

# The End of Institutional Stability: What Future for the 'German Model'?

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The focus of this article is on institutions that, from a comparative perspective, have usually been perceived as contributing both to Germany's economic success and social integration: the vocational training and the industrial relations systems. The traditional institutional arrangements are being undermined by the consequences of German unification, persistence, mass unemployment and the disappearance of long-term perspectives on the part of capital. Of course, the 'German model' was never as consistent as the stylized accounts presented it to be, but recent changes in power relations have partly paralysed institutional enforcement processes and thereby have led to the fragmentation of institutional settings.

## Introduction

The gap between internal and external perceptions about Germany could not be greater: German managers no longer believe in the superiority of the German economy. According to one survey, they do not rank the country among the leading 20 nations in terms of competitiveness. In contrast, foreign managers place Germany among the top five (*Handelsblatt*, 21 March 1996). We find a similar gap in the comparative industrial relations and organization studies literature: while international contributions on Germany still tend to present stable and successful societal institutions – both in economic and social terms – political and academic debates within Germany paint a rather gloomy picture. The latter not only call into question the long-term viability of

German traditions, they also include reports that radical changes are actually under way.

This article argues that decisive change is fostered both at micro-level, namely labour processes and personnel policies, and at the macro-level of sectoral collective bargaining. Changes in the labour process not only affect the development and the utilization of skills, but also lead to demands for decentralization of negotiations, for example for agreements on wage schemes or flexible working hours being concluded at company or works level. At the same time, more and more employers are questioning the viability of collective agreements at sector level under conditions of intensified international market competition.

Taking these observations as a starting point, the article presents recent developments in German industrial relations and in the organization of the labour process. The focus is on characteristics and institutions that, from a comparative perspective, have usually been perceived as contributing both to economic success and social integration. We therefore briefly recall the main 'virtues' of socioeconomic institutions in Germany as they have been described in many contributions to the international comparative literature, both German and international. Then, we present arguments relating to the 'crisis' of traditional forms of skill formation and work organization, and describe current tensions in sectoral multi-employer bargaining as well as tendencies to decentralization of industrial relations. As far as the prime driving forces of accelerated institutional change are concerned, we do not assume – as is often the case in political debates – that economic 'globalization' has a greater impact than endogenous factors. Rather, we are trying to assess both tensions within the traditional institutional arrangements and new endogenous, not least German unification, and exogenous influences.

### **The Virtues of the 'German Model'**

In international comparative research, the former West Germany's postwar socioeconomic institutions have usually been described as forming a distinct and, for many, 'admirable' model of capitalism. Depending on the particular research issue, scholars have stressed different aspects and institutional levels, but there seems to be

agreement about a rather coherent overall picture. Accordingly, the model consists of the following main parts: 'social market economy' (*soziale Marktwirtschaft*), that is, capitalism tamed by political macro-regulation and redistribution of income by the state; long-term perspectives and a preference for productive investment on the part of capital; highly organized industrial relations combining sectoral multi-employer bargaining and cooperative labour relations within the enterprise; a vocational training system that combines on-the-job training with education in vocational schools; and diversified quality production based on highly skilled workforces.

The success story of the German export-oriented economy was the most obvious reason for looking at the institutional base of economic performance. But of course the 'German model' is made up of more than just economic superiority: it is complemented by a low level of social inequality in comparative terms, which stems from moderate income differentials between both occupational positions and sectors and from a developed welfare state. Institutional analyses tend to present a web of interlocking institutional solutions which, as a whole, explain how the 'system managed to combine competitive efficiency with high economic equality and social cohesion' (Streeck, 1995: 15). Therefore, in order to recall the main properties of the 'model', we want to briefly outline its core by way of describing a few interconnected virtuous circles.

The German system of industrial relations has been widely recognized as one of the major pillars of the national institutional framework of the German model. Its basic characteristics lie in the so-called 'dual structure' of workers' participation at plant level and centralized collective bargaining (*Flächentarifvertrag*) at sectoral level, which enable a 'functional differentiation of conflict of interests in two separate arenas' (Müller-Jentsch, 1995: 13). On the one hand, the 'conditions of sale' of labour as a commodity (wages, working time, general working conditions) are determined in free collective bargaining between trade unions and single employers or employers' associations. On the other hand, the 'conditions of use' of labour (transformation of the collectively agreed provisions, work organization) are concluded at company level between the management and the works council (Müller-Jentsch, 1995: 14).

The role of the state is limited to the provision of a legal framework for industrial relations including largely procedural rules which have been permanently developed and defined by decisions

of the labour courts. The *high degree of 'juridification'* (*Verrechtlichung*) in German industrial relations has widely been acknowledged as a major source for the high stability of the German system. Regarding the legal system as an expression of an institutionalized compromise between capital and labour, fundamental changes are only possible after a 'fundamental shift of interest coalitions and power relations' (Müller-Jentsch, 1995: 14).

German *collective bargaining* provides a system of macro-level constraints which supports the specificity of the German production model. Collective agreements are mainly conducted at the sectoral level between representatives of employers' associations and trade unions. As a result, sectoral collective agreements guarantee more or less the same basic income and working conditions for all employees in a certain sector regardless of the economic performance of their individual employer. Centralized collective bargaining, therefore, acts like a cartel, by taking labour costs out of competition on the labour market and creating the same conditions for all companies. As a result, companies are somewhat limited in their ability to pursue short-term labour cost-cutting strategies and, therefore, are under permanent pressure to increase their productivity. This 'productivity and innovation function' of centralized collective bargaining has been a major source for the functioning of Germany's economic production model, which has always been based more on a quality-competitive rather than a price-competitive production strategy (Streeck, 1995: 14).

The implementation of centralized collective bargaining is organizationally dependent on *strong and active associations* able to ensure the acceptance of agreements by their membership. A centralized structure of associations developed in Germany after the Second World War: on the workers' side industrial unionism was established, in which the individual unions aimed at organizing all employees of a particular industry. Although union density in Germany has always been between 30 and 40 percent, the Deutscher Gewerkschaftsbund (DGB)-affiliated trade unions succeeded in establishing a near monopoly of representation. The employers' side developed along similar lines to the unions, on sectoral lines with more than 70 percent of all companies in the former West Germany being members of employers' associations (Schnabel, 1997: 54). The level of organization on the company side is high by international standards and supports the view that even the employers have broadly accepted the German system of collective

bargaining. As a result, the collective agreement coverage is very high. According to a recent survey of the Institut für Arbeitsmarkt- und Berufsforschung (IAB), about 83 percent of all western German employees were covered by a collective agreement (Kohaut and Bellmann, 1997).

By comparison with other countries, employees – represented by the works council (*Betriebsrat*)<sup>1</sup> and by the employee representatives on the supervisory boards<sup>2</sup> – have relatively far-reaching rights to information, consultation and *codetermination* at company level. As a result, companies in Germany are affected by a relatively high degree of social regulation without ‘managerial prerogatives’ on economic decisions being called into question, however. In contrast, works councils are legally bound to the principle of ‘trustful cooperation’ with management and have to consider the ‘well-being of the company’. Consequently, it is generally forbidden for the works council to initiate industrial action.

The works council is entitled to monitor the implementation of collective agreements, but can only negotiate if existing agreements devolve certain issues to plant level. Sectoral multi-employer bargaining gives companies the opportunity to deflect conflicts over terms and conditions away from the company. These ‘order- and peace-keeping functions’ of centralized collective bargaining constitute the institutional preconditions for the development of stable, low conflict and ‘high-trust’ relations at company level. Cooperative-pragmatic interest representation (Kotthoff, 1994) supports innovation processes, and workers’ representatives are less likely to take up changes in work organization as bargaining issues than they are in other countries (Terry, 1994: 229). Worker participation leads to long-termism in company strategies, which tends to prevent hire-and-fire strategies by giving labour a voice in personnel policies. The resulting upgraded personnel management (Lane, 1989) and higher employment stability (Streeck, 1995) are supportive of high employer investment in skills. The long-termism of German enterprises has also been brought about by particularities of German capital markets, where ‘only a small part of the productive capital is traded on the stock exchange; shareholding is highly concentrated; and shares and companies do not often change hands’ (Streeck, 1995: 9).

The *vocational training system* and its consequences for deployment of labour and internal labour markets are further prominent features in international comparative research. In Germany,

vocational training of a large part of the working population is organized in apprenticeships. It is described as a 'dual' system because on-the-job training is complemented by education in vocational schools. The system not only provides skills that are, to a large extent, defined by practical requirements of industry, it also endows workers with portable certificates, thereby creating occupation-specific labour markets. It is widely recognized that the high skill base is one of the prerequisites for an export-oriented high wage economy. It has enabled companies to avoid price-competitive markets by focusing on quality and customization (Lane, 1995; Streeck, 1995).

The historical function of the apprenticeship system in the manufacturing industry was to allow selective recruitment of intelligent and ambitious young working-class people, who had been excluded from middle-class careers, for skilled jobs in production. The attraction of the system was further enhanced by the chance of being promoted to technician with white-collar status after having started as a blue-collar worker and after attending vocational evening classes (Lutz, 1996: 110). As comparative studies on Germany and France in particular have shown, this broad skill base, further training programme and upward mobility result in homogeneous occupational 'cultures' with little social differentiation. This in turn has advantages both for productivity and innovation. The 'dual' vocational training system is not limited to manufacturing. On the contrary, nowadays half of all apprentices are trained in white-collar occupations.

Vocational training is based on cooperation between the state, companies, associations and unions, and rests on the willingness of companies to invest in training and on the willingness of young people to take up apprenticeships. It is quite obvious that both the requisite cooperation at societal level and the motives of companies and individuals are formed in complex historical developments and are conditional upon particular economic and social situations. Later, we turn to the question of whether these conditions still apply today.

The German production model is usually associated with a *labour process* based on skilled workers with high levels of job discretion. The most prominent examples are certainly the machine tool and printing industries. In automobile manufacturing or electrical engineering, however, labour-intensive assembly is highly standardized and controlled by central planning departments, and repetitive

work is the rule despite the fact that large sections of the workforce are qualified as skilled workers. Wage systems, working hours and safety issues are negotiated and formally agreed between management and works council at central company level. Thus, the German production model can be described as a specific variant of Fordism, rather than an alternative to it. Changing economic conditions as well as new management perspectives have called the Taylorist-Fordist production model in mass production industries into question. However, what is important to recognize is that the postwar production model, depending on industry, firm size and gender, included both Taylorist-Fordist labour processes and forms of production organization based on skilled labour. Reorganization during the 1980s did not overcome that 'polarization' in spite of a tendency towards 'new production concepts' (Pries et al., 1989).

To sum up, the accounts of the German model that we have presented here give a rather coherent picture. Owing to a functionalist bias, internal contradictions and contrasting developments tend to be neglected. In addition, such accounts overemphasize stability, at least for the period of viability of the 'model'. Reality is of course much more heterogeneous, contradictory and changing. There is also no institutional determinism, as institutions themselves are always an expression of social compromises representing a certain balance of power between different interests. If we try to understand the current period of decisive change, we have to look at new constraints as well as at changing power relations that weaken core elements of the old institutional settlement, which has always been somewhat fragile. At the same time we have to stress enforcement processes that aim at the reproduction of institutional solutions. From this perspective, we present here current challenges of the institutional setting described so far. In doing so we focus on two socioeconomic arrangements widely regarded as decisive for the German model: the vocational training system and the deployment of skilled labour in production on the one hand, and the system of collective bargaining on the other.

### **Leaving the Path? Skill Formation and Skill Utilization in the German Production Model**

Intensified competition in world markets has led German observers to question the viability of the once praised 'production model'. It is

typical of the debate that developments in parts of the economy acquire major importance and tend to be generalized. Automobile and engineering are particularly sensitive sectors in this respect. Thus the success of Japanese engineering firms in displacing German tailor-made machine tools with standard products has had a similar impact on the rise of the Japanese car industry before. The *Leitmotiv* of many comments on the assumed problem of competitiveness is that the rich or 'dense' institutional setting in which the economy is embedded was conducive to economic success under specific historical circumstances. Under changed conditions of the economic and societal environment, previously successful strategies and institutions may turn into disadvantages (e.g. Kern and Sabel, 1994). If we look at forces for change, we also have to focus on shortcomings and contradictions of the German model that have previously been neglected in institutionalist accounts stressing consistency and continuity.

In this article we discuss core elements of the production model, that is, the institutional arrangements that regulate the formation of skills, the organization of production and the deployment of labour. We argue, first, that some of the problems raised in the 'globalization debate' have been present for some time already. Second, we would say that what we are witnessing is not the end of a viable socioeconomic settlement but rather an accelerated process of change that is calling the analytical concept of a 'national model' into question. The future seems to be characterized by transformation, fragmentation and heterogeneity rather than by novel consistent arrangements.

### *Processes and Institutions of Skill Formation*

In the political debate it is usually argued that the swiftness of current economic and technological change is not only rendering many formally defined occupations obsolete but is also making it obvious that the development of new occupational profiles takes too much time. But the critique is not new, and nor are some of the topical problems of the vocational training system. Weaknesses have long been evident in the high number of different trades and occupations, in the poor quality of training in some companies, in the lack of integration into the education system, in the slow adaptation to structural change towards the service and information



society and in misallocation by occupations (Kruse et al., 1996; Ofner, 1997; Clement, 1998). There are also severe problems in matching the training and the employment systems: Clement (1998) argues that half of all skilled workers change occupation within three years of finishing vocational training, and a quarter of those with vocational training certificates say that they are actually doing a job that is below their qualifications. These and other problems do not relate simply to problems of adaptation to new requirements but have deeper societal and economic causes.

In the 1980s, a reform of the vocational training system brought about new combined occupations (e.g. fitter and electrician) and new occupations for industrial production. In addition, the teaching of technical knowledge and experience was complemented with knowledge of methods and social skills. The integration of so-called 'key skills' (*Schlüsselqualifikationen*) means a widening of the concept of skill which calls for considerable adaptation of teaching and learning processes. In order to reach the newly defined extra-functional training goals, such as self-reliance, methodical thinking, ability to cooperate and so forth, the organization of, and the methods used in on-the-job training have been subject to some extent to far-reaching reforms based on experiments started as early as the 1970s (see Feldhoff et al., 1995). As far as the content of skills and qualifications is concerned, the system seems to be flexible enough to adapt to new circumstances, at least in the sector of large and advanced companies with a professional vocational training capacity. This may provide the base for its sustained legitimacy: according to a company survey, the dual system of vocational training is still seen as an important base for personnel strategies (BIBB, 1997).

Nevertheless, data indicate severe difficulties: since 1993/4, the number of new apprenticeship contracts has declined every year despite increasing numbers of school-leavers seeking training. Between 1992 and 1996 the reduction of training places exceeded the decline of jobs in manufacturing; in the service sector the number of apprenticeships decreased whereas employment increased slightly (Jeschek, 1997). Data provided by the IAB-Betriebspanel of the Federal Labour Office confirm this difficult situation and give rise to the expectation that apprenticeships will continue to be hard to come by (IAB, 1997).

Owing to developments in labour supply, industry is facing profoundly changed conditions for the recruitment of skilled workers.

Lutz (1996) argues that, in spite of a rapid expansion of higher education, the German apprenticeship system of vocational training has 'survived' longer than that in other countries. However, while administrative and commercial occupations have managed to adapt to the higher level of education, from the mid-1980s onwards manual occupations have not been able to attract young people with school-leaving qualifications. The metal industry has had to accept a reduction in the level of education of its apprentices. As already mentioned, the promotion of skilled workers to the positions of *Meister* or technician is an important feature of the German model with far-reaching consequences for productivity and innovation capacity. Because of the expansion of higher education and the reduced opportunities for selection of apprentices, companies have increasingly recruited school-leavers with technical training for such positions (Drexel, 1993). As a consequence the attraction of apprenticeships and of jobs as skilled workers has been further eroded.

The more diplomas are required for positions previously filled with promoted skilled workers, the more ambitious talents will try to acquire such certificates before starting gainful activity; the worse will be however the remaining pool of skilled workers, therefore virtually forcing companies to deploy engineers. (Lutz, 1996: 133)

Another weakness of the dual training system lies in the fact that not all companies carry out training as an investment in human resources. In some sectors apprentices are used as cheap labour, which means low quality training and few chances of further employment in the same company. These arguments point to tensions inherent in the traditional vocational training system, which were building up already during the 'golden age' of the German model even if they have only recently come to a head. The crisis of the system therefore stems from both internal contradictions and recent changes in the socioeconomic environment.

One of the new challenges facing the dual vocational training system is the reorientation of business and management: vertical decoupling of enterprises and decentralization of responsibility have led management of business units to apply short-term cost considerations and question all kinds of enterprise-level overheads. While vocational training activities were previously seen as a matter of course, at least in large enterprises, they are now put under considerable pressure (Wittke, 1995). Not only the principle

of 'shareholder value' but also high and persistent unemployment is undermining the social responsibility of enterprises. When skills are available on the labour market, or when employers at least assume that this is the case, they are less inclined to invest in training.

As regards the future of the vocational training system, let us look first at normative positions. What kind of organization is required to provide the skills needed by the changing production processes? One possible development is the strengthening of *organization-based* skill formation to the detriment of *occupational* labour markets. Comparing the German and the Japanese model of skill formation and utilization, Kern and Sabel (1994) highlight the limitations of the German occupation-based vocational training system. In their view, the internal hierarchical division between apprentice and *Meister*, and external demarcations between the trades or occupational groups along historical lines, cause difficulties in new forms of work organization. This is made evident by the increasingly problematic position of supervisors and by 'horizontal' conflicts between specialized occupational groups. Kern and Sabel (1994) argue that the Japanese organization-based system of skill formation avoids these problems because there is no hierarchy of qualifications and the different specializations are not strictly defined.

In contrast, Lutz (1996) argues that occupation-specific (external) labour markets are becoming even more important for companies faced with rapid structural change and having decentralized organizational structures: the ability of employees to find comparable jobs makes downsizing and reallocations of production easier and less costly; occupation-specific labour markets are vital for small, flexible business units for the recruitment of skilled workers needing only short periods for 'settling in'. Portable qualifications are crucial in this respect because workers need knowledge and skills applicable in different and varying work structures, and they have to be able to prove this with clearly defined and generally accepted certificates. These requirements impose limits on a move towards organization-based skill formation.

New evidence, including that from our own research, suggests that constraints stemming from the occupational construction of skill were being exaggerated in the debate (see Cattero, 1998). Currently they are even becoming weaker and, as a consequence, companies are gaining more discretion in their personnel policies in relation to the training system and to occupational labour markets. In the

food industry, for example, companies that increase the level of automation in production not only replace their female semi-skilled workforce with male skilled workers, but in doing so they also have the option of switching from food-related occupations to machinery-related qualifications. In addition, some regional labour markets even allow for the deployment of engineers trained in technical schools in direct production jobs (Flecker et al., 1998). In the automobile industry and in electrical engineering new organizational forms lead to flexible deployment of skilled labour that is restricted neither by status nor by occupational boundaries (Baethge et al., 1998). This means that to a certain extent companies can have a more *organization-specific* skills profile and deployment of labour without having to renounce the advantages of an *occupation-oriented* training system.

Although it is correct to assume that the retreat from the dual vocational training system of parts of the economy might lead to skill shortages in the long run (Wittke, 1995: 122), we do not think that this will endanger the viability of the production model. Previous developments have shown that companies find the recruitment of school-leavers to be an attractive alternative. Thus, qualifications provided by vocational training schools and polytechnics will become more important in some sectors of German industry. In other sectors, reforms and new initiatives in vocational training indicate a stabilization of the dual system based on new organizational forms and advanced training methods.

While this differentiation within the model of skill formation will not necessarily lead to problems in the skills base of the production model, the societal functions of the dual system of vocational training are definitely at risk: the lack of training places means rising youth unemployment and increasing numbers permanently excluded from the labour market. We should be more concerned about the severe social and political consequences of this development than about the competitiveness of the German export-oriented economy.

### *Work Organization: From Polarization to Fragmentation*

Looking at the labour process we can see that even in the traditional production model the match between skill formation and skill utilization was far from perfect. Accounts of the traditional virtues of the German model tend to overemphasize the harmony between

the vocational training system, on the one hand, and the deployment of skilled labour in flexible production processes, on the other. The machine tool industry is usually, and rightly, presented as an exemplary case, but its characteristics cannot be generalized, because of the non-standardized production process in this industry. Polarized skill profiles tend to be the rule in electrical engineering as well as in the automobile industry. In consequence, even in the 'traditional model' assembly workers in semi-skilled grades have been excluded from the homogeneous occupational 'culture' described above (Wittke, 1995; Jürgens and Naschold, 1994).

Many authors argue that manufacturing companies in a number of industries are not capitalizing on the skills base provided by the vocational training system. In particular since the reforms in the 1980s a 'new type of skilled worker' would make far-reaching task integration in the high-tech production process possible, but organizational change is lagging behind (Kern and Sabel, 1994: 620); in the 1980s, the automobile companies' practice of 'hoarding' skilled workers in semi-skilled production areas did not resolve problems of skill utilization (Jürgens and Naschold, 1994: 257); occupational orientations and the aspirations of skilled workers have changed faster than the organization of the workplace (Wittke, 1995: 121); macro-analyses indicate that the level of vocational training qualifications of blue-collar workers has risen faster than the skill requirements of jobs in manufacturing (von Hennings, 1996); 'de-graded' deployment of skilled workers in production causes frustrations, absenteeism and labour turnover (Springer, 1994).

We can conclude that one of the weaknesses of production organization in the Fordist period was the failure to adapt labour processes to the workers' skills. New developments are tending to exacerbate this situation. Changes on the labour market through the expansion of higher education are intensified by rising unemployment. The larger the supply of labour, the greater the opportunities for companies to recruit workers with high levels of school-leaving and vocational qualifications, thereby further worsening the occupational prospects of unskilled and skilled workers. Consequently, the vicious circle described by Lutz (1996) is accelerated, calling into question the homogeneous occupational cultures presented as basis for productivity and innovation.

Turning to new challenges, first we have to address the question as to how international transfer of knowledge and of management strategies affects the future shape of the 'production model'. In

particular transnational enterprises tend to capitalize on company-specific technological and organizational knowledge, thereby establishing similar processes in subsidiaries in different countries. The integration of transnational production or 'value added' networks contributes to the tendency to convergence of organizational forms. Integrated processes require a higher degree of compatibility and exchangeability of production units than in a 'multinational' structure with relatively autonomous national subsidiaries oriented towards separated national markets. This not only applies to information and communication technologies and to reporting systems, but also to designs of production processes and work organization (Thompson et al., 1995; Hirsch-Kreinsen, 1997). The spread of 'global' business strategies can thus be expected to strengthen the convergence of organizational forms within transnational enterprises or networks of firms. In practice, such convergence is brought about, for example, by way of double sourcing, comparisons of performance, central consultancy units or job rotation of managers.

Adtranz plans to use lessons learnt in Britain – where ABB's [Asea Brown Boveri] rail payroll was cut from 8,200 to 3,500 in the early 1990s – to help it cut costs in the rest of Europe. 'We have just transferred the UK restructuring team to Germany to do the same in Germany as in England', said Kaare Vagner, the president and chief executive officer. About 10 people have been relocated. (*Financial Times*, 11 September 1997)

However, the effect of 'global' enterprise strategies on 'national production models' is more complex than the image of deliberate convergence suggests. It is the very aim of 'global' strategies to locate individual business functions according to comparative advantages of nation-states, regions or cities. Capitalizing on local particularities, however, is only feasible if the subsidiary is to a certain extent open to influence through the specific institutional environment (Flecker and Krenn, 1996). 'Global players', in this view, are most successful if they manage to establish new locations as 'laboratories of production' and to integrate the best practices. 'Globalization then not only means the export of well-tried organizational forms or production concepts but their combination with local practices and with transfer of knowledge from new locations to the parent units' (Dörre, 1995: 160ff.).

In fact, the intensive debate on 'lean production' triggered considerable changes in company structures and work organization in the early 1990s. As far as the consequences are concerned the

following question is decisive for our argument: did the consequent organizational change towards decentralization, participation and self-organization lead, as one could expect, to a fuller utilization of the skills base? The most immediate results were increased outsourcing and decentralization as well as faster dissemination of group working. According to surveys, by the mid-1990s a quarter of all engineering companies had working groups (Funder and Seitz, 1997). Other findings show an increase between 1993 and 1996 that resulted in a third of the smallest companies and two-thirds of large companies introducing group working (Widmaier, 1998). The proportion of automobile workers who were members of working groups rose from 4 percent in 1990 to 22 percent in 1994 (Roth, 1996).

Of course, the actual content of group working may vary considerably. Consequently, the spread of this form of work organization does not necessarily overcome the discrepancy in skills utilization between industries and between capital-intensive and manual production areas. On the contrary, while new skills-based forms of group working, similar to the Swedish-style semi-autonomous working groups, are developing in the machine tool industry and in capital-intensive production, manual production areas such as assembly are increasingly dominated by 'Toyotist' team working. In particular, (East) German plants are being used as pilot units for the development of new forms of work organization copied from North American transplants of Japanese companies. Experiences can then be transferred to western plants by way of 'concession bargaining'. These developments in assembly areas of the automobile industry show a 'return to Taylor' in spite of the high proportion of workers with vocational qualifications (Roth, 1996). At the Opel plant in Eisenach, group working means additional responsibility and self-organization for assembly workers, but the task structure has remained 'highly restrictive' and does not allow 're-professionalization' (Schumann, 1997: 221).

Looking at management strategies in the organization of production in the automobile and electrical engineering industry, Schumann and Gerst (1996) describe the first signs of a switch to a new model: a growing number of managers seem to be flirting with the idea of a low wage, low skill, price-competitive alternative to the German model. Methods like 'bench marking' and 'target pricing' are making production managers focus on quantitative indicators and short-term perspectives and leading them to neglect

hitherto accepted technical, social, ergonomic and political standards. In work organization 'Taylorism in new clothes' is presented as a model of the future.

These findings contrast with examples from the machine tool industry, but also with automobile companies such as Mercedes-Benz, which are showing how new international forms of organization can be adapted to local circumstances in a different way. One example is the joint paper issued by the employers' associations of the engineering industry and the trade union IG Metall, describing the aims and cornerstones of this new form of work organization: efficiency and how 'attractive work' should be realized by task integration, self-organization, participation and opportunities to utilize existing skills. At company level these new forms of work organization and the requisite changes in wage schemes are usually negotiated between management and works council. At Mercedes-Benz work groups elect their group speakers and assume responsibilities from their superiors. In addition, the task structure has been changed by enlargement of jobs and integration of indirect functions such as maintenance, logistics and planning (Schumann, 1997: 220ff.). These examples show how the new impetus stemming from the dissemination of international 'best practice' can be integrated into a path-dependent development of work organization.

The general picture that emerges is that the heterogeneity within the production model is tending to increase. Departing from the polarized pattern of work in manufacturing that already has qualified the stylized accounts of the production model of the high skill, high wage economy, current developments are resulting in greater fragmentation. This is because, in addition to skills-based production on the one hand and deskilled repetitive work on the other, we find progressive applications of new forms of work organization aimed at improved reconciliation between the skills base, processes of skill formation and practices of skills utilization. But the institutional context, namely weak enforcement processes, in particular in the eastern part of Germany, is also making it possible to introduce highly restrictive work practices combined with an intensified pace of production.

We can conclude that regional disparities, company-specific organizational forms and industrial relations, as well as far-reaching differences between industries, are tending to blur the picture of a distinct national model of production. Previously, heterogeneity



could be well described as polarization, whereas in future fragmentation might be the more appropriate term.

### **German Collective Bargaining under Pressure**

From a macroeconomic viewpoint, the traditional strengths of German centralized collective bargaining are three-fold: first, to a certain extent it gives companies the opportunity to externalize the cost of conflict resolution which takes on the character of a public good. Second, by taking wages out of competition it forces companies to compete more on the level of innovation and productivity. Finally, centralized collective bargaining leads to a relatively homogeneous distribution of incomes. In contrast, according to more orthodox neoliberal economists, centralized collective bargaining might be seen as suboptimal from a microeconomic perspective because it seems to force single companies into a homogeneous 'collective bargaining corset' without considering specific company needs. Current pressures on German centralized collective bargaining also reflect a further shift in political hegemony from a more macroeconomic to a more microeconomic perspective, mirroring a shift in societal power relations.

#### *German Collective Bargaining – A Homogeneous 'Collective Bargaining Corset'?*

The widespread image of German collective bargaining as a homogeneous system creating more or less the same rigidities for all companies, however, has always been an ideological construction rather than an appropriate description of reality (Bispinck, 1997a). Even a cursory glance at the number of currently existing collective agreements shows a different picture: at the end of 1996 more than 45,000 effective collective agreements were officially registered by the German Ministry of Labour.

Nearly 30,000 of these are association-level agreements (*Verbandstarifverträge*) concluded at sectoral level between trade unions and employers' associations. Considering the large number of amending, parallel and follow-up agreements, there are more than 9500 so-called 'primary agreements', including more than 2600 wage agree-

ments and about 6900 agreements on working conditions such as working time, holidays or grading systems. To sum up, Germany has a rather differentiated structure of sector collective bargaining areas.

Furthermore, there are more than 15,000 company agreements (*Firmentarifverträge*) negotiated within companies which are usually not members of an employers' association. It is important to recognize that, even in the case of a company agreement, it is the trade union and not the works council which negotiates the agreement, because, as stated in the German Works Constitution Act (*Betriebsverfassungsgesetz*), works councils are not allowed to conclude collective agreements (*Tarifverträge*). So far, only a few larger companies (Volkswagen, for example) have company agreements. Otherwise, most such agreements are in small and medium-sized companies, covering only a small range of employees.

According to the results of a company survey by the Institut für Arbeitsmarkt und Berufsforschung (IAB), in 1995 about 62 percent of the companies and 83 percent of the employees were covered by a collective agreement in western Germany (Table 1). The overwhelming majority of employees (72.2 percent) were covered by association-level agreements at sectoral level. In addition, about 10 percent of the employees were covered by company agreements. The German collective bargaining system has not thus far permitted the emergence of a major non-union sector as is the case in Anglo-Saxon countries. Although more than 38 percent of western German companies lack collective agreements, these firms are mainly small and medium-sized companies covering only about 17 percent of western German employees altogether.

**TABLE 1**  
**Collective Bargaining Coverage of Companies and Employees in Western Germany in 1995**

	Percentage of companies	Percentage of employees
Association-level agreements	53.4	72.2
Company agreements	8.2	10.9
No collective agreement	38.4	16.9

Source: IAB company survey (Kohaut and Bellmann, 1997).

**TABLE 2**  
**Earnings Dispersion in OECD Countries (Full-Time Workers)**

	D5/D1	D9/D5
Norway (1991)	32%	50%
Sweden (1993)	34%	59%
Denmark (1990)	38%	57%
Finland (1994)	40%	70%
Belgium (1993)	43%	57%
<i>Germany (1993)</i>	<i>44%</i>	<i>61%</i>
Netherlands (1994)	56%	66%
Switzerland (1995)	59%	71%
Japan (1994)	63%	85%
Portugal (1993)	64%	147%
France (1994)	65%	99%
Italy (1993)	75%	60%
United Kingdom (1995)	81%	87%
Austria (1994)	101%	82%
USA (1995)	109%	110%

D = earning deciles, D1: lowest earning decile, D5: fifth earning decile, D9: ninth earning decile.

*Source:* OECD Employment Outlook (1996).

The German model of capitalism has been widely regarded as a successful synthesis between a high level of international competitiveness, a comparable high level of wages and welfare and a relatively low level of social inequality. A relatively low earnings dispersion between the different income groups is thus a particular feature of German capitalism. According to an OECD study, only the Scandinavian countries have a lower earnings dispersion (Table 2). Unsurprisingly, countries with a more centralized bargaining system usually have a lower income dispersion, which underlines the 'solidarity function' of centralized collective bargaining.<sup>3</sup>

However, the very aggregated OECD data tend to underestimate existing wage differentials in Germany. According to a recent study made by the Wirtschafts- und Sozialwissenschaftlichen Institut (WSI), there is an average spread in every western German sectoral collective bargaining area of about 152 percent in wages (for blue-collar workers), 282.5 percent in salaries (for white-collar workers) and 265.5 percent in remuneration (sectors which have no distinction between wages and salaries) (Bispinck, 1997a). In addition, a

recent study by the IAB has pointed out that the earnings dispersion shows significant differences among the various branches (Bellmann et al., 1996). This coincides with another study by the WSI which identified about 43 significant sectoral collective bargaining areas as markedly low income sectors (Bispinck, 1996). To sum up, the German collective bargaining system has not been able to avoid the development of an extensive low wage sector. Depending on the definition of poverty between 2.5 million and 7 million full-time employees in Germany have to be characterized as 'working poor' (Schäfer, 1996).<sup>4</sup> The income dispersion in Germany becomes even larger when the payments above the collectively agreed rate (*übertarifliche Leistungen*) are taken into consideration. To sum up, we can regard German collective bargaining as being much more differentiated than is generally supposed in the academic as well as in the political debate.

### *German Collective Bargaining under Discussion*

The German system of centralized collective bargaining has always been criticized from both sides of the political spectrum. While conservatives and radical neoliberals have blamed the German system for privileging trade union power, more leftist groups have criticized it as an instrument of the corporatist integration of German trade union leaders into the capitalist system. Until the late 1980s, however, all main political parties, and the overwhelming majority of employers and trade unionists as well, not only supported the system but saw it as a major precondition for the overall economic success of the German model. Even in 1990, when it came to the German unification, all relevant parties agreed to transfer West German collective bargaining structures to the east (Bispinck, 1995).

Nevertheless, since the mid-1980s the critique on the system has increasingly shifted from the political periphery to the centre of relevant political and social players. A growing number of employers and economic experts have started calling for more 'flexibility' in centralized collective bargaining and a greater involvement of the company level. In 1987, the conservative German government launched a committee to 'revitalize the market economy' in Germany. The report of the so-called 'deregulation committee' was published in May 1991 and recommended abolishing the rule that collective agreements are minimum standards of an

employment relationship (Deregulierungskommission, 1991). It proposed that under certain conditions companies should have the chance of undercutting and opting out of centralized collective agreements, for instance to employ long-term unemployed under worse conditions than collectively agreed.

The so-called Monopolies Commission (Monopolkommission) even went one step further.<sup>5</sup> In their annual report for 1992/3 they criticized the 'cartel structure' of the German labour market as a result of central collective bargaining and proposed a change of the current Industrial Relations Act to the effect that it should be possible to depart from collective agreements regulations via works agreements at company level (Monopolkommission, 1994: 360ff.). The proposed introduction of a 'general legal opening-up clause' should for the first time allow works councils to sign collective agreements and would in fact lead to an abandonment of the central collective bargaining system.

In the 1990s, the earlier broad consensus about the German collective bargaining system has been called into question. Trade unions and employers' associations who wish to continue with the bargaining system, also in their own institutional interest, are increasingly on the defensive and, in the meantime, are ready to accept major reforms to safeguard the basic structures of the system. The German employers' associations want to restrict the scope and content of collective agreements to pure framework agreements with very few binding elements and much greater freedom for companies to adopt or even diverge from collectively agreed provisions (see, for example, Gesamtmetall, 1996). And even the trade unions, which are still internally split on how to react to this debate, in their majority accept the concept of devolving more bargaining powers to the company level. In its recently concluded new constitution, the DGB demand 'a new relationship of centralized collective agreements and its adoption at company level' (DGB, 1996).

However, the intensive debate on the future of centralized collective bargaining also reflects the fact that many changes have taken place in collective bargaining practice since the early 1990s. But what are the reasons for the evident crisis of the German bargaining system? Besides the already analysed challenges of the German production model, the current controversy has two major points of reference: first, the impact of German unification and, second, the

question of international competitiveness relating to the current debate on 'globalization'.

### *The Impact of German Unification on Collective Bargaining*

Formally accomplished on 3 October 1990 by the accession of the former German Democratic Republic (GDR) to the Federal Republic of Germany (FRG), the entire West German state and constitutional system has been extended into East Germany. All the political, legal and socioeconomic institutions, including West German industrial relations, were thereby transferred to the East. Collective bargaining policy in eastern Germany after the unification had to handle two different and partially contradictory aims: on the one hand, the employers and trade unions had to consider the enormous economic difficulties of a transformation economy, in particular in the industrial sector. On the other hand, they had to deal with the ambitious expectations of eastern German people for a rapid alignment of working and pay conditions to western German levels, which were exacerbated by a rapid increase in eastern German living costs.

Considering the particular political circumstances of German unification, both collective bargaining parties originally agreed to a smooth assimilation of eastern German wages and working conditions to western German levels (Bispinck, 1995). In some sectors (e.g. in the eastern German metal industry) collective agreements included a phasing-in plan for a step by step increase of eastern German wages up to 100 percent of those in the west. After unification in autumn 1990, the average gross income of an eastern German employee was only 35 percent of his or her western colleague. Since then the average gross income of an eastern German employee has grown to 72 percent of the west in 1995 (DIW, 1996). In 1996, collective agreed basic wages in most eastern German branches varied between 80 and 90 percent of western levels (Bispinck, 1997b). However, the differences in effective income between west and east are still even bigger, because of the further existing differences in working time and annual bonus payments.

Collective bargaining in eastern Germany took place under the conditions of a tremendous 'transformation crisis'. After the shock of the German monetary union in 1990, from one day to another the previously quite well-protected eastern German economy had

to perform under free world market conditions. In this situation most of the eastern companies suddenly became uncompetitive and lost the main portions of their markets. In particular, the traditional backbone of GDR's economy, its industrial sector, was affected by the shock of market competition. Many eastern industrial companies were thus forced to close down and, as a result, an enormous process of deindustrialization of the eastern German economy was set in motion.

Against the background of a continuing poor performance of the eastern German economy, collective bargaining policy has come under increasing pressure. The initial collective agreements for eastern Germany have caused a situation where eastern German wages have grown faster than productivity and therefore have led to a rapid increase of unit labour costs.<sup>6</sup> Considering this, eastern German collective bargaining policy has become widely accused of being a major source of the still failing economic recovery (Pohl and Schneider, 1996). As an indication of that argument, since 1992/3 there have been clear tendencies of an erosion of centralized collective bargaining in eastern Germany. First, the number of eastern German companies which are members of an employers' association and thereby covered by an association-level collective agreement is substantially lower than that in the west, varying between 75 percent in the chemical industry to around 35 percent in the metal industry (Artus and Schmidt, 1996). In the metal industry the number of companies which are members of an employers' organization has declined from 60 percent in 1992 to 35 percent in 1994, still covering between 55 percent and 65 percent of the employees. While most big companies still belong to an employers' association, many of the newly established small and medium-sized companies are refusing to take up membership (Schroeder, 1996). Second, there are a growing number of companies which are legally covered by an association-level collective agreement, but in fact have wages and working conditions below the collectively agreed standards. Often informally, under the threat of further layoffs, many works councils and even local trade unions are ready to accept lower working standards to safeguard employment. Estimates of the number of eastern German metal companies which have practised this type of 'wildcat co-operation' (Dore, 1996) vary between 20 percent and 60 percent (Artus and Schmidt, 1996: 35).

The employers' associations and trade unions have tried to react to these tendencies with further moderate wage increases, a delay

of phasing in plans to adapt western German wage levels and, finally, with the introduction of opt-out clauses for certain individual companies (Bispinck, 1995: 68ff.). The most prominent example of the latter was the introduction in 1993 of a 'hardship clause' in the collective agreement of the eastern German metal industry (Hickel and Kurtzke, 1997). As a result, companies in danger of bankruptcy now have the opportunity to apply for the status of 'hardship case' to the employers' associations and trade unions. If both parties agree, the company is allowed to reduce wages below the level of the general collective agreement for a limited period.

A first evaluation of the use of hardship clauses showed that more than 180 companies have applied for hardship case status and about half of them have been accepted (Hickel and Kurtzke, 1997). However, the economic effects of the use of hardship clauses have been identified as rather limited, usually because 'high wages' were not the main factor for the economic problems of eastern German companies. Nevertheless, the ongoing transformation crisis of the eastern German economy is creating a social and political climate in which more and more employers are trying to back out of general collective agreements. Eastern Germany seems to be becoming a pioneer in flexible and decentralized collective bargaining with a knock-on effect on political discussions in the west. Many western German employers are trying to use their eastern subsidiaries as a 'test bed' to weaken central collective bargaining and to promote the shifting of industrial relations to company level. Finally, there is a clear danger that German capital is trying to use eastern Germany as a low cost, low wage area and thereby failing to improve the eastern productivity level. In the end, 'a low-wage regime in the east might erode the high-wage and high-skill regime in the west by opening up opportunities for low-wage production that might lure German firms away from the upgrading path of industrial virtue' (Streeck, 1995: 21).

### *The Impact of Globalization on Collective Bargaining*

When in 1992/3 Germany went through its deepest economic recession since 1945, many authors started proclaiming the definitive end of the German model. Since then, the German economy has recovered slightly, but the public debate on the necessity for reform



of the institutional structure of German capitalism has even intensified. The announcement of a record mass unemployment level of nearly 5 million people in 1998 indeed indicates a serious structural crisis of the German model.

As a dominant explanation for this crisis it is often argued that, under the new conditions of a global economy, the specific institutionalization of German capitalism is no longer adequate and, as a result, Germany is losing more and more its international competitiveness. Even if the use of the term 'globalization' is mostly rather vague, it usually stands for the notion of a qualitatively new stage of international capitalism. The debate on globalization mainly focuses on a fundamental change in the relation between transnational capital and the nation-state. Following the globalization thesis, the nation-state's former capacity to regulate its economy disappears:

Market-modifying and market-correcting political intervention in the economy, including publicly associational self-regulation, can take place only within nation states, because it is only here that the public power necessary for the purpose can be mobilised. Economic globalization therefore erodes the conditions for such interventions and . . . leaves only de-politicised, privatised and market-driven forms of economic order. (Streeck, 1995: 27)

Because of the new mobility of transnational capital, national social and welfare regimes stand in competition with each other in attracting investment to safeguard social wealth and employment. In this situation, the principal function of the state, it is argued, has to change from its traditional postwar role as a 'Keynesian welfare state' to a new 'Schumpeterian competition state' (Jessop, 1992).

In Germany, as well as in other countries, the debate on globalization is having a major influence on current developments in industrial relations. Under the new circumstances of a globalized economy, the high wage and high productivity performance of German postwar capitalism seems to be losing its traditional efficiency. The notion of *Standort Deutschland* (Germany as a location for economic activity) has become widely accused of being too expensive and too overregulated to compete on world markets. In particular, the system of centralized collective bargaining might lose its main 'cartel functions' of determining general binding wages and working conditions, because capital is increasingly able to switch its activities to other countries (see, for example, Soltwedel, 1996). From this perspective the growing number of German foreign

direct investments (FDI) in recent years are interpreted as an 'emigration' of capital from the less profitable production sites in Germany.

However, attempts at proving the globalization thesis for the case of Germany raise a lot of doubts on this view and clarify the highly political and ideological dimension of that debate:

1. First of all, globalization in the German context is not such a new phenomenon. On the contrary, a mainly export-oriented growth model has always been a major characteristic of German capitalism. Today, Germany is still one of the world's leading export nations trading nearly one-third of its GDP and having a trade surplus of nearly DM100 billion in 1995.
2. Looking at the regional distribution of German trade and FDI, one cannot speak of a truly global economy. In 1995 about two-thirds of all imports and exports as well as of all foreign investments were related with other western European countries.
3. In addition, the proportion of German FDI going to low wage countries is still very low, while the largest amount of German investment is in other highly developed industrial countries.

Altogether, from a macroeconomic perspective German capitalism is still primarily benefiting from its highly internationalized economy. Therefore, one cannot say that globalization *as such* is undermining the principal foundations of the German model including its system of centralized collective bargaining. There is no economic determinism that says that a globalized economy automatically leads to universal convergence on one single type of capitalism (for instance the Anglo-Saxon model).

The actual challenge of globalization for German collective bargaining can, in our view, only be grasped from a *microeconomic* perspective. The relationship between globalization and collective bargaining assumes different forms according to different degrees of international interconnectedness in different industries and enterprises. A large number of transnational companies have established cross-border production chains in which sites in Germany compete directly with locations in other countries. New information and communication technology allows continuous comparisons of relative costs and productivity levels, and therefore intensifies competition within transnational enterprises. The internal logic of the organization of cross-border production chains lends itself to the

emergence of enterprise-bound collective bargaining and increasingly contrasts with multi-employer bargaining (Marginson and Sisson, 1996).

There are two aspects of transnational production networks that contribute to the erosion of sectoral collective agreements. First, the 'cartel function' of multi-employer bargaining, which is limited to regions or nation-states, is being undermined by growing exit options available to companies. Second, intensified competition and growing mass unemployment enables companies to compensate for the traditional 'peace-keeping and productivity functions' of sectoral collective agreements by way of internal 'modernising and competition coalitions' (Streeck, 1996b).

In the long run, it is doubtful whether the detachment of regulation at company level from the societal environment is viable. So far, the 'footloose' enterprise independent of regulations by nation-states and endowed with unlimited exit options remains largely a fiction (Dörre, 1996b). Even transnational companies are still embedded in social and political networks of their country of origin, and they realize the larger part of their sales in their home country or (global) home region (Ruigrok and van Tulder, 1995). Consequently, there are still certain constraints on exit options from nation-state regulations (e.g. through cross-border relocation of production). The increasing need for coordination of transnational production networks leads to a higher degree of potential vulnerability, thereby making a stable social environment more crucial (Dörre, 1996b).

Finally, the viability of sector collective bargaining in times of globalization is to a great extent a political question. The emergence of cross-border production networks has contributed to a marked shift in power relations between enterprises and local labour organizations. With increasing frequency we can observe cases where management forces concessions from works councils by way of threatening (cross-border) relocation of production. Sometimes these concessions lie already below the collectively agreed standards and, actually, in a formal sense must be claimed as illegal. A prominent example of this form of 'wildcat cooperation' was the German heating company Viessmann in 1996 (Hassel and Schulten, 1998). In order to prevent the establishment of a factory in the Czech Republic the works council accepted an unpaid, three-hour extension of the working week. In a survey, 90 percent of the employees responded in favour for fear of losing their jobs (Hassel and Schulten, 1998).

The 'Viessmann case' is symptomatic of the danger of a gradual hollowing out of the system of multi-employer bargaining. This is linked to globalization insofar as the alleged or actual exit options of enterprises are increased, and power relations shift. The political hegemony of neoliberalism, closely linked with the globalization debate, means that politics is deliberately refraining from restoring the traditional balance of power, for instance by strengthening European-level regulations (Flecker and Schulten, 1998). Against such a background, the chances of securing the basic principles of the German system of sectoral collective bargaining by way of flexibility and decentralization seem rather slim.

## Conclusions

Of course, German economic and societal institutions have never been as coherent and stable as stylized accounts of the German model suggest. However, recent upheavals have not only accelerated the processes of social change but also seem to be threatening the core elements of the institutional settlement that has developed since the Second World War. The deep and persisting crisis of the eastern German economy and the enormous costs of the unification for Germany as a whole are threatening the viability of the welfare state, a crucial pillar of the German model. On top of this, institutions in industrial relations in particular are being weakened by the opportunities for experiments offered in the east. Changes in capital markets relate to the fact that long-term perspectives and societal responsibilities of large companies are being replaced by the principle of 'shareholder value'. Reducing the numbers employed in order to raise the stock market quotation has become increasingly acceptable – and maybe necessary given the globalization of financial markets. In fact, current market prices of German companies are rising as fast as employment figures are falling (*Der Spiegel*, December 1997).

The possible futures of the German model must be seen against the background of a financial crisis of the state and fundamentally changing capital markets. Both affect the viability of core institutions of industrial relations. The traditional production model is, in turn, dependent on a 'conflict-partnership' (Müller-Jentsch, 1993) between capital and labour and state intervention at regional and national levels. Not only does the reproduction of the

vocational training system require close interaction between the state, employers' associations and unions. New forms of work organization, such as skills-based group working, are also being brought about by a complex interplay between companies' strategies of skill utilization, codetermination and trade union concepts. Both efficiency and acceptance are contingent on the specific adaptation of general principles of work organization. However, the current state of centralized bargaining as well as the problems in the field of vocational training are showing how fragile the preconditions for such adaptation processes are.

German unification on the one hand, and the political impact of globalization on the other, mark a fundamental change in the structural features of the German model. In particular, the German system of centralized collective bargaining is showing clear tendencies of erosion through further decentralization. According to recent studies on comparative industrial relations, the trend towards decentralization of collective bargaining has been observed in many industrialized countries (see, for example, Ferner and Hyman, 1992; Traxler, 1995b; Flecker and Schulten, 1998). However, decentralization can mean different things in different national systems of industrial relations. One major distinction is between *regulated* and *non-regulated* forms of decentralization (Hassel and Schulten, 1998).<sup>7</sup>

Both forms of decentralization have been increasingly important in Germany since the beginning of the 1990s. Meanwhile, to avoid further erosions of centralized collective bargaining, German employers' associations as well as the trade unions have agreed in principle on major reforms of the old bargaining system along the lines of regulated decentralization. Yet, there still exist different views relating to its scope: while the employers' associations are demanding the introduction of a 'general opening clause' which would allow the company and the works council to agree on lower standards than collectively agreed (Gesammetall, 1996), the trade unions are trying to limit the 'opting out' to companies with serious economic problems. However, the future of German collective bargaining is rather uncertain, because it is by no means clear that regulated decentralization is conducive to the stabilization of centralized collective bargaining. Perhaps the outcome will rather be the opposite and mean an even faster erosion of the industry-level bargaining system.

At both workplace and collective bargaining levels we can expect increasing heterogeneity in Germany. As we have argued, important differences between sectors, regions and companies are by no means novel. What is calling the German model into question, however, is that because of vanishing 'virtues' of traditional institutional arrangements and new structural challenges, practices that depart from the so far predominant path of development will become more widespread. This will result in a greater degree of heterogeneity, mainly because the strength of enforcement processes of institutional solutions is becoming increasingly varied depending on the region, the industry or the company.

The outcome of current changes is not structurally determined. Strikes, demonstrations and the expressed preference of large parts of the political establishment for negotiated solutions containing a social element indicate that attempts at dismantling traditional institutions are being confronted with resistance. Future developments depend on how trade unions translate this resistance within their contribution to reregulation, namely in their attempt to prevent neo-liberal deregulation. The options available in this respect are not very appealing: on the one hand, keeping regulations and procedures unchanged may contribute to the erosion of complex institutional settlements by way of opting out by increasing numbers of companies. On the other hand, allowing for further 'flexibility' within the framework of central regulations and institutions may accelerate the dynamic of deregulation.

## Notes

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1. As laid down in the Works Constitution Act (*Betriebsverfassungsgesetz*) 1952.
2. As laid down in the Worker Participation Act for Coal and Steel (*Montanmitbestimmungsgesetz*) from 1951.
3. An important exception to this is Austria, which has a rather highly centralized bargaining system and at the same time one of the highest earnings dispersions.
4. A widely used definition of a low income is an income which lies below 50 per cent of the average national income. On this definition Germany has about 2.5 million

'working poor'. However, if one uses the definition of the 1960 Social Charter of the Council of Europe, which fixed the limits of an 'equitable' wage to 68 percent of the average national income, the number of 'working poor' in Germany rises to 7 million.

5. The Monopolies Commission was set up by the German government to report regularly on the market situation and concentration tendencies in the German economy.

6. The method of measuring unit labour costs is still quite controversial. The figures of eastern German unit labour costs vary between 15 percent (Hofmann, 1996), 35 percent (Wegner, 1996) and 70 percent (DIW, 1996) above the level of western Germany.

7. A similar distinction has been proposed by Traxler (1995a), who distinguishes between 'organized' and 'disorganized' decentralization.

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