The Effects of Globalization on Labor Revisited: Lessons from Germany and Japan

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A decade ago, the German and Japanese systems of industrial relations were held up as models of efficiency and productivity. The German industrial relations system—featuring centralized bargaining through powerful but "responsible" industrial unions and plant-based negotiations with strong works councils—was seen as an important institutional support for the kind of up-market ("high everything") strategies that German firms had pursued so successfully in a wide range of manufacturing industries.[1] Japanese industrial relations were similarly heralded as embodying just the right mix of "flexible rigidities" to support company strategies based on constant innovation and high productivity.[2] As a matter of fact, Japanese management techniques such as "lifetime" employment guarantees, internal promotion ladders, and flexible job design became export items in themselves.

The past several years have seen the emergence of new tensions in industrial relations in both countries. Scholars and practitioners alike have begun arguing that institutions and practices that in the past were regarded as vital sources of flexibility now constitute debilitating rigidities. In Germany, centralized collective bargaining has come under tremendous pressure from employers demanding

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a retreat from "rigid" industry-wide regulations in favor of more flexible bargaining arrangements to accommodate the varying needs of individual companies and plants. Likewise in Japan, traditional managerial practices such as lifetime employment and seniority wages—once praised as excellent mechanisms for motivating workers and encouraging investment in skills—are now seen as costly and unsustainable drags on efficiency and productivity. Despite their different starting points—coordinated industry-wide bargaining in Germany, strong internal labor markets in Japan—we find employers and policy makers in both countries calling for reforms, employing rhetoric that is strongly deregulatory and invoking the Anglo-Saxon model of vibrant external labor markets and more decentralized, even individualized bargaining.

This article explores recent developments in the Japanese and German industrial relations systems. We argue that the sometimes radical rhetoric of deregulation obscures important sources of resiliency in traditional industrial relations practices, a resiliency that goes back in large part to employers' own continuing stake in them. While acknowledging new tensions, we argue further that the nature of the crisis of industrial relations in both countries is in many ways quite different from that painted in much of the contemporary labor literature. By recasting what the crisis is about, we are better able to understand the distinctive pattern of continuity and change that has come to characterize labor relations in both Germany and Japan.

We begin by providing a sketch of recent developments in both countries that documents significant changes but also important continuities in industrial relations institutions. The existing literature tends to focus on the destabilizing trends and sees the crisis of industrial relations as stemming from a neoliberal offensive against traditional institutional "rigidities." The argument is that "globalization"—frequently understood in terms of capital mobility or the threat of exit—has shifted the balance of power decisively toward employers. Unions are seen as the main defenders of traditional practices, but their power to resist decentralization and deregulation is sapped by ongoing struggles with employers and, in many countries, also undermined by high unemployment.[3] Less attention has been devoted to explaining institutional stability. To the extent that it is addressed, the observed resiliency of traditional arrangements is typically chalked up to successful union defense (but how long can labor hold out?) or simply to institutional inertia.

Our analysis takes issue with this set of arguments and indeed with many of the premises on which they are based. There is another face to "globalization"—which the existing literature has largely neglected—having to do with employers' heightened dependence on stable and predictable relations with labor at the plant level, in the context of tightly coupled production networks and the demands of producing at high quality on a just-in-time basis.[4] Focusing on this aspect provides insights into the resiliency of traditional bargaining arrangements, for in both Germany and Japan, employers themselves are if anything more dependent than ever on the shop-floor peace and predictability that these institutions have traditionally generated. We argue that current strains in both countries emanate less from an all-out frontal attack on the part of employers against the traditional system than its partial and declining coverage. We find a substantial core of workers (Japan) and firms (Germany) for whom traditional industrial relations arrangements apply and indeed where, if anything, employers seek to intensify their cooperation with labor within the prevailing structure for the reasons sketched out above. However, the effect of such efforts has in fact been quite destabilizing to the system as a whole because the intensification of cooperation within a stable "core" in both cases has been closely—and causally— linked to the exclusion of a growing number of firms and workers from traditional protections. The question for the future is whether these systems can survive in partial form, and so we close the article with some thoughts on that issue.

1. PATTERNS OF RESILIENCY AND CHANGE IN GERMAN AND JAPANESE INDUSTRIAL RELATIONS

A large number of empirical studies have richly documented new pressures on traditional industrial relations institutions in both Germany and Japan. While acknowledging significant new strains, we find that these systems are, however, more resilient than many accounts have portrayed them. Most analyses focus on the factors that are pulling these systems apart, not those that are holding them together. Observed stability is frequently attributed to "institutional stickiness" or to successful union defense, but either way, the long-term "staying power" of traditional institutions is seen as seriously in doubt. By contrast, we find evidence that employers' own continuing attachment to—and interest in—traditional institutions has played a key role in their survival.

Germany. The overall structure of Germany's so-called "dual system" of industrial relations is well known enough to forego a detailed description here.[5] Briefly, this system is based on relatively centralized collective bargaining through a small number (currently twelve) of multi-industrial unions. Although each union negotiates separately, a degree of national coordination is achieved through the pattern-setting role played by the powerful Metalworkers Union (IG Metall). Collectively bargained contracts have very broad coverage, but this is less the result of high unionization levels than it is the consequence of a traditionally very high degree of organization on the employer side.[6] Collective bargaining at the industry level in Germany is complemented by a statutory system for labor representation at the plant level. German works councils are prohibited from bargaining over wages, but they possess strong statutory rights on a range of shop-floor issues relating to personnel and employment policies.

Contemporary strains in German industrial relations emanate from employers' increasingly vocal demands for greater "flexibility"—calls, in other words, for a move away from uniform industry-wide regulation toward more plant-oriented negotiations. Discontent with the current system is particularly strong among small- and medium-sized firms (Germany's sizable *Mittelstand*), which have roundly criticized their industry associations for catering to the interests of large firms at their expense.[7] Small- and medium-sized firms were particularly vehement in condemning a series of deals in the 1980s that reduced the regular working week because, for them, the costs of negotiated working time reductions were not easily offset by the compensating enhanced opportunities for working time flexibility.[8]

These small firms have in the meantime emerged as vocal proponents of bargaining decentralization. Their interests are represented by such groups as the *Arbeitsgemeinschaft Selbständiger Unternehmer* (Working Group of Independent Entrepreneurs, or ASU) and the *Verband Mittelständiger Unternehmer* (Association for Small- and Medium-Sized Enterprises, or VMU). These organizations have proposed a number of changes in existing bargaining arrangements aimed at allowing more local bargaining over wages and benefits. Proposals have ranged from a separate clause in central agreements specifically tailored for small- and medium-sized firms (*Mittelstandsklausel*), to central contracts that establish a "menu" of benefits from which local bargainers could pick and choose, to the inclusion in all contracts of an opening clause allowing firms in "hardship cases" to negotiate subcontractual rates.[9]

The strains on centralized bargaining intensified with unification as a result of enormous gaps in productivity between firms in the East and West and the precarious state of most eastern companies. The disruptive effects of unification on coordinated industry-wide bargaining have taken two forms. First, unification set in motion a hemorrhaging of membership in some key employers associations—above all and most consequentially, the employers association for the metalworking industries (Gesamtmetall). Only member firms are bound to the contracts that the employers associations conclude with the unions at the industry level, and so a substantial number of East German companies opted to stay out of the associations to avoid having to pay the collectively bargained wage. The most recent (1997) survey indicates that overall, only 25.7 percent of firms in the East (accounting for 43.9 percent of employees) are covered by industry-wide collective agreements.[10] Although employers remain overall better organized in the West, declining membership has spilled over and become a problem there as well. The same 1997 survey shows a general drop in coverage in the West between 1995 and 1997, from 51.8 percent of firms (accounting for approximately 70 percent of employment) to 49.0 percent of firms (covering 65.3 percent of workers).

The effects of formal defections from the system of industry-wide bargaining are exacerbated by a second trend, namely, a growing tendency on the part of member firms to undercut informally the terms of the central agreement. Such contract violations are illegal, but works councils that are worried about employment are not usually inclined to contest them; in fact, in many cases, works councils actively go along with them. As with declining membership in the employers associations, this problem is more severe in the East, but it has become a growing problem in the West as well. A survey conducted by a labor-oriented research institute (WSI) finds that around 15.6 percent of western German and 29.8 percent of eastern German companies with works councils breach valid collective agreements.[11] Another study based on a 1996 survey indicates that overall, 41 percent of East German enterprises (accounting for 23 percent of employment) were paying wages below the level set down in the industry contract.[12]

These trends are smiled upon by neoliberal radicals such as Hans-Olof Henkel, the president of the German Association of Industry and the country's most outspoken advocate of deregulation. Henkel has praised deviations from uniform collective agreements in the East as exemplary and hopes that the West too can learn from this example.[13] He has called on employers associations to loosen their hold on firms and free them from the "yoke" of collective bargaining contracts and praised regional associations such as in Saxony that have made it easier for member firms to leave the association to escape the terms of industry-wide contracts.[14] Henkel finds support, among other places, in the business association for the machine tool industry (VDMA), whose leaders have voiced support for changing the Works Constitution Act to allow works councils to regulate matters that are currently reserved for unions.[15]

These features represent the familiar face of the crisis of German industrial relations—inflammatory neoliberal rhetoric, aggressive employers, defections from the traditional system, beleaguered plant labor representatives, and embattled unions fighting the deregulatory tide. Much of this appears to fit the prevailing view of an "employer offensive" against labor, which derives considerable momentum from capital mobility and high unemployment. While capital mobility empowers employers, unemployment weakens labor, and in combination the two promote "wildcat cooperation" on the part of local workforces—with overall corrosive effects on national bargaining institutions. Emphasizing the centrifugal forces at work, a good bit of this literature suggests a system teetering on the brink of collapse.[16]

But the system has not collapsed, and its surprising resiliency in the face of these intense, literally unprecedented strains has received relatively scant attention in the literature.[17] An exception is Lowell Turner, who by and large embraces the dominant characterization of the crisis—a neoliberal offensive of employers against labor—while putting a rather different spin on some of the numbers.[18] To give a few examples, Turner points out that (1) although unionization is down from its inflated postunification high, at around 30 to 35 percent, it has just dropped back to its "normal" preunification level; (2) while membership in employers associations is indeed down, for example, in the metalworking industry, the decline (in the West, from an average of 72 percent in 1970-1989 to a current 65 percent of workers covered) hardly constitutes a free fall; (3) although association density in the East is lower (in metalworking, e.g., 35 percent of companies), it is mostly small firms that are staying out, so that the number of workers that are covered by industry contracts is substantially higher; (4) even firms that are outside the associations sometimes conclude separate contracts with the union, so that collective bargaining coverage is higher than association density figures suggest;[19] and finally, (5) firms that leave the employers association often find themselves anyway using the industry agreement as an orientation point for their own wage levels.[20]

Beyond the numbers, and maybe even more to the point, employers have simply been unwilling to part with industry-wide pattern bargaining.[21] Calls for a decentralization of wage negotiations have not led to an all-out frontal assault on centralized bargaining institutions, and in fact, several bargaining rounds in the 1990s strongly suggest that German employers still prefer to negotiate collectively with the unions than face them alone. This is certainly the case in the chemical industry, where employers and unions recently renewed their commitment to social partnership and to branch-level collective bargaining.[22] But an even more striking example was the 1996 conflict in the metalworking industry (where decentralization pressures have been most intense), in which it became clear that employers wanted nothing to do with plant-level negotiations over the very hot issue of sick pay reduction and clamored instead for a collective solution.[23] Calls for a revision of the Works Constitution Act to open the door to wage bargaining by works councils likewise have failed to generate much momentum, and a large majority of employers still oppose the idea.[24]

Perhaps most strikingly, radical neoliberals such as Henkel are not celebrated as heroes; rather, the heads of the most powerful employers associations view many of Henkel's interventions as unhelpful interference, and at one point some were allegedly plotting his demise.[25] The president of the German Confederation of Employers (BDA), Dieter Hundt, has publicly distanced himself from Henkel and his ideas.[26] The general manager of the German Steel Employers Association likewise condemned Henkel's call for contract violations, arguing that this would lead to chaos.[27] A member of the board of directors of BMW was quoted as saying that Henkel had become "unbearable."[28]

In contrast to Henkel's neoliberal rhetoric, the head of the German Chamber of Industry and Trade, Hans-Peter Stihl, can be heard defending comprehensive collective bargaining as "correct and sensible,"[29] while Werner Stumpfe (head of the powerful Metal Employers Association, Gesamtmetall) stumps for a "new partnership" with labor.[30] In line with their preferences, the overall trend in Germany has not been toward breakdown or neoliberalism but rather a sustained attempt to achieve greater flexibility in plant outcomes while staying within industry-wide bargaining structures. Despite the often vociferous complaining, employers have actually proved very reluctant to abandon traditional bargaining institutions, and indeed most seem committed to working for reform within the existing structures.[31]

The reluctance of employers themselves to part with traditional institutions does not figure prominently in most analyses of the crisis of German industrial relations. That literature, rather, is organized around debates between scholars who subscribe to the same view of the problem—a neoliberal employer offensive—but disagree in their assessments of labor's capacity to defend the system.[32] As we will argue below, to cut through this debate and understand the sources of resiliency and change in German industrial relations, it will be necessary to break entirely with the characterization of the crisis and its solution on which both positions rest.

Japan. The basic structure of industrial relations in Japan is quite different from that in Germany. Although national- and industry-level labor organizations have increased in importance through the post–World War II period, Japanese labor relations have been and still are founded on decentralized enterprise unions. Like the German model, the Japanese "model" of industrial relations was praised in the past for its flexibility and adaptability; however, the institutional arrangements on which that flexibility rested were distinct. Whereas the German system involves a relatively high degree of coordination among firms within and across sectors, the traditional Japanese system is premised more firmly on strong plant-based labor markets.[33] The two most remarked on features of Japanese managerial practice are seniority wages and lifetime employment guarantees. Despite some popular (mis)conceptions, seniority wages in Japan never actually guaranteed workers automatic raises based solely on age. Nor, for that matter, did "lifetime employment" ever mean no dismissals were possible, only that management would take other steps (reduce overtime, cut part-time workers, freeze recruitment, reduce board members' remuneration, call for voluntary retirement) to maintain regular workers before resorting to layoffs.

In fact, since the 1960s, the Japanese system has been premised not so much on pure seniority wages but on job capability and skill-based wages.[34] In a pure seniority wage system, wage increases are based solely on the length of tenure, and workers can expect automatic wage increases over time. But in the Japanese job capability wage system, wage development reflects the accumulation of experience by a worker over the course of his or her career in the firm, as skills are acquired through on-the-job training. The difference between the pure and the Japanese version of seniority wages is subtle since in both cases there is a correlation between the length of tenure and the wage level, but the Japanese version of seniority wages is more firmly embedded in an economic logic. Lifetime employment was an important part of Japanese management practices as a whole because it reduced the "credible commitment" problems associated with firm-based private-sector training. That is, together, seniority wages and lifetime employment provided incentives for workers to stay with the company that trained them, which in turn made it safe for the firm to invest heavily in skills without fear of workers absconding with these skills to other firms.

As in Germany, however, these traditional arrangements have increasingly been called into question. The critique of Japanese managerial practices typically focuses on three trends. First, with baby boomers reaching middle age, the number of older workers has increased. These demographic trends have made it difficult to generate the kind of opportunities for advancement within firms that in the past justified seniority-based wage increases. This problem has become even more acute in recent years, which have been marked by corporate retrenchment, not expansion.

Second, traditional mechanisms for avoiding workforce reductions seem to have reached their limits. Since the 1970s, Japanese companies pursued a strategy of diversifying and innovating their product lines as an alternative to layoffs. Declining industries such as shipbuilding, iron and steel, and textiles regained their competitive edge in the world market in the mid-1990s through wholehearted diversification efforts.[35] As a result, Japanese shipbuilding companies are now selling various environment-related equipment and running plant-engineering business. Similarly, one large textile company, Asahikasei Co., dramatically expanded its business from housing to high-tech materials. However, in the context of Japan's ongoing economic crisis, economists have criticized large manufacturing companies for pursuing an ineffective "one-set principle," by which they mean the companies try to have all the products in their industry (e.g., in the electrical machinery industry from washing machines to nuclear power plants). They argue that in a world of mega-competition, Japanese companies should specialize in products in which they enjoy a comparative advantage. Whereas in the past Japanese companies tried to transfer redundant workers out of low-growth sections to the high-growth sections within their companies, these economists now argue that it is more efficient from the perspective of the national economy as well as that of individual companies to move redundant workers across companies, out of low-growth sectors and into the high-growth ones.[36]

Third, rapid technological change in industry has called into question the effectiveness of on-the-job training, which as we have seen was a lynchpin in the entire system. The demands of new technologies, it turns out, are not well met through an experience-based system of skill formation.[37] Increasing competition in product markets requires breakthrough innovations more than incremental adjustments in product developments. The incremental adjustments, which have been regarded as a competitive advantage for Japan's manufacturing industries, are consistent with on-the-job training, while the breakthrough innovations are compatible with more flexible personnel policies based on external labor markets.

A number of much-publicized cases have led many observers to predict the immanent demise of the entire Japanese employment system. Hitachi, for example, has significantly diminished its lifetime employment guarantees in conjunction with the company's abandonment of the "one-set principle." Thus, in 1998, Hitachi spun off its air conditioner and refrigerator plants into a separate company to specialize in more profitable production areas. By transferring Hitachi workers into new companies, the firm gave up the promise that its regular workers' employment is protected until their retirement age under the umbrella of the same company. Another industrial giant, Matsushita Electric Industrial Company, has pioneered changes in the traditional wage system. The company now allows workers to take their retirement bonus early (paid out in their monthly paychecks), a change widely interpreted as a move away from the lifetime employment practice. The computer and information technology products maker, Fujitsu, also abolished its seniority wage system and introduced a performance-based wage system. Similar moves are reported in many companies, such as Takeda Chemical, Yokokawa Electronics, and the trading company Mitsui. In fact, according to a 1993 survey of 123 large (employment more than 3,000) firms conducted by Recruit, 67.5 percent of companies adopted a management-by-objective (MBO) practice, one form of performance-based wage system.

As in Germany, these changes have been associated with heightened appeals to the virtues of flexible markets and shareholder value. For example, a report last year by the Economic Strategy Council of Prime Minister Keizo Obuchi called for more labor mobility to increase Japan's economic vitality.[38] The president of Takeda Chemical also argues for change:

> What our company should do now is lay-off. The company should not assume any responsibility for retaining workers. It is the government not the company that should care about employment. The company is the shareholders' property, and what it should pursue is profit for the shareholders. In order to increase profits, we should introduce a performance based wage system, which would motivate workers.[39]

However, and again as in Germany, the continuities in traditional Japanese industrial relations practices are in some ways as striking as the changes—and particularly so when one considers the depth and length of the postbubble crisis. Based on a multifactor analysis of data from 1,618 firms, Morishima identifies three different types of company attitudes toward employment system reform.[40] One group of firms is trying to change their wage system from seniority based to performance based and at the same time attempting to use an external labor market more in recruiting workers. This group represents the much-publicized trend away from traditional Japanese employment practices, but in fact it constitutes only 10.8 percent of the sample. The majority of firms in the survey (56.8 percent) belong to another of Morishima's three groups, in which firms have retained the traditional employment system and thus constitute a bastion of continuity within the Japanese industrial relations system. A middle group (32.4 percent) presents a mixed picture; this group consists of firms that are reforming the wage system while maintaining long-term employment practices. Taken together, these data highlight the striking resiliency of traditional practices, as well as some important changes.

A 1997 survey of 380 large companies reveals a similar pattern: only 18.7 percent of these companies had introduced an annual salary system (a performance-based alternative to the traditional seniority-based wage system).[41] This constitutes a big jump over the previous year (from 9.8 percent to 18.7 percent). However, a complementary survey by the Ministry of Labor reveals that among the firms that have reformed their wage system in the direction of performance-based wages (including annual salaries), most (fully 87 percent) applied these changes solely to a small number of managers and white-collar employees, not production workers.[42] This would mean that the vast majority of production workers are still under the old system. In addition, where performance-based pay has been introduced, it has mostly been applied only to the annual bonus, which would introduce only 10 to 15 percent variance in annual salaries among workers of same tenure.[43]

Thus, contrary to the impression conveyed by the popular and business press (which heaps attention on firms that depart from traditional practices), the trend away from seniority-based wage and lifetime employment practices appears to be overall rather slow and cautious. For every high-profile case of change, there are equally notable counterexamples. Toyota, for example, has tenaciously defended traditional practices as the only way to secure and retain reliable and skilled workers.[44] A member of the firm's board of directors said, "Matushita baldly abolished impediments for labor mobility, [but] we cannot go that far" because automakers need more skilled and experienced workers than do firms in the electric appliance and computer industries.[45]

Moreover, the putative trend away from lifetime employment guarantees is in some ways even more ambiguous than the trend to reform wage systems. Matsushita, which as we saw above is at the forefront of changes in salary structures, remains committed to long-term employment. In fact, the company is currently planning to extend the compulsory retirement age from sixty to sixty-five in an effort to retain highly skilled workers. A Nikkeiren survey of 255 companies in 1998 revealed that only 8.3 percent of firms actively sought to increase labor mobility (though 67.9 percent felt that it would increase whether they like it or not). The companies surveyed predicted that the percentage of the long-term employees (or core regular workers) within their workforces would decrease from 84.0 percent to 72.7 percent in the future. This would certainly represent a change of some significance, but what is equally impressive is the expectation on the part of managers themselves that more than two-thirds of their workers will continue to enjoy long tenure. Taken together, then, these figures do not suggest an all-out transformation of the Japanese employment system.[46]

In sum, as in the case of Germany, we have a mixed picture of significant change but also of resiliency and important continuities. In Japan, too, scholars emphasizing continuity versus those stressing change do not disagree so much on the definition of the problem—employers' rejection of traditional practices and heightened demands for more flexibility in personnel policy—as they do on how to interpret the evidence: glass half empty or half full?

2. RECASTING THE NATURE OF THE CRISIS

One of the reasons that most of the existing literature has not been able to account for the mix of stability and change we find in Germany and Japan is that it is premised on a somewhat one-sided characterization of what the crisis of industrial relations is actually about. A large literature tells us that globalization has given capital new power (capital mobility, exit options) at the same time that high unemployment has weakened labor. The labor scholarship tends to characterize the contemporary period as one in which employers have been able to use their newfound strength to force enfeebled unions to agree to a fundamental restructuring of labor relations on terms more favorable—above all, more flexible—for employers.[47]

But there is another face to globalization, the full implications of which remain underexplored in the existing literature. In a context in which competition has become more intense, and in fact increasingly so between "high-end" Japanese and German competitors—as in the automobile industry—and where success in the market increasingly depends on tightly coupled production networks (just-in-time production, highly coordinated supplier links), many employers find themselves more dependent than ever on a high degree of predictability on the shop floor and on the active cooperation of their workforces to produce at high quality and on a just-in-time basis.[48] This alternative angle on globalization gives us a way of understanding aspects of the crisis of industrial relations that the alternative perspective blends out. In particular, employers in both Germany and Japan have actively sought to intensify cooperation with core workers at the plant level, and precisely these efforts have frequently had quite destabilizing effects on the system as a whole. Rather than an all-out frontal attack on the part of employers against "the system," we are looking—in both countries—at a trend toward an intensification of traditional protections for some that has, in turn, been intimately linked to the growing exclusion of others.

Germany. Arguably the most destabilizing force in German industrial relations in the 1990s is not aggressive employers preying on unions paralyzed and enfeebled by high unemployment but rather the breakdown of employer solidarity and the obsolescence of their most effective weapon, the lockout. Dominant characterizations of the crisis of German industrial relations—by both scholars emphasizing stability and those stressing change—are unified in their characterization of the crisis as one of unions struggling in the face of an employer attack on industry-wide regulation and its replacement with more flexible, decentralized negotiations. They differ only in their assessment of labor's capacity to fight back.

But a number of key events in Germany in the 1990s simply do not fit this picture; what the existing literature has studiously ignored is the fact that some of the most important collective bargaining rounds of the past decade saw unions prevail over increasingly disorganized and fragmented employers associations.

Take, for example, a strike in 1995 by Germany's leading (pattern-setting) union, the Metalworkers (IG Metall).[49] This national conflict was played out in Bavaria, a region characterized by relatively weak union organization and a regional employers association dominated by hard-line small- and medium-sized businesses—in other words, just the kind of firms that have been the most vocal in calling for industrial relations reform. The union opened the 1995 bargaining round with a demand for a real wage increase, and the national employers association for the metalworking industry (Gesamtmetall) countered by insisting that the union would have to make concessions on flexibility before they would even think about wages. One expected a classic confrontation along just the lines that the "employer offensive" thesis predicted.

In the event, however, the conflict followed a radically different script, one that the union itself might well have written. As soon as the strike began, the employers' unified stand completely collapsed as Bavarian firms broke ranks and began denouncing Gesamtmetall's hard-line position and pushing instead for a speedy settlement. Employers affected by the strike worried openly about the effects of the conflict on the cooperative relations they had developed with labor in their own plants and that they saw as crucial to their competitive success. The strike featured an extraordinary outbreak of wildcat cooperation—but on the employers' side—including threats by individual firms to negotiate a separate deal with the union if their national association remained intransigent. Gesamtmetall answered the strike with its usual threat of a lockout, but in the face of growing resistance from its member firms, the association did not follow through. Instead of expanding the conflict, Gesamtmetall settled, dropping its demands for flexibility and conceding wage gains that were widely viewed as an unalloyed victory for the union. The terms of the deal were adopted in other bargaining districts throughout Germany without further conflict, and heads rolled at Gesamtmetall headquarters as the organization's "hawks" were summarily removed from office.

Bavaria was not an isolated episode. The next year, the stage was set for employers to capitalize on an opportunity to secure new flexibilities denied them under existing central bargains. In response to intense lobbying by employers associations such as Gesamtmetall, the conservative government had passed legislation reducing sick pay compensation to 80 percent, down from the 100 percent stipulated by the metal industry contract. Gesamtmetall encouraged its member firms to take advantage of the new law to reduce costs, arguing that the legislation superseded the collective agreement. Daimler took the lead in announcing the reduction—provoking tremendous unrest among the workforce—but retreated when virtually no other firms followed suit. BMW dramatically refused, arguing that, with their order books full, they could not afford the conflict. Once again, employer solidarity completely collapsed in the face of plant-level conflict, and employers (including Daimler) quickly began demanding central negotiations to settle the issue. The 1996 bargaining round in the metalworking industry was pushed forward to deal with this issue. The result was a new industry agreement that reestablished 100 percent sick pay compensation for the industry.[50]

Against conventional understandings, we thus find that German employers, not unions, are the ones suffering the greatest strategic and organizational disarray. The episodes above provide vivid proof of a dramatic new development in German industrial relations, namely, that employers are now (as one employer representative put it) "deathly afraid" (*haben höllische Angst*) of industrial conflict[51] and can no longer muster the solidarity it takes to answer a strike by the union with even a plausible threat of a lockout. Moreover, this turns out to be true even where one would least expect it to be, in the East, where unions are presumably at their weakest. In 1998, the threat of a strike in the eastern steel industry brought about a rapid disintegration of solidarity among employers. In the face of a looming conflict with the union, leading eastern German steel companies "started to put pressure on their employers association and demanded new negotiations to avoid a strike at the last moment."[52] One leading firm, Preussag-Walzwerk Ilsenburg (Sachsen-Anhalt), agreed to accept the union's demand for an adoption by eastern firms of the collective agreement in effect for the steel industry in the West. Eko Stahl GmbH (Eisenhüttenstadt), which is the largest steel company in the East, said it could not afford a strike and also threatened to abandon the employers association by concluding a separate agreement with the union. Prominent defections such as these were sufficient to bring about an agreement, amidst complaints of union blackmail from the president of the steel employers association (Arbeitgeberverband Stahl), Josef Fidelis Senn.

Needless to say, developments such as these do not fit well with the framework on which much of the conventional literature is premised. That literature features blackmail of a very different sort—employers wresting concessions out of local labor representatives against a threat to locate production elsewhere. You would simply never know from the existing literature that German employers, not unions, are the ones who most fear—and who are most paralyzed by—industrial conflict. The fact is that German employers are worried sick about the possibility of prolonged conflict on the shop floor, and this is painfully clear to the officers of key employers associations such as Gesamtmetall who can be heard publicly bemoaning a lack of parity—in labor's favor!—in industrial conflicts.[53]

By abandoning the standard assumptions and instead focusing attention on these developments, we begin to develop a clearer picture of the centripetal and centrifugal forces at work in the German system. The deep reluctance of German employers to abandon traditional bargaining institutions is rooted in their continuing—even enhanced—stake in arrangements that deliver a high degree of predictability and peace at the plant level. Centralized bargaining guarantees a degree of predictability by concentrating industrial conflict and providing a uniform timetable for negotiations that protects individual companies from isolated, disruptive wage disputes, something that has if anything become more dear to firms in an era of just-in-time production.[54]

Moreover, in the context of Germany's "dual system" of industrial relations, full decentralization would empower works councils in ways that employers are loathe to contemplate. The list of worries they themselves recite includes (1) the threat of an expansion of works councils' codetermination rights to wages and all other material conditions of work; (2) the threat of greater legislative interference (since there is no constitutional guarantee of "plant autonomy" analogous to Germany's hallowed principle of "collective bargaining autonomy"); (3) the threat of even higher wage settlements (especially in economic good times); (4) threats to cooperative relations with works councils; (5) the disadvantage of having conflicts over wages settled by "outsiders" in conciliation procedures; (6) the likelihood that the prohibition against strikes by works councils would become untenable; (7) the threat that drawn-out legal battles would interfere with a firm's capacity for long-term strategic planning; (8) the threat of enhanced union influence in the plant; and (9) a weakening of solidarity among employers, which could contribute as well to higher wage deals with the proliferation of individual company agreements.[55]

The resiliency of the "German model" of industrial relations is frequently attributed to union strength, and scholars who subscribe to this view cite the conflicts we have described above as instances of organized labor's "successful defense" of traditional arrangements.[56] However, as we have seen, employer interest, not just union strength, accounts for the stability of the system so far. Moreover, quite to the contrary of this "labor strength" thesis, union victories such as in the 1995 strike—far from shoring up the system—may have heightened the crisis by further fragmenting the employers association and in some cases encouraging firms to opt out of the system altogether.[57] Unions are certainly cognizant of the problems that employer fragmentation generates for the system as a whole. And so, in the aftermath of the union's victory in Bavaria, the head of the IG Metall was not gloating; on the contrary, he was openly worried about Gesamtmetall's organizational troubles and emphasizing that "collective bargaining autonomy requires strong bargaining partners."[58]

Here we come full circle, back to the most important sources of strain on the German system cited above, namely, declining membership in the employers associations and, with that, the shrinking coverage of collective contracts. The most rapidly growing divide in Germany is not, as commonly announced, between "labor" and "capital," but rather between those companies—many but by no means all of them large companies—that remain heavily invested in traditional practices because they depend crucially on a high degree of social peace and labor cooperation and are willing to pay almost any price to preserve these and a growing number of companies whose situation in the market renders them unable to pay the premium and for whom defecting from the system appears to offer relief.

Recent research on what kinds of firms are currently in- and outside the traditional collective bargaining system may provide some initial clues regarding the economic and institutional logic of defection. The most comprehensive study (limited, unfortunately, to the West) is based on a 1995 survey of 4,100 firms across industries.[59] The study distinguishes between firms that negotiate a collective bargain with the union (at either the industry or the company level) and those that are not subject to any collective contract. Among other things, the authors find that collective bargaining coverage is strongly correlated to plant size and to the existence of a works council. Workers in small plants, in other words, are much less likely to be covered by a contract than those in larger plants, and plants with works councils (itself correlated to firm size) are more likely to be included than those that lack plant representation. These results are backed up by a somewhat more detailed (1994) study of 900 firms in one western state (Lower Saxony), and this study underscores as well the importance of union organization in a firm's tendency to join the employers association.[60] The evidence suggests that the probability of a firm being in the association rises: with increasing size and age of the establishment, with increasing union density, and with increasing risk of industrial disputes.

Firm size—which, again, is itself strongly associated with higher unionization and works council presence—appears to be the single most important factor determining the clubbability of firms in the East as well. In fact, large firms in the East are even somewhat more likely to be covered by an industry agreement than western firms of the same size. Collective bargaining coverage in the East rises steadily with firm size, from 18.9 percent of the smallest eastern firms (1-4 employees) to 77.7 percent of the largest (1,000+ employees). The comparable figures for the West are 35.7 percent for the smallest and 75.8 percent for the largest.[61]

These studies provide a basis for some hypotheses concerning the incentives that individual companies face that may affect their propensity to join or stay in the employers association. Larger firms (heavily unionized, typically, and certainly with a strong works council presence) may stay in the association because they would likely wind up anyway with a firm-level contract that matches (or might even be more generous than) the industry deal. Conversely, smaller firms that are poorly organized and may not even have a works council are more likely to try to escape regulation by industry-wide contracts because weak labor representation makes it likely that management can push through a more flexible and inexpensive deal by going it alone. In general, then, it appears that the firms that are most likely to defect are those that do not face much threat from the union, either because they are too small for the union to worry about or because organized labor's presence is so weak that the union cannot realistically mobilize to force the firm back into the association.[62]

The heterogeneity of the metalworking industry along these key dimensions (firm size, union presence) has made for stronger centrifugal pressures in Gesamtmetall than, for example, in the employers association for the chemical industry (which is dominated by a few big firms and, as one would thus expect, remains highly organized). The splits within Gesamtmetall reflect the different market and political conditions across its membership. The collective bargaining system continues to hold onto, and indeed work well for, a significant (though shrinking) core of (especially large) firms, some of which may have exercised their exit options already, relocating abroad those elements of production that do not rely for their success on the German infrastructure. By contrast, other companies that are for one reason or another less mobile—for example, by virtue of family-based employment structure— cannot "keep up" in terms of the costs of collective contracts that increasingly exhaust the ability of large firms to pay.[63] These smaller firms traditionally benefited more than large firms from the information and consulting services the associations offer; however, those benefits are now largely outweighed by the increasingly expensive terms of the industry contracts.[64] So long as they can stay out of the union spotlight, opting out of the formal collective bargaining system offers the best of both worlds—relief from the terms of the contract and the ability to free ride on the collective benefits that the system continues to generate (skills, shop-floor peace, a dampening of competition for skilled labor across firms).

Japan. In Japan, as in Germany, there have been substantial changes, but here too the popular conception of a straightforward managerial assault on traditional institutions and practices may obscure more than it illuminates. A closer look reveals considerable cooperation between employers and unions at the plant level to maintain employment security for core workers. Moves to reform the wage structure—though typically coded as part of the same managerial offensive that has put long-term employment at risk—are in fact frequently part of a strategy to preserve long-term employment. As in Germany, patterns of resiliency and change are closely interwoven.

We saw above that technological changes have revealed some of the limits of traditional practices based on seniority wages and on-the-job training. The premise of the traditional system was that workers would become ever more valuable to the company as they acquired experience on the job, and this is what justified their steadily increasing wages. But technological developments in the past decade have outstripped the skills of experienced workers, and the need to fill in the gap has unleashed fierce competition among firms for promising young workers not so much because of their relatively lower wages but because of their adaptability to new technology.

Not a neoliberal offensive, but rather this competition for younger workers is what lies behind many of the most important changes in traditional Japanese managerial practices. The seniority wage system has always been based on relatively low entry-level wages; otherwise, upward wage adjustments over time would be too expensive to sustain. But this poses problems for firms competing with one another for these promising entry-level workers, problems that firms have addressed through departures from the seniority wage system. The reforms introduced by Matsushita discussed above, for example—allowing employees to take their retirement bonus early—were specifically designed to attract young, skilled workers.

In other words, abolishing seniority wages appears to be less a neoliberal strategy against labor than it is a mechanism for achieving advantage against other firms in competition for the best new recruits. Firms want to pay workers more, not less, and young workers are especially happy to oblige. At Matsushita, 44 percent of the newly hired graduates (844 workers) opted for the no-retirement bonus track, while only 1.8 percent of workers with more than two years tenure chose this option.[65] Moreover, and importantly for our argument, these changes in the company's wage system were introduced at the same time that the firm renewed its commitment to long-term employment. Indeed, Matsushita is planning to increase the compulsory retirement age from sixty to sixty-five, and management's express goal is to maintain 70 percent of its total workforce as core workers with long tenure.[66]

If reforms of the wage system have in part been motivated by the attempt to achieve advantage in competition with other firms over the most desirable young workers, the reforms have also reflected a desire to make it less costly for firms to retain older workers. In other words, such reforms are seen as necessary to maintain the stability of long-term employment. This is why many specialists on the Japanese wage system predict that even if seniority wages wither away, long-term employment practices will continue. They argue that the introduction of new performance-based wages will help management to retain younger but highly skilled workers with higher wages.[67] Toyota management, for instance, says that even in the auto industry in which experience on the job is still important for skill formation, new information technologies have created some gaps between workers' experience and actual performance. The company justifies the changes to its wage system to accommodate this new situation as a way to maintain long-term employment by giving potentially more mobile young, skilled workers better wages.[68]

Several successful companies have already introduced performance-based wage systems while committing themselves to secure employment. Canon makes it a policy to retain workers in the hard times but is famous for its performance-based pay system. In this system, a worker's wage is determined by his or her performance, irrespective of seniority, and wage differences among workers at the age of fifty with the same tenure are large by Japan's standards—as much as 1 to 1.7. Companies such as Nihon Densan, Yokokawa Denki, and Terumo are holding to their commitment to employment security while shifting to pay systems based on the performance of individual workers.[69] In these companies, too, reforms of the wage system have been undertaken in part to maintain secure employment.

These data and observations show that the contemporary changes in Japanese industrial relations—while significant—do not amount to an all-out transformation of traditional managerial practices but rather adjustments designed to reduce costs and to adapt the benefits of the employment and wage system to a new market context. This kind of adjustment is by no means without precedent in Japan. We remember that the Japanese management system was criticized as an impediment to economic efficiency in the early 1970s after the first oil crisis, and many observers predicted that Japanese companies would need to abandon their traditional employment practices to survive. However, Tetsuji Okazaki's analysis of thirty-three steelmakers in Japan shows that firms that undertook fewer cuts in employment after the first oil crisis have done better in business indices such as profit increase and productivity increase than those that undertook massive employment adjustment.[70] The successful companies implemented various rationalization programs, such as flexible job assignments, while rejecting large-scale dismissals of workers. Similarly, today, we find many companies carefully searching for solutions to maintain traditional strengths in a new globalized world market.

It is also important to note that Japanese unions are not antagonistic toward reforming the wage system, and indeed many of them endorse such reforms as necessary given the developments cited above. The Union of Electrical, Electronic, and Information Workers (Denki Rengo) recently formulated a new action policy, "New Japanese Employment and Compensation System," which advocates the introduction of performance-based wage systems to maintain employment. Its purpose is to take the initiative in the process of employment system reform to protect its members' interests.[71] Denki Rengo is planning to abandon seniority-based wage demands and instead to pursue an increase in the minimum wage level for each job category in the upcoming wage round.[72] This move is very important, as Denki Rengo is one of the largest industry-level union federations, organizing almost all the large electric appliance producers, which are the backbone of Japanese international competitiveness.

Of course, not all unions are so supportive of these reforms. The president of Japanese Confederation of Shipbuilding and Engineering Workers Unions speaks for many when he asserts that "management may introduce some arrangements to recruit excellent workers from outside, but we unions should care about average workers."[73] His concern is for the situation of those workers who may be worse off in the new wage system. However, what is interesting in this case is that management in this industry has been more cautious in introducing reforms than in other industries, and so the difference between union and management on the wage issue is not so large. For example, Mitsubishi Engineering bases 50 percent of a worker's wage on job capability, with the other 50 percent based on seniority. The company's vice president–director argues that the firm will not introduce a performance-based principle, as it is almost impossible to evaluate an individual worker's performance given the very interdependent nature of production.[74]

The distinction between a job capability wage and performance-based wage that is being drawn here is a subtle but very important one. Performance-based wages are determined according to what job the given worker is actually performing, while capability-based wages are based on a worker's skill level and are thus closer to a seniority wage to the extent that workers' skill levels increase with their tenure. The same careful attitude toward reforms is present in the case of Fujitsu, whose president argues, "Although the average wage in Japan is now among the highest in the world, we are not paying the highest skilled workers enough. We should reward those workers fairly and maintain them, by introducing a wage system based on workers' *capability*."[75]

In the job capability wage accord, management pays the same wage to workers in the same skill level, whether or not they are fully using their skill in their actual job assignment. Although more costly for management, capability-based wages (like seniority wages) ensure that workers are motivated to develop their skills since they are compensated for their skill level rather than the assigned job. For management, this has the advantage of promoting a large pool of skilled workers readily available for flexible production. For workers, it is more egalitarian than performance-based wages, as more workers are paid the same wage despite their actual job assignments. The incentives, in other words, resemble those of seniority-based wages and as such contribute to maintaining the "high skill equilibrium" that has been a strength for most Japanese manufacturing industries.[76]

Thus, when it comes to reform of traditional seniority wages, we see a picture of significant though in many ways also quite cautious change. The current economic crisis, combined with an aging workforce, on one hand, and decreasing benefits due to such factors as technological changes, on the other hand, have called the traditional system into question. The ongoing economic downturn is so long and serious that management cannot easily count on the long-term benefit of the traditional system. But at the same time, management does not want to demoralize workers. The most critical issue in the new wage system is evidently how to measure "performance" objectively. The president of the Japan Automobile Workers Unions admits that the wage system should be reformed to take performance and skill of workers more into account. But at the same time, he insists that they need a fair evaluation system.[77] Denki Rengo unions concur on this point too.

But it is not just unions that have voiced such concerns. In a survey of 380 large companies, 81.8 percent of those firms that chose not to reform the wage system argued that it would be too hard to convince workers of the fairness of such a system, and they do not want to lower their workers' motivation. Management is thus faced with a difficult trade-off: whether to motivate selected highly skilled workers with performance-based wages or to motivate a wider range of workers with job capability wages. Drawing distinctions between "core" and "peripheral" workers within a plant or company could itself threaten plant peace since such distinctions are at least as much political as they are technical. It could well be that the move toward capability-based pay reflects an effort on the part of some firms to negotiate this difficult terrain without upsetting the "moral economy" of the company.

As for long-term employment, unions are unanimously eager to protect the job security of their members, and all of them continue to support long-term employment practices. Even the most reformist union leader, the president of Denki Rengo, argues that employment should be protected, and one way to do this is through the introduction of a flexible wage system. A Nikkeiren survey of 255 firms shows that most firms believe that labor mobility would bring benefits for them: 69.7 percent of firms answer that one advantage of labor "mobility" is enabling rationalization of the wage system, and 59.4 percent answer that workers can be evaluated according to their "market value." But at the same time, they are fully aware of the disadvantages, which include the loss of workers' loyalty to the company, a loss of organizational integrity of firms, instability of workers' lives, and reduced motivation for skill development within firms.[78] In other words, this survey suggests that management is not so eager to abandon long-term employment per se but wants to use some labor mobility as a catalyst to reform their wage system. In light of continuing support for long-term employment by both unions and managers, the recent reforms of the wage system in many companies are best interpreted as an adjustment effort to protect this bottom line, that is, long-term secure employment. Reform efforts, moreover, do not necessarily pit management against labor, and indeed, many of them are founded on labor and management cooperation.

However, it is also true that traditional practices such as lifetime employment apply to ever fewer workers, and again the logic of the selection process is closely related to the new terms of competition in the market and its implications for employer strategies and employment structures. For instance, faced with a serious business downturn in which its sales decreased by almost 50 percent, Hino Motors (which produces trucks) has recently announced a restructuring plan that calls for voluntary retirement, after 50 percent cuts in company board members' bonuses and various restructuring efforts. The president furthermore announced that if there were not enough workers opting for an early retirement scheme, management would have to dismiss workers to save the company, a very radical move in the context of Japanese industrial relations.[79] Naturally, the Hino union fiercely opposed this dismissal option and in fact succeeded in forcing management to cancel it.[80] The union did not, however, oppose the voluntary early retirement scheme. At issue was not whether there would be workforce reductions but only how these would be accomplished—whether through forced layoffs or through a less radical voluntary scheme. Both sides, in other words, see a reduction of core workers through the company's rationalization plan as a part of defending the jobs of a (now smaller) core.

Recent company initiatives to revise traditional arrangements (seniority wages, lifetime employment) often represent efforts to selectively apply these arrangements (i.e., to single out certain workers to be covered), and modifications in traditional practices frequently represent efforts to give (in particular, usually skilled) workers more benefits (not fewer) than allowed under traditional arrangements. In particular, high competition among firms for young, skilled workers has prompted many firms to abandon seniority wages in an effort to enhance their potential to recruit and motivate these workers. At the other end, retirement, companies are reneging on lifetime employment guarantees in the case of some workers while making every effort to reinforce some kind of lifetime commitment among others. The overall trend, then, seems to be toward a (shrinking) core of (mostly skilled) workers, within individual firms, who continue to enjoy lifetime employment guarantees, combined with an even more generous wage system.[81]

3. FUTURE TRENDS

The overall trend in Germany and Japan is thus quite similar—with traditional arrangements proving in many ways rather resilient but covering a shrinking core of workers. Whereas in Germany, the divide between those who are and are not covered runs roughly along lines of company size within key industries such as metalworking as well as across industries, in Japan it runs more along skill and age lines within companies. The question in both cases is whether the coverage of traditional arrangements—whether at the industry level as in Germany or at the company level as in Japan—can simply continue to shrink down to cover a smaller number of firms (Germany) or workers (Japan) without this itself destabilizing relations both in- and outside this "core."

This question poses itself with some urgency because in both Germany and Japan, elements of stability and change are intimately linked; that is, an observed trend toward an intensification of cooperation with the traditional framework is itself one of the forces driving the trend toward narrower "coverage." In Germany, as we have seen, the most pressing problem is the defection of firms from industry contracts, a problem that has been fueled in part by strong aversion to conflict on the part of large firms and declining solidarity among employers more generally in the context of industrial strife. Dieter Kirchner (former managing director of Gesamtmetall) argues that in the past, the lockout served two important purposes simultaneously—enforcing discipline in relations with the union and generating solidarity among employers.[82] The threat (or, in most cases, the reality) of a lockout made it possible for the IG Metall to swallow moderate wage gains and sell them as “the best deal under the circumstances” to a highly diverse membership. These settlements typically did not exhaust the capacity of the large firms to pay, but anyway these companies could let wages drift up at the plant level (thus allowing them to recruit the best workers). It appears that nowadays, this form of flexibility has been greatly reduced; in other words, high union wage increases relative to economic conditions have reduced the room for wage drift, which means that smaller firms are now forced to pay wages much closer than before to those of the large companies.[83] These effects follow naturally from the developments sketched out above, which document employers’ surprising vulnerability to industrial conflicts. These developments complicate internal union politics to the extent that a strong opponent is often quite useful for unions needing to forge an internal consensus across workers of different skill levels and employed in firms experiencing quite different economic pressures. This is why, historically, unions “needed” fights with strong employers associations, which had the mutually beneficial effect of sustaining solidarity within camps.[84]

The German case shows that declining solidarity on the employer side “feeds back” in ways that destabilize the system further. The more that wage negotiations are geared toward a declining core of overall larger and more dynamic firms, the more the weaker firms are likely to opt out; it does appear to be more common than ever before for firms to protest against “over-expensive” contracts by simply leaving the employers association.[85] Perversely, this has become Gesamtmetall’s most potent weapon in conflicts with the union—the threat that hangs in the air now during industrial disputes is not that the employers association will lock out, but rather that it will fall apart.[86] The worrisome possibility is that the traditional framework of industrial relations remains intact but over time comes to be inhabited by a smaller core of firms (the cream of the crop) that are willing—and able—to pay almost any price for social peace. Such a trend destabilizes labor relations to the extent that, with time, industry-wide bargains would no longer be encompassing enough to generate many of the collective benefits on which the defectors so far have been able to continue to free ride.

The key to the survival of the German model appears to hinge rather crucially on the continuing strength of the unions. But labor power comes back in a way unanticipated in the conventional literature, where its role is to beat back the neoliberal employer offensive. There will be some of that, but the more pressing task facing unions turns out to be something like the opposite, namely, to combat the flagging solidarity of employers and to shore up their (i.e., employers’) embattled organizations. Union leaders understand this very well, which is why in Saxony, for example, the IG Metall launched a campaign to recruit members for the regional Gesamtmetall affiliate[87] and why, more generally, their strategy has been to pressure defectors to reassociate with the employers associations by holding them to the same standards as specified in the industry contract.[88] This image of labor strength—not against employers but precisely in the service of shoring up unity among them—clashes with the conventional understanding of the challenges labor faces in an era of globalization. But it is crucial to explaining why, in a period touted as one of extreme labor weakness, union leaders in Germany are in many ways as concerned about employer solidarity as they are about labor solidarity.[89]

The same kinds of issues present themselves in the Japanese case, though in a quite different form. Here the question is whether a growing gap between core and peripheral workers with very different career possibilities within the firm is sustainable over the long run. Management's intention in the reform is to motivate highly skilled workers with better benefits and to force semiskilled workers to work harder by introducing performance-based wages.[90] Management worries that the job capability or seniority wage system may sometimes enable workers with less skill to receive better benefits, as it is difficult for management to measure their skill level given new technological developments and the uncertain business climate. In other words, management wants to prevent the emergence of incentive problems on the side of workers (low-performance workers receiving the same wage as high-performance workers). One solution is to use performance-based wages more selectively in compensating workers. Evidence from some firms, however, suggests that selective benefits for privileged, usually skilled workers make it hard for management to motivate the large number of semiskilled workers who are excluded. While they are not perhaps in as much demand as skilled workers, semiskilled employees are nonetheless central to the continued smooth operation of production. Japanese manufacturers' competitiveness traditionally has been based on "quality mass production," and the success of this kind of quality-based competition depends very much on semiskilled workers or reduced X-inefficiency of Japanese work organization.[91] To the extent that this advantage continues to be crucial for Japanese producers, semiskilled employees are no less central to the companies than the more highly skilled employees.

Furthermore, the abandonment by some firms of the job capability (skill-based) wage system in favor of performance-based wages could reduce the investment firms make in training, and an overall reduction in the pool of skilled labor in Japan would surely weaken manufacturing industries there. As long as management wants to maintain the strength of Japanese manufacturing industries, there is ample room for labor to negotiate on the issue of new management systems. For instance, within Matsushita, the union is demanding an extension of the compulsory retirement age for all workers, while management wants some selection mechanism. It is evident that the union's plan would cost the firm more, but management has difficulty in flatly rejecting the demand. This is because the company worries that such a selection might demoralize workers as a whole.

This point leads us to a more political aspect. Although large Japanese firms have been employing "peripheral" workers, such as part-time workers, for a long time now, there has been a high degree of egalitarianism among "core" regular male workers within Japanese unions. Employer strategies of selective benefits for privileged workers will undoubtedly create severe contradictions and tensions for company-based unions that organize all regular workers in a plant irrespective of skill. To the extent that the performance-based portion of a worker's wage grows (thus sparking competition among workers for better jobs), this could unleash potentially disruptive political struggles within the unions over what jobs should be rewarded better and who should occupy those jobs. This prospect brings to mind the American system of job control, something that—if their U.S.-based operations are any indication—Japanese managers certainly want to avoid. Management has to maintain "fairness" within the firm as long as it wants to motivate workers, and this consideration constrains management attempts to reform traditional practices in ways that introduce new forms of differentiation and divisions among workers.

In sum, in both Germany and Japan, we find significant and surprising resiliency in traditional bargaining arrangements in the face of new global market pressures. Whereas much existing scholarship focuses on a neoliberal offensive and sees stability as a "residual" outcome (i.e., a lack of change, despite new strains), our analysis sees continuity and change in both systems as intimately—and causally—linked in important ways. In both Germany and Japan, the most destabilizing forces go back to the intensification of cooperation within a shrinking core that has in turn driven a narrowing of the coverage these systems have traditionally supported.

NOTES

1. Wolfgang Streeck, *Social Institutions and Economic Performance* (Newbury Park, CA: Sage, 1992).

2. Ronald Dore, *Flexible Rigidities: Industrial Policy and Structural Adjustment in the Japanese Economy, 1970-1980* (Stanford, CA: Stanford University Press, 1986).

3. See, e.g., Paulette Kurzer, *Business and Banking* (Ithaca, NY: Cornell University Press, 1993); see also Ethan Kapstein, "Workers and the World Economy," *Foreign Affairs* (May/June 1996): 16-37. Harry Katz and Owen Darbishire, *Converging Divergences* (Ithaca, NY: Cornell University Press, 1999) make a nuanced argument about the pace and scope of common trends.

4. But see Wolfgang Streeck, "The Uncertainties of Management in the Management of Uncertainty," *Work, Employment, and Society* 1, no. 3 (1987): 281-308, for an exception.

5. See, e.g., Andrei S. Markovits, *The Politics of West German Trade Unions* (Cambridge, UK: Cambridge University Press, 1986) and Kathleen Thelen, *Union of Parts: Labor Politics in Postwar Germany* (Ithaca, NY: Cornell University Press, 1991).

6. Union density in Germany has never been particularly high, hovering between 30 and 35 percent for most of the postwar period, except for a sharp, though also short-lived, increase immediately after unification. By contrast, organization among employers has traditionally been much higher, with around 80 percent of all companies organized by the BDA (central employers' confederation) before the Wall came down. See Peter J. Katzenstein, *Policy and Politics in West Germany: The Growth of a Semi-Sovereign State* (Philadelphia, PA: Temple University Press, 1987), 25. In the past, a firm's membership in the employers association automatically bound it to the collective contracts the association

concludes with the union, regardless of the level of union organization within the firm. (As we will see below, the 1990s have witnessed the emergence in some industries of associations whose members are not bound by the contracts.)

7. On the complaints by small firms about large firm dominance of collective bargaining policy, see Claus Schnabel and Joachim Wagner, "Ausmaß und Bestimmungsgründe der Mitgliedschaft in Arbeitgeberverbänden: Eine empirische Untersuchung mit Firmendaten," *Industrielle Beziehungen* 3, no. 4 (1996): 298.

8. Stephen Silvia, "Globalization and the German Economy: Labor Unions" (paper presented at the 1996 APSA meetings, August 29-September 1, 1996), 38-40. Pattern-setting contracts in the metalworking industry (in 1984, 1987, and 1990) resulted in overall reductions in weekly working times, in exchange for which employers won new flexibilities in scheduling work. Large firms were able to make up for lost working times by expanding shift work or by devising complicated and highly differentiated working time arrangements, but smaller companies—often without a personnel department, sometimes family owned and operated—were less able to exploit the potential for more flexible working times.

9. Stephen Silvia, "Globalization and the German Economy," 41-42; see also *Süddeutsche Zeitung* (25/26 February 1995).

10. Survey by Susanne Kohaut and Claus Schnabel, "Flächentarifvertrag im Westen sehr viel weiter verbreitet als im Osten: Ergebnisse aus dem IAB-Betriebspanel" as reported in Stefan Zagelmeyer, "Private Sector Collective Bargaining Coverage Analysed," EIROnline (February 1999) [Online]. Available at: www.eiro.eurofound.ie/servlet/ptconvert?DE9902196F. Hereafter, we provide only the article identifiers.

11. Thorsten Schulten and Stefan Zagelmeyer, "1998 Annual Review for Germany," EIROnline (December 1998) (DE9812287F); see also *Die Mitbestimmung* 42, no. 11 (1996): 35.

12. "The Erosion of Employers' Associations and Industry-Level Bargaining in Eastern Germany," EIROnline (August 1997) (DE9708128F).

13. "'Tarifabweichung meist rechtens,'" *Handelsblatt* (27 January 1998): 4 and *Der Spiegel* (12 January 1998).

14. "Henkel: Verbandsbindung lockern," *Frankfurter Rundschau* (10 February 1999); also *Handelsblatt* (1 February 1999) and *Kölner Stadt-Anzeiger* (20 February 1999).

15. "Maschinenbau-Präsident stellt sich hinter Henkel," *Handelsblatt* (19 January 1998): 1; also see "Employers React Negatively to Metalworking Agreement," EIROnline (April 1999) (DE9904106N).

16. See especially Birgit Mahnkopf, "Vorwärts in die Vergangenheit? Pessimistische Spekulationen über die Zukunft der Gewerkschaften in der neuen Bundesrepublik," in Andreas Westphal, ed., *Wirtschaftspolitische Konsequenzen der deutschen Vereinigung* (Frankfurt: Campus, 1991); also see Michael Fichter, "The German System of Labor Relations: Still a Model or a Passing Phenomenon?" (Unpublished manuscript, Freie Universität Berlin, 1997); Jörg Flecker and Thorsten Schulten, "The End of Institutional Stability: What Future for the 'German Model?' " *Economic and Industrial Democracy* 20 (1999): 81-115.

17. But see Wolfgang Streeck, "Das Zukunftsmodell—Der Flächentarifvertrag," *Gewerkschaftliche Monatshefte* 1 (1998): 6-18, which presents arguments to which we return below.

18. Lowell Turner, *Fighting for Partnership: Labor and Politics in Unified Germany* (Ithaca, NY: Cornell University Press, 1998).

19. For the West, e.g., a 1995 survey across sectors shows that while only 53.4 percent of firms are parties to the industry contract, another 8.2 percent of firms have concluded a

firm-level contract with the union, so that in fact about 62 percent of firms are subject to a collective contract, and they account for fully 83 percent of employees. While some of the firm-level contracts have less generous provisions than the industry contract, others are *Anerkennungstarifverträge* (recognition contracts forced by the union in which an individual firm agrees to abide by the terms of the industry agreement). A total of 38.4 percent of firms in the survey reported that they have no contract at all, but these account for only 16.9 percent of employees. See Susanne Kohaut and Lutz Bellmann, "Betriebliche Determinanten der Tarifbindung: Eine Empirische Analyse auf der Basis des IAB-Betriebspanels 1995," *Industrielle Beziehungen* 4, no. 4 (1997): 317-34.

20. Surveys of eastern German firms show that nearly half (42.8 percent) of companies outside the associations nonetheless pay the same wages as the industry agreement, and because those that do pay below the going rate are mostly smaller firms, only 13 percent of workers are affected. See Anke Hassel and Thorsten Schulten, "Globalization and the Future of Central Collective Bargaining: The Example of the German Metal Industry," *Economy and Society* 27, no. 4 (1998): 506. In addition, informal deviations from contracts apparently apply less to wages than to working times and various fringe benefits such as Christmas bonus. See *Die Mitbestimmung* 42, no. 11 (1996): 34; also *Handelsblatt* (20 April 1999).

21. For a more comprehensive analysis, see Kathleen Thelen, "Why German Employers Cannot Bring Themselves to Dismantle the German Model," in Torben Iversen, Jonas Pontusson, and David Soskice, eds., *Unions, Employers and Central Banks* (New York: Cambridge University Press, 1999), 138-69.

22. See, e.g., "In der chemischen Industrie herrscht der stete Wille zum Konsens," *Frankfurter Allgemeine Zeitung* (22 September 1997): 23, and "IG BCE and Employers Adopt Joint Declaration on Partnership and Branch-Level Bargaining," EIROnline (February 1999) (DE9902294N). Even in the East, the chemical industry organizes 75 percent of firms accounting for more than 95 percent of employment; *Die Mitbestimmung* 42, no. 11 (1996).

23. This example is discussed in more detail below.

24. "Arbeitgeber lehnen eine Änderung des Tarifrechts ab," *Frankfurter Allgemeine Zeitung* (27 January 1998): 11.

25. "Heikle Aufgabe," *Der Spiegel* 4 (1998): 88; "BDI: Keine Intrige gegen Henkel," *Handelsblatt* (19 January 1998): 4.

26. "BDI: Keine Intrige," *Handelsblatt* (19 January 1998) and "Der Flächentarifvertrag hat viel zum sozialen Frieden beigetragen," in *Handelsblatt* (12 April 1999) and *Die Welt* (23 January 1998).

27. *Der Spiegel* (12 January 1998).

28. Ibid.

29. *Süddeutsche Zeitung* (22 January 1998): 5.

30. Arbeitgeberverband Gesamtmetall, *Geschäftsbericht 1997-99* (Cologne: Gesamtmetall, 1999), 7, 36-37, and especially 71-73. See also *Offenbach-Post* (12 October 1998) and *Berliner Zeitung* (3 May 1999).

31. For an extended analysis, see Thelen, "Why German Employers."

32. See, for example, the debate between Mahnkopf, "Vorwärts in die Vergangenheit?" and Turner, *Fighting for Partnership*.

33. Elsewhere, we have explored the historical origins of these differences. See Kathleen Thelen and Ikuo Kume, "The Rise of Nonmarket Training Regimes: Germany and Japan Compared," *Journal of Japanese Studies* 25, no. 1 (1999): 33-64.

34. Kazuo Koike, *Shigoto no Keizaigaku* (Tokyo: Toyokeizaishinposha, 1993); Ikuo Kume, *Disparaged Success: Labor Politics in Postwar Japan* (Ithaca, NY: Cornell University Press, 1998).

35. Koichi Nishioka and Fumihiro Nagaoka, *Fukkatsu Nihonkeizai* (Tokyo: Nikkeishimbunsha, 1998), 73-75.

36. Yasuo Takeuchi, *Nihon no Owari* (Tokyo: Nihon Keizai Shinbunsha, 1998); Naohiro Yashiro, *Nihonteki Koyokanko no Owari* (Tokyo: Nihon Keizai Shinbunsha, 1997); "Editorial: Ooiso-Koiso," *Nikkei Shinbun*, hereafter *Nikkei* (22 May 1998).

37. Akira Takanashi, *Kawaru Nihongata Koyo* (Tokyo: Nihon Keizai Shinbunsha, 1994).

38. Keizai Senryaku Kaigi, "Nihon keizai saisei eno senryaku," 23 December 1998 [Online]. Available at: www.kantei.go.jp/jp/senryaku/981224interim.html.

39. "Atarashii Kaisha Interview Jidai wo Kaeru 2," *Nikkei* (9 December 1998).

40. Motohiro Morishima, "Embedding HRM in a Social Context," *British Journal of Industrial Relations* (December 1995): 33-34.

41. "Shain no 4 wari ga nayamu- Nenposei donyu kigyo," *Nikkei* (2 March 1998); survey conducted by the Socio-Economic Productivity Center.

42. Ministry of Labor, Chinginrodojikanseidotou Sogochosa, 1995 (a survey conducted by Ministry of Labor).

43. Naohiro Yashiro, *Nihonteki Koyokanko no Owari* (Tokyo: Nihon Keizai Shinbunsha, 1997), 110.

44. "Jinzai ikusei mo Toyota-ryu," *Nikkei Sangyo Shinbun*, hereafter *Nikkei Sangyo* (1 October 1998).

45. "Jinzai ikusei mo Toyota-ryu," *Nikkei Sangyo* (1 October 1998). Toyota appears unfazed by predictions that its commitment to long-term employment would hinder its competitiveness, reflected, e.g., in the recent downgrading of the company's long-term debt to Aa1 from Aaa by Moody's Investors Service.

46. Nikkeiren, Koyo Tokubetsuiinkai (25 November 1998).

47. See the works cited in notes 3 and 16.

48. See especially Streeck, "Das Zukunftsmodell." These issues have been addressed in the Swedish context by Nils Elvander, *The Swedish Bargaining System in the Melting Pot* (Solna: Arbetslivsinstitutet), 11-90, and Anders Kjellberg, "Sweden: Restoring the Model?" in Anthony Ferner and Richard Hyman, eds., *Changing Industrial Relations in Europe*, 2nd ed. (Oxford: Blackwell, 1998), 74-117.

49. The strike is recounted and analyzed in detail in Thelen, "Why German Employers," and I draw on that account in the paragraphs that follow.

50. The union did, however, agree to modest wage increases that year, as well as the exclusion of extras such as Christmas and overtime pay from the base wage on which sick pay is calculated.

51. Interview (1997) with a member of the collective bargaining department of the Metal Employers Association of Berlin-Brandenburg.

52. This account is based on Thorsten Schulten, "New Collective Agreement in the East German Steel Industry," EIROnline (January 1998) (DE9801243F).

53. This is what lies behind Gesamtmetall's current intense interest in engaging the IG Metall in discussions about new dispute resolution procedures. The employers association's proposal calls for ongoing dialogue on collective bargaining issues at the central and regional levels, for a third-party consulting committee to accompany negotiations, and for obligatory dispute resolution procedures if negotiations fail after an agreement has expired. See "Ohne Kampf," *Manager Magazin* (February 1998); see also "New Conflict

Resolution Procedures Discussed for Labour Disputes," EIROnline (April 1998) (DE9804160f).

54. Streeck, "Das Zukunftsmodell"; Dieter Kirchner, former managing director of Gesamtmetall, emphasizes these points as well (interview 1998).

55. BDA (German Employers Confederation), "Reform von Tarifpolitik und Tarifrecht" (document dated 3 July 1996), 3-4.

56. See especially Turner, *Fighting for Partnership*.

57. Silvia, "Globalization and the German Economy," 56.

58. Klaus Zwickel, "Tarifautonomie braucht starke Tarifparteien," *Frankfurter Allgemeine Zeitung* (6 April 1995).

59. Susanne Kohaut and Lutz Bellmann, "Betriebliche Determinanten der Tarifbindung."

60. Claus Schnabel and Joachim Wagner, "Ausmaß und Bestimmungsgründe." Unlike the larger survey, which distinguished between collective bargaining coverage or not, what is at issue in this survey is membership in the employers association. As pointed out above, some firms conclude separate contracts with the union; that is, they may be outside the employers association but have a collective agreement nonetheless. Some of these "Haus or Firmentarifverträge" have better conditions than the industry contract (like VW); more probably have worse conditions. But all are negotiated with the relevant union.

61. Stefan Zagelmeyer, "Private Sector Collective Bargaining Coverage Analyzed," EIROnline (February 1999) (DE9902196F), drawing on Kohaut and Schnabel.

62. Schnabel and Wagner's simulations show that holding firm size constant, an increase in the union organization level increases the probability of a firm being in the association (Schnabel and Wagner, "Ausmaß und Bestimmungsgründe," 304). A similar effect comes into play across industries based on the risk of industrial disputes.

63. In the past, large firms often paid more than the industry contract, a result of wage drift at the plant level. But in recent years, the gap between wages paid by small and large firms has narrowed as wage drift in the large firms has declined. See Hassel and Schulten, "Globalization and the Future of Central Collective Bargaining," 503-4. We thank Jim Mosher for pointing this out to us.

64. Schnabel and Wagner, "Ausmaß und Bestimmungsgründe," 298.

65. "Matsushita sentaku shain ha 1.8%," *Nikkei* (3 July 1998).

66. "Matsushita denki jinzai ryudouka nirami kaikaku," *Nikkei* (13 February 1998).

67. "Fujitsu ga shin jinjiseido," *Nikkei* (25 March 1998).

68. "Tenki no koyo chingin roshi ni kiku No.1," *Nikkei Sangyo* (28 September 1998).

69. "Tsuyoi kaisha wa shushinkoyo," *Nikkei* (29 November 1998).

70. "Tsuyoi kaisha wa shushinkoyo," *Nikkei* (29 November 1998).

71. Interview with Denki Rengo leader, 17 January 1999.

72. "Kyutenkan suru koyo senryaku," *Nikkei* (9 July 1998).

73. "Tenki no koyo chingin roshi ni kiku No.4," *Nikkei Sangyo* (1 October 1998).

74. "Tenki no koyo chingin roshi ni kiku No.4," *Nikkei Sangyo* (1 October 1998).

75. "Kyutenkan suru koyo senryaku," *Nikkei* (9 July 1998).

76. Mitsuharu Miyamoto, *Nihon no Koyo wo dou mamoruka* (Tokyo: PHP 1998).

77. "Tenki no koyo chingin roshi ni kiku No.1," *Nikkei Sangyo* (28 September 1998).

78. Nikkeiren, Koyo Tokubetsuiinkai (25 November 1998).

79. "Hino jiko gorikasaku," *Nikkei* (3 March 1999).

80. "21 seiki shosha no joken No.21," *Nikkei* (21 April 1999).

81. Tadao Chikuma, "Hataraku katachi to hyouka no shikata wo kaeru," *Jitsugyo no Nihon* (April 1999).

82. Interview, January 1998.

83. Hassel and Schulten, "Globalization and the Future of Central Collective Bargaining," 503-4. This appears to be one of the reasons why, against the trend in most other advanced industrial countries, wage inequality in Germany has been declining, not increasing. We thank Jim Mosher for this insight.

84. Peter Swenson, "Bringing Capital Back In," *World Politics* 43 (1991).

85. *Deutschland Nachrichten* (26 February 1999).

86. We are grateful to Rainer Hank for emphasizing this to us.

87. Silvia, "Globalization and the German Economy," 46.

88. *Handelsblatt* (6 May 1999) and *Handelsblatt* (24 March 1999).

89. See, e.g., statements by IG Metall President Klaus Zwickel in *Frankfurter Allgemeine Zeitung* (6 April 1995) and the interview with IG Metall's previous vice president (now labor minister) Walter Riester, *Augsburger Allgemeine* (1 April 1996). See also, more recently, the comments by Zwickel in *Handelsblatt* (24 March 1999).

90. Haruo Shimada and Kiyoshi Ota, eds., *Rodosijo Kaikaku* (Tokyo: Toyokeizaishinposha, 1997), 104-6.

91. Cf. Harvey Leibenstein, *Beyond Economic Man* (Cambridge, MA: Harvard University Press, 1976).