Hancock and Welsh 1994; and Goodhart 1994. For comparative analyses that contrast German economic organization to that found in the United States and other countries, see Hart 1992, Soskice 1990, L. Turner 1991, and Wever 1995.

ing, for example, health care for all and free university education for all who qualify). Part and parcel of social regulation is the concept of *social partnership*: negotiated agreements between strong and well-organized employer associations and labor unions throughout the political economy, from wage bargaining, to vocational training, to regularized input into economic policymaking.

This collection emphasizes the social partnership: the actors and institutional relationships that make the German economy a social market and distinguish it fundamentally from other types of capitalism.<sup>3</sup> Most employers in Germany belong to powerful employer associations organized by industrial sector; around one-third of German employees belong to independent labor unions (most of which are also organized by industrial sector).<sup>4</sup> More telling than membership levels is the fact that for most employees in the private sector, basic pay levels and working conditions are set in comprehensive collective bargaining agreements between employer associations and industrial unions (Jacobi, Keller, and Müller-Jentsch 1992, 236–38).<sup>5</sup>

In addition to collective bargaining, generally negotiated outside the firm for entire sectors and regions, the German “dual system” of industrial relations offers a second basic pillar of representation for employees: codetermination at the firm level. German law provides for elected workforce representation both on the supervisory boards of firms with five hundred or more employees and in the works councils for each workplace with five or more employees. In the latter case in particular, works councillors elected by the entire workforce, blue collar and white, have regularized and ongoing rights to information concerning and consultation and participation in management decision-making processes. Since in most cases works councillors as well as elected supervisory board members are also members of one of the sixteen dominant industrial unions, codetermination provides an additional firm-based level of union influence and ongoing labor-

3. See Hart 1992 for a useful description of alternative ways of organizing market economies, in Britain, France, Germany, the United States, and Japan.

4. Figures vary according to how calculations are made. Typical figures, stable for most of the postwar period, show union membership density ranging around 35 percent. See, for example, Jacobi, Keller, and Müller-Jentsch 1992, 232.

5. Exact numbers are difficult to pin down. Typically cited private sector figures (for 1989 to 1996) range around 80 percent employer association coverage (meaning that 80 percent of all employees work at firms belonging to an employers association) in western Germany and around 50 percent in eastern Germany (where association presence is still quite new). Figures gathered by Stephen Silvia from Gesamtmetall for the metal and electronics industries indicate somewhat lower—and declining—rates of coverage: 74.5 percent of West German employees were covered by comprehensive collective bargaining in 1984, compared to 64.2 percent in 1993.

management negotiation. In practice, personnel decisions in such areas as transfers, promotions, hiring and firing, work reorganization, working hours, and overtime are not made without the consent of the elected works council.<sup>6</sup>

These private-sector processes are mirrored in the public sector, where "personnel councils" play the role of works councils and basic pay and working conditions are set in negotiations between strong unions and corresponding government ministries.

If comprehensive collective bargaining and codetermination are the cornerstones of social partnership in Germany, negotiation and collaboration among organized business and labor also permeate both the human infrastructure of the economy and the processes of economic and social policymaking at the local, state, and federal levels. The much admired and extensive German system of vocational training (in which two-thirds of young Germans receive skills training in multiyear apprenticeships, followed by continuing opportunities for advanced training), for example, is everywhere overseen and actively participated in by both employer associations and labor unions. And the "social partners" are actively consulted in government policymaking, often quietly and behind the scenes but sometimes formally and with great public fanfare, as in 1992-93 "Solidarity Pact" negotiations that set the framework for key economic policy decisions regarding the new states of eastern Germany.

In these and other ways, well-organized and officially recognized social partners—business and labor—establish rules and negotiate important components of the framework in which the German market economy operates.

## **THE UNIFICATION OF GERMANY AND ITS CONSEQUENCES**

The social market model, referred to here as "social partnership capitalism" to indicate the active and central role of organized business and labor, had great success throughout the lifespan of West Germany (1949-1990). Impressive and consistently strong economic performance unfolded over four decades in a society characterized by strong labor and social standards, including high wages and benefits, low income polarization (compared to

6. This is especially true for firms with one hundred or more employees, virtually all of which have elected works councils. Many smaller firms do not have works councils (although they are mandated by law), since employee initiative is required to establish an election committee to get the process started. Since there are no penalties for not having a works council, smaller firms often lack works councils for one or both of the following reasons: the employees lack the interest or initiative to establish one, or the employer has discouraged them from exercising their rights.

other large industrial societies), and strong mechanisms for workforce representation. The authors represented in this book are unanimous in their admiration of key elements of the German model. They diverge in their assessments of the adaptation and resilience of the model in the face of dramatic new challenges in the 1990s.

When in the wake of unification the German economy plunged into a deep recession in 1992–1993, voices were raised on both sides of the Atlantic to argue that German social partnership was an expensive relic of a welfare-state past that could no longer solve the problems of an increasingly competitive global marketplace. In its emphasis on expanded vocational training, labor-management partnership, and a more activist government economic policy, the Clinton administration, and in particular Secretary of Labor Robert Reich, was criticized from the Right as a proponent of the German model just as this model headed into decline.<sup>7</sup> Even admirers of German social partnership wondered if negotiated decision making, strong labor and social standards, entrenched patterns of labor-management collaboration, and strong trade unionism in an era of international union decline could survive in the new post-cold war global economy.

In 1990 the stakes were raised dramatically. To West Germany's stable social market economy—population 60 million—was added overnight a large new chunk of territory, the former East Germany, with a population of 16 million. In the face of currency union on July 1, 1990, and political unification on October 3, 1990, both the eastern economy and accompanying institutions such as public ownership structures and communist-led trade unions collapsed. Western "social partners" were confronted quite suddenly with a vacuum of ownership and representation requiring major organizational efforts. Although both unions and employer associations quickly established a presence in the East and began to negotiate comprehensive collective bargaining agreements, more fundamental questions remained: Could these new actors and institutions transferred from the West sink roots deep enough to make social partnership work in the new federal states—and so in unified Germany as a whole? Would incoming westerners adapt or impose their model in the East? Could economic growth take off in the East, to bring this part of the country and its imported institutions up to western levels, to make unification a reality? Or would the East remain a less developed area, weak in both economic capacity and representation, where individual employers could set lower labor and social standards (as U.S. employers have done in the American South) that in time would undermine the social partnership back in the West? For a host of

7. See, for example, David Gitlitz and Lawrence Kudlow, "The Reich Reich," *National Review*, July 11, 1994, pp. 44ff.

reasons, well-placed scholars of German industrial relations predicted pessimistic and perhaps ultimately disastrous scenarios for both unions and employer associations in the new Eastern states.<sup>8</sup>

As if life-and-death challenges posed by unification were not enough, two other major challenges came into full view in the early 1990s. First, continuing European integration lent credibility to the threat that German employers would relocate their firms and factories to much cheaper locations in southern and eastern Europe. The threat of capital flight or “social dumping” (expressed in the 1990s as a loud and public debate over the viability of *Standort Deutschland*, Germany as a production location) threatened to raise employer bargaining power at the expense of unions’, weaken national institutions of regulation, and thereby destabilize the social partnership (see, for example, Mosley 1990 and Streeck 1991). And second, intensified global trade competition and especially the development of low-cost, high-quality Japanese production methods exposed problematic German rigidities in both cost and production organization (see, for example, Kern and Sabel 1990 and Gary Herrigel’s chapter in this volume). German industry appeared by the early 1990s to require a major reorganization of work, a daunting task for a rather stable and slow-to-change social partnership.

## THE DEBATES

The debates in this collection concern both the actual responses of the social partners to these challenges and the prospects for adaptation and future success. Extreme views are excluded: both the now-discredited “blooming landscape” perspective, which posits a largely seamless transfer of western institutions to the East and continuing rapid adjustment of German industry to new European and global challenges, and the hopelessly pessimistic “iron-cage” perspective, which discounts actor strategies and sees the German social partnership as trapped by impersonal forces of history.

Michael Fichter, Gary Herrigel, and Stephen Silvia all emphasize the crisis faced by social partnership and its current erosion. Fichter emphasizes prolonged East-West tension within the labor unions and the failure of transplanted western institutions to take root in eastern soil. Herrigel highlights western rigidities in work organization, on the part of managers and skilled workers, that interfere with a necessary reorganization of German industry to match the output of Japanese-inspired lean production. Silvia calls attention to the increasing bifurcation of the contemporary German labor mar-

8. On employer associations, see Wiesenthal, Ertl, and Bialas 1992. For unions, see Armingeon 1991 and Mahnkopf 1991 and 1993.

ket, which has begun to affect formerly insulated groups such as skilled blue-collar workers, pointing in the direction of an American-style polarization that could well confine the social partnership to a shrinking elite core.

On the more optimistic side, Peter Auer, Lowell Turner, Douglas Webber, and Kirsten Wever emphasize the capacity for continuing negotiated problem solving within the basic social partnership. Auer outlines the basic stability of German social partnership, and especially codetermination, as indicated by bargaining outcomes of 1993-95, while nonetheless calling attention to the millions of unemployed, who are not part of the system and need to be included. Turner points to the dramatic and unexpected strike victory of IG Metall in eastern Germany in 1993 and backs up his assessment of the relative success of social partnership with plant-level case studies. Webber presents broad political evidence, such as the Solidarity Pact negotiations of 1992-93, to argue that pressures of unification have actually promoted a resurgence of key elements of the German model, such as peak-level "corporatist" bargaining between organized business and labor. And Wever, calling attention as Herrigel does to necessary decentralization and reform within German firms, nonetheless argues that entrenched patterns of negotiation and compromise make successful renegotiation within the firm possible.

Other, perhaps wiser voices place less emphasis on either optimistic or pessimistic assessment, examining instead the contingencies present in key areas of economic policy. Chris Allen examines unification-era policy failures and the great danger inherent in what he poetically terms the "siren song of deregulation." Matthias Knuth explains the paradox of social peace in circumstances of massive economic dislocation in eastern Germany as a product of unprecedentedly active labor-market policy efforts, including important (and union-inspired) innovations such as the employment and training company (ETC). And finally, Richard Locke and Wade Jacoby examine the post-unification development of vocational training systems in eastern Germany, comparing Leipzig and Chemnitz to explain the successes and failures of institutional transfer as products of the vitality of local institutions and networks of civil society.

## IMPLICATIONS FOR A THEORY OF CHANGE

Three variables emerge as most relevant in the sometimes contrasting analyses presented in this book: global competition and economic restructuring (the environment); existing institutions (structure); and actor strategy (agency). For those who emphasize the crisis, all three are important: global

market competition drives change, which is inhibited by institutional rigidity and aggravated by an employer offensive against the rigidities within German social partnership. For those who emphasize adaptation of the German model in difficult circumstances, global markets and the employer offensive drive change while flexible institutions and actor strategies (especially union strategy) shape viable adaptation.

The real differences then are both empirical and theoretical and concern mainly structure and agency—since we all agree about the severity of environmental challenges, from global competition and European integration to German unification. The authors concur that institutions are important, but differ considerably over just how flexible or rigid, how capable of reform, these contemporary German institutions are. To what extent are Germans today trapped in once successful institutions (and corresponding identities, as Herrigel argues) that are no longer up to the new tasks faced, or capable of adequate and rapid reform—a German version, perhaps, of the “British disease”? To what extent can conscious actors shape or adapt the given institutions to solve major new problems? How important are innovative union strategies—or are the actors trapped by environmental and institutional constraints?

Finally, if strategy matters, then what kind is most important? Each author emphasizes a different area, and in so doing stakes a claim for primary theoretical relevance. Fichter, Herrigel, Silvia, and Wever emphasize internal organizational reform, pointing both to the constraints and opportunities in given institutions and to potential actor strategies to reform the institutions in the face of new challenges. Knuth, Turner, and Webber, by contrast, emphasize outward-directed strategy, especially on the part of unions and government, to adapt and reform institutions, policies, and bargaining relationships.

The overarching theme of this volume is conflict and negotiation—a fitting theme for a book on social partnership. Since 1989, the German model has found itself under great pressure; change or at least the necessity of change is driven by dramatic circumstances in the world arena. Existing institutions of the Federal Republic, now transferred to the new states of eastern Germany as well, matter a great deal for German capacities to manage the crisis—and as various authors argue here from different viewpoints, make some outcomes more likely than others. Yet within given institutional constraints, actors in business, labor, and government promote innovative or traditional strategies, which in turn collide with the strategies of other actors. In the end, the outcomes of conflict and negotiation between actors will provide at least the immediate cause for the relative success or failure of both policy innovation and institutional reform.

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