The German System of Industrial Relations - A Model For Britain?

Introduction

The title of my lecture will undoubtedly be somewhat puzzling. Firstly, there may be confusion because current assessments of Germany's economic performance have been cautious at best and highly critical at worst. In addition 1996 has been marked in Germany by numerous reports of industrial unrest, difficult wage negotiations and draconian economic measures. Secondly, Britain certainly does not appear to have acute industrial relations problems and in any case it is not very British to look across to continental Europe and import continental concepts.

Let me state my case from the outset. I am not presenting an argument suggesting that the entire German model of industrial relations could be transferred, or should be transferred, to Britain. What I am suggesting is that there have been some remarkable developments in Germany over the last few years in industrial relations which suggest that some aspects of the industrial relations system in Germany can provide valuable lessons for Britain. Given that British industrial relations have had a specific evolution, which has markedly differed from most continental European countries the fact that a case can be made for considering some features and aspects of a continental model is in itself interesting.

Clearly the components of 'Rhine capitalism' have been subjected to enormous pressures, both domestic and international. Industrial relations have, of course, been
subjected to these same strains and pressures. But it is the contention of this lecture to demonstrate that the German system of industrial relations has proved extraordinarily adaptable, flexible and stable. It has achieved this by a series of remarkable, and ongoing, institutional and procedural adjustments to the established German model. There is a strong opposing view which argues that the Anglo-American pattern of capitalism, with an emphasis on a decentralised market and individual contracts might emerge in Germany. This would imply that the social partners roles would diminish and the corporatist tradition, a characteristic of German labour relations, would wither away (Lange et al, 1995). This, in my opinion, is far too gloomy an assessment and it ignores an important dimension of the German model, namely co-determination which is such a central feature.

While Germany has been scrutinising effectiveness of the co-determination institution some European countries have evolved a more positive attitude towards these values. Concurrently Britain, for example, has, partly because of the creation of the Single European Market, and despite its opt-out from the Social Chapter, moved towards social partnership style institutions. The best example is the European Works Council which has already been implemented, in one form or another, by well over 100 British companies.

My main purpose, then, this evening is to try and explain how the German model has coped with changes, to assess these and to see where these changes provide lessons for Britain. Let me, therefore, approach this by reviewing the changes in the economic environment and then moving on to the key areas and actors of the industrial relations system.
Economic Environment - Globalisation

How serious is the economic crisis in Germany and what part is ascribed to the problem of high labour costs which relates to the efficacy, and is directly related, to the German industrial relations system?

There is no doubt that increasing international competition, coupled to the broader process of globalisation, is having a serious impact on industrial relations systems in European countries. It is a complex interaction of forces which are difficult to disaggregate but a recent (1996) ILO report summarised this as follows:

"The growing internationalisation of the market economy (is) marked by the deepening of financial, trade and other economic exchanges between countries, the acceleration of technological progress....... the growth of newly industrialised countries alongside the ones with long lasting industrialisation and developing countries, among whom there are fewer and fewer similarities. The recent political upheavals (especially the collapse of communist regimes, and widespread evidence of changes in family and social structures......force us to question the familiar paths (which have been) paved by accumulated know how. The forecast are alarming, (the) solutions are scarcely reassuring" (International Labour Organisation, 1996).

Given this kind of wide context in which industrial relations systems have to operate it is not surprising that there are profound changes in models which were created and have evolved under different paradigms. Globalisation intensifies competition; but competition is multifaceted. There is the common concept of competition in product markets but there is also competition in producing the most effective factors
of production and that includes managerial resources and industrial relations systems. The dramatic changes these developments implied for the world economy really only had an impact in west Germany from the beginning of 1993 but then, rather suddenly, changed the bargaining policy situation.

**Economic Environment - Domestic Dimension**

As the German economy is highly dependent on its export performance these international trends have had a particular influence on economic indicators. Indeed economic changes and pressures led to a debate in the old Federal Republic in the 1980s on how Germany might maintain its position as a trading nation in the face of a fierce, new international competitive market place; a debate encapsulated in the phrase "Standort Deutschland" (Germany as an industrial location). The discussions, centred around this concept, soon encompassed the problems of the 'social state'; the increasing deficits caused by a welfare state with an ageing population and permanent unacceptable levels of unemployment.

But in Germany's case there is the additional influence of German reunification. It was the post-unification period of the 1990's which brought in more profound economic changes and which was to be the advent of significant developments in industrial relations.

The success of the German economy has clearly been identified with the introduction and continuation of the social market economy. An intrinsic part of this success and manifestation is due in part to bargained corporatism, that is the original
social partnership ethos, and the strength of the Deutschmark. It is true that the social market economy of Germany was subjected to cyclical growth; the Wirtschaftswunder of the early years of the Federal Republic gave way to the first economic crisis of 1966, then to the oil crisis of 1974 and the late seventies/early eighties to be followed by slow economic growth after Helmut Kohl became Chancellor in 1983. Furthermore the first year of reunification was marked by healthy output and inflation figures in the western German economy because of the boom generated by demand from eastern Germany for western products. Simultaneously the economic costs of rebuilding east German industry, the transport system, and rectifying the environmental catastrophies became apparent. The initial period, from mid-1990 to the end of 1991 swallowed the equivalent of over £30 000 million - and that was just the start.

No wonder that by the turn of 1992/93 the western German economy experienced a sharp downturn (Koch, 1995) The end of 1993 was marked in the West by a loss of almost 500, 000 employment places, the inflation rate was around 4 per cent, exports fell by 6 per cent and GDP contracted by 1.7 per cent. The international economic environment and foreign markets continued to be difficult for German industry. The export industry was hampered in some markets by the appreciation of the DM, and combined with economic downswings in major European trading partners, kept export activity at a sluggish pace.

At the end of 1993 the west German economy was stabilising and showing a marginal increase in growth. On the supply side, conditions for stimulating investment propensity in western Germany improved and there were some moderate

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1 Data from Deutsche Bundesbank Annual Report, 1995 and 1994
wage settlements and rationalisation of production. Some sectors, such as housing construction, were, of course, buoyant. But the all important labour market did not improve; in November 1993 the number of unemployed had risen by 525,000 compared with the same juncture in the previous year; this produced a total figure of 2.49 million.

In contrast, eastern Germany began to show an upturn in economic activity during 1993. The first few years of the economic transformation process had been marked by huge public transfers from western Germany to cushion the effects of adjustments to market conditions, to restructure industry and develop the infrastructure. However, the tempo of adjustment, of new products and production processes provided a momentum for east German industry. The manufacturing sector had increased its output by 15 per cent at the end of 1993 and there were signs that economic recovery might continue on a broader basis. The weak point of east German industry remained the export markets; loss of the east and central European markets were not compensated by an expansion into western European markets.

The labour market in eastern Germany, despite the economic activity, did not improve, although there was a slowing down of loss of jobs. To some extent the loss of employment places in the manufacturing sector has been balanced by expansion in construction and the services sector. The 1.5 million unemployed in eastern Germany in November 1993 exceeded the corresponding period of the year before by 65,000; an unemployment rate of 15.1 per cent. A particular problem is the high percentage of women; their share of the total number of unemployed came to a staggering 65 per cent.
From the middle of 1993 the financial development of the federal, Land and local authorities deteriorated; there were the ongoing heavy unification costs plus the slowdown in the economy. But the increasing debt of the German public sector is an underlying problem that will find no resolution in the short term, and much of the public debt can be ascribed to the crippling costs of unification.

However, the recession of 1993 also had an impact stemming from the burden of almost 4 million unemployed at the end of that year, and of a further 2 million people subsidised in federally-financed retraining, job creation and early retirement schemes. As table 1 shows unemployment continues to present a central challenge for the German economy.

Table 1

Unemployment in West and East Germany
(Percentage)

<table>
<thead>
<tr>
<th>Year</th>
<th>W G</th>
<th>E G</th>
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<tr>
<td>1992</td>
<td>6.5</td>
<td>14.1</td>
</tr>
<tr>
<td>1993</td>
<td>8.3</td>
<td>15.9</td>
</tr>
<tr>
<td>1994</td>
<td>8.8</td>
<td>14.6</td>
</tr>
<tr>
<td>1995</td>
<td>9.0</td>
<td>14.7</td>
</tr>
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Source: Amtliche Nachrichten der Bundesanstalt für Arbeit, 1996.

The largest single item earmarked in the 1994 federal budget was the DM140 billion for the Federal Labour and Social Affairs Ministry. Total government expenditure increased by 6 per cent to 54 per cent of GDP in 1993. The consequences have been persistent budget deficits. Thus the budget deficit
anticipated in 1997 is 3.5 per cent of GDP, increasing government debt to 61 per cent of GDP.

The German economy grew much faster in 1994 than had been expected; in eastern Germany the increase in real GDP was from 5.8 per cent in 1993 to 9 per cent and western Germany could boast a strong economic recovery with a real growth of 2.2 per cent in 1994, up from 1.7 per cent in 1993. However, by 1995 there was once again slacker growth in Germany, with the increase in real gross domestic product at just under 2 per cent. Even more concerning was that in the east German economy, which seemed to be prospering two to three years earlier, growth decreased to 5.5 per cent in 1995 and continues to perform adversely in 1996. The real burden of the German economy remains the Federal budget, which incurred a deficit of over DM 50 billion in 1995.

Reactions to the deficit have been severe economic constraints and tough government proposals. The latter are a response to Chancellor Kohl's determination for Germany to achieve the convergence criteria laid down at Maastricht for the European Monetary Union project.

But this harder line conflicts with the social challenges the German economy is presenting. Thus the level and extent of economic expansion in the autumn of 1996 is not enough to improve the labour market situation. The core problem is that Germany needs more investment both at home and abroad if it is to reduce the 3.8 million official unemployed, signifying a 10.3 per cent unemployment rate.
To sum up. The changing economic structure, economic strains and the effects from a fierce global competition have resulted in modest economic growth rates, increasing budget deficits and significant high unemployment rates. In addition the strains of unification have created an economic schism between the new and old Federal States. Economic institutions, the Bundesbank and its monetary policy for example, have adapted a harder line towards the Federal Government and is insisting on specific conditions if the EMU project is to be completed.

**Wage development**

It is within this economic framework that wage setting has been taking place; that is the political reunification of Germany and the severe economic setback of 1992/1993. Although the recession and economic stagnation may be over in 1996, the upturn will still be too weak this year and probably in 1997 to produce any marked improvement on the labour market.

East German collective bargaining developments were to have a significant impact on German collective bargaining. Let me illustrate this by looking at collective bargaining activities, in the first half of the nineties, in the East German Metal Industry. The *IG Metall* adopted a collective bargaining policy following reunification which had three stages: a collective bargaining *Sofortprogramm*, the transfer of west German collective bargaining structures, and to complete collective agreements on wage parity.

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2 Data from Kittner, 1994 and 1995
The establishment of the organisational framework for collective bargaining policy was expeditiously put in place in five new bargaining regions. Already in 1990 collective agreements of the neighbouring western partner bargaining regions, allocated to each new region, was transferred to the east thus causing an initial improvement in wage levels. Given the enormous differential of wage and salary levels in 1990 between west Germany and east Germany this was an obvious priority. In 1990, for example, in the manufacturing sector the eastern part of Germany received 60 per cent of western German levels and in part of the public sector only 35 per cent. The influential engineering sector had in 1991 only achieved 40 per cent of hourly wages of the west.

This disparity of wage levels tested the strength of the established west German collective bargaining institutions and subsequent developments were to place it under considerable stress. The political consequences of these wage disparities inevitably pressured employer's and trade unions towards a wage and salary harmonisation agreement. Thus the controversial and troubled harmonisation agreement in the Metal Industry proposed a graduated wage harmonisation plan, *Stufenplan*. This step-by-step adjustment would bring wages to 100 per cent of the west German level by 1 April 1994; a target which was to prove impossible and was finally achieved 1 July 1996.

The period 1990 to 1995 shifted collective bargaining activity to new levels of intensity. The confidence of *Modell Deutschland*, which had allowed commentators such as W Paterson and G Smith to suggest that;
"The Federal Republic was a model for other countries to follow if they could, and whilst there was no certainty as to the 'secret' of German success, a decided interest was taken by outside observers in various aspects of West German institutional structures..." (Paterson and Smith, 1989).

and Paterson and Smith included industrial relations, seemed to have evaporated. The IG Metall concurrently to its wage policy was continuing its drive towards the realisation of the 35-hour working week. The aspect of 'Modell Deutschland' which was central to trade unions and employers' associations - the principle of the primacy of the Flächentarifvertrag (regional/sectoral agreements) over plant level agreements, was being severly tested.

Let me return to the recession of 1993, which brought with it an unprecedented worsening in wage negotiations. In October 1993 the metal employers terminated for the first time since the founding of the former Federal Republic the collective agreements and called for a "decline in cost" between 10 per cent and 15 per cent which included cancellation of holiday bonuses which amount to 70 per cent of a monthly salary. The termination of such an agreement was a grave assault on the existing regional or industry level collective bargaining mechanism.

This was further compounded by a well publicised event in November 1993. The German VW company threatened at the time to make 30 000 employees of its work force redundant. The IG Metall made a major concession in negotiating a collective agreement according to which working hours for all VW workers were reduced from 36 hours to 28.8 hours per week; with unchanged monthly salaries. This meant that VW workers lost up to ca. 15 per cent of their annual income but VW agreed to
no redundancies for the term of the agreement until 31 December 1995. The "VW model" found wide interest not only in Germany but also outside. For Germany, however, the distinctive example of VW lay in the fact that the agreement had been negotiated as a plant specific agreement.

It was, therefore, no surprise when the final agreements achieved in the 1994 collective negotiations included an "employment protection agreement", allowing employer and works council to reduce working time to 30 hours weekly in accordance with the VW model, with or without wage compensation and the exclusion of dismissals. In fact 1994 had witnessed a particular tough and acrimonious collective bargaining round, not only in the metal industry but also in the public sector. It was only after a round of 50 negotiations, and the strongest wave of warning strikes in IG Metall bargaining history, with almost 2 million metal workers participating, that a compromise of 2 per cent increase in wages and salaries was achieved. Most astonishing was that even workers in the new federal states were prepared, contrary to experience and tradition in the post war period, to strike. Thus in a pre-strike ballot, 92.2 per cent of the IG Metall membership voted for strike action in the Lower Saxony collective bargaining region.

These conflictual negotiations adumbrated, according to some critics, a general socio-political conflict which would draw in a complex set of grievances generated by government determination to reduce deficits and employers goals of increasing productivity and competitiveness. This did not happen. Indeed the 1995 collective bargaining round ended, in my view, with a return by the parties to supporting existing structures and procedures. This may seem somewhat of a paradox as there was a certain bitterness in the negotiations of that year. Firstly, there were warning
strikes in the metal industry involving around 1.1 million workers and, secondly, there was a strike in Bavaria from the 24 February to 10 March 1995. But the strike only involved around 22,000 workers and the employers were furious that the final agreement, around 3.4 per cent to 3.6 per cent wage and salary increases and 35-hour week to come into effect as of 1 October 1995 with full wage compensation, could have been signed without financial loss to them much earlier.

The consequences of these developments reinforced the view that, perhaps, a change in paradigm of a fundamental nature was not to be desired. It, therefore reaffirmed the belief of the parties to bargaining in the principles of the established collective bargaining system.

**Collective Bargaining Autonomy**

To understand the role and process of collective bargaining in Germany it is important to consider the legal and constitutional provisions pertinent in this area. The wide degree of autonomy designated to employers or their associations and trade unions in negotiating the terms of employment and wage levels have allocated collective bargaining a significant place in German society. The concept of "Collective Bargaining Autonomy" (Tarifautonomie), that is the statutory right of employers' and workers' associations to achieve collective agreements without intervention, is derived from the Basic Law and enshrined in the Collective Agreement Act of 1969.

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3 Koch, 1992
In contrast to Britain, where voluntary arrangements were a historical feature of the collective bargaining process, the Collective Agreement Act in its 1969 version provides the framework within which terms and conditions of employment and wage and salary agreements can be achieved. Generating legal norms the Act clearly establishes periods of peace and conflict; during the period of an agreed collective agreement a peace obligation (Friedenspflicht) is imposed on the parties. The conclusion of collective agreements results in legally binding, and for a stipulated period valid, written agreements. Industrial action over issues laid down in such agreements consequently become unlawful. There are two types of agreement: those which only regulate pay (Lohn- und Gehaltstarifverträge); and framework agreements (Mantel- or Rahmentarifverträge) regulating matters concerned with hours of work, benefits, dismissal and redundancy provisions.

Characteristic for collective agreements of this nature is that trade unions and employers' associations conclude them mainly at regional or industry level. Agreements between individual companies and trade unions do occur and can, as in the case of Volkswagen's autumn 1993 agreement have a wider influence. However, in macro-economic terms collective agreements at company level are relatively unimportant as the workforce involved is relatively small. Immediately after reunification, in 1991, around 24 700 sectoral agreements and 8 800 company agreements were lodged with the Federal Ministry of Labour. Even more significant in terms of the continuing importance of collective agreements is to note that in 1995 1783 new Lohn- und Gehaltstarifverträge and 678 Rahmentarifverträge were signed. Over 20 million employees were covered by these agreements; hardly an argument to suggest that collective bargaining at regional/sectoral level was moribund (IG Metall, 1996).
Supplementary bargaining takes place at plant level, and is regulated on a statutory basis, between the works council and management. It is this attribute of the German industrial relations system which has given it a distinctive dual nature. Domestic level negotiations are mandated by the legal norms laid down in the Works Constitution Act, 1972. This Act establishes works councils in all plants with five or more employees to represent the interest of all employees and to engage in negotiations with management. In some areas, such as the determination of daily working time, the works council has true codetermination rights - rights which can ultimately be strictly enforced by compulsory arbitration.

However, the works council is excluded from determining the basic rate of wage increases and is merely charged with ensuring that collective agreements are upheld at plant level. Its powers are further constrained by a peace obligation clause which prevents it calling for or supporting any form of industrial action. The law distinctly requires the works council to cooperate with management "in a spirit of mutual trust". Despite the fact that the legal norms prohibit works councils negotiating over pay issues already settled by collective agreement additional bargaining has always been part of the informal industrial relations system. Legal norms may make a distinction between industry level and domestic bargaining but there are clear linkages between the two. It is precisely these linkages in the German model that have been subject to change and have adapted to the economic environment.

The role of the law in the industrial relations sphere has in Germany led to a considerable degree of juridification. The outcome has been a complex and refined legal system, regulating the relationship of the two sides of industry. The parties to
collective bargaining continue to support this framework but there are forces which are battering against this bastion. One of the trends weakening the framework is the decline in the labour market organisations; that is the trade unions and the employers' associations.

**Trade Unionism and Collective Bargaining**

Let me first turn to the trade unions.

The German trade unions established themselves on an entirely new basis after the Second World War. The Weimar Republic had been dominated by a trade union structure which was based on ideological and political criteria; the result was a fragmented, divisive union movement of over 200 separate trade unions. This legacy of the historical splintered German trade union movement contributed to the paralysis of that movement when it was savagely destroyed by the National Socialists in 1933.

The trauma of this event fostered a determination in post-war German trade union circles to create a new trade union pattern. The industrial unions which consequently emerged rejected political, ideological and occupational or craft demarcation criteria as organisational principles. To accomplish this the economy was divided into broad sectors, metalworking, chemicals, construction, public services, mining and energy and textiles, for example, and one trade union only was to organise each sector. The industrial trade unions, originally numbering 16, affiliated to the German Trade Union Federation (*Deutscher Gewerkschaftsbund* - DGB ), which co-ordinates policies and strategies for the industrial trade unions gathered under its umbrella.
However, collective bargaining is absolutely the prerogative of the individual industrial trade unions and this was, perhaps, the most significant outcome from the new organisational arrangements.

Industrial unions may dominate the German industrial relations landscape but are supplemented by a number of further trade unions. The important German Union of Salaried Employees (Deutsche Angestelltengewerkschaft) and the German Civil Service Federation (Deutscher Beamtenbund) represent two of the more influential organisations. The one plant one union doctrine is, therefore, not strictly speaking true, though neither can it be claimed that multi-unionism has a great influence on collective bargaining arrangements. On the contrary, it is the industrial unions who continue to dominate both union political strategies and collective bargaining guidelines.

But the trade unions have had to contend with two challenges. Firstly, there was the organisational expansion, after reunification, into east Germany. The initial rise in trade union membership after 1990 masked the underlying problems that the new union landscape posed; there were for example a number of bitter demarcation disputes between trade unions affiliated with the DGB. Nevertheless, in 1991 trade union membership increased by around 50 per cent; total membership in the new Germany increased from 8 to 12 million. But the second challenge the union movement faced was that since 1991 there has been a spectacular decline in trade union membership; 1.8 million trade union members were lost in the new federal states and 600 000 in West Germany.
The loss of union members in east Germany is clearly not simply a question of the loss of employment places due to de-industrialisation. It also reflects the social divide between east and west Germany and the loss of faith in the powers of pluralist institutions. In west Germany the economic development described earlier in my talk caused increasing unemployment in those industries which had a high union density; the explanation for the loss of membership.

The consequences for the German trade union movement have been severe. The loss of revenue from the membership meant a reappraisal of the viability of its structure and has accelerated union mergers. As in Britain trade union mergers have become a feature of the union movement. Current plans in Germany, inclusive of the Textile trade union joining the powerful IG Metall, are that by 1998 the DGB will have reduced its affiliates to 13. It is obvious that the centralised collective bargaining system, reliant on the principle of industrial unionism, might see some revision because of this trend towards a more general trade unionism.

Each trade union in Germany is autonomous in shaping its collective bargaining policy but due to the centrality of the metal industry in the German economy, and the size and strength of the IG Metall, it is this union that acts as forerunner in establishing collective bargaining policy. But the IG Metall too has seen dramatic membership losses. In the wake of reunification it achieved a peak membership of around 3.8 million which has now declined to ca. 2.4 million.

The role of the IG Metall has been central to the German trade union movement, not only in terms of defining particular social and political strategies, but in particular in determining wage levels. Indeed, German unions have regarded themselves since
1949 primarily as bargaining institutions aiming for tangible increases for their constituents. They are essentially trade-conscious institutions who have not perpetuated or promoted a class-conscious attitude. Union policy did change after the 1973/74 oil shock, as unemployment became an increasing problem, from more quantitative to qualitative objectives.

That is not to suggest that they have ignored broader union aims. But the substantive thrust, by trade unions, of collective bargaining demands in West Germany were in the arena of pay-bargaining and on the basis of "responsible" trade unionism. It was understood that wage rises had to be related to productivity improvements so that inflation and unemployment could be controlled; the cost-neutral wage agreement was certainly in the past an acceptable objective. The *IG Metall* as "pace-setter" for the rate of pay in West Germany shared this view, but this has been subject to increasing modification.

What allowed the *IG Metall* to play a principal role was not only the fact that union structure permits a pre-eminence of industry, or regional level, collective bargaining, but German regional industrial structure means that certain regions, Northern Wurtemberg/Northern Baden, North Rhine-Westphalia, Bavaria and Hesse, for example, act as "pilot" regions. These are regions with high concentrations of manufacturing industry and large numbers of industrial employees. An agreement in one of these regions has usually led to acceptance in the remaining collective bargaining regions in West Germany.

**Employer Organisation and Centralisation**
The employers' associations had also enlarged its organisation in east Germany but are experiencing even more acute problems than the trade unions.

Employer organisation in West Germany is crucial for the efficacy of the co-ordinated bargaining process and its major characteristic has been its remarkable centralisation. The organisational density in industry, banking and insurance was in the 1980s an astonishing 80 per cent, covering over 90 per cent of employees in West Germany.

Centralisation is promoted by the umbrella organisation of the Confederation of German Employers' Association (Bundesverband der Deutschen Arbeitgeberverbände - BDA) founded in 1950. It, like its counterpart the German Trade Union Federation, does not engage in collective bargaining. However, unlike the union umbrella organisation, it nevertheless plays a central and influential co-ordinating role for its constituents in the bargaining process. Employers' associations organised within the BDA are either based on industrial structures from one industry, say metal-working, or on a branch and regional structure organising all employers in an individual Federal State. Industrial business interests and economic policies are represented by the powerful Federation of German Industries (Bundesverband der Deutschen Industrie - BDI) which, through informal and formal linkages, augment the high degree of employer solidarity and centralisation. It is symptomatic that the centripetal forces acting on employers' has recently caused a considerable policy schism between the BDA and BDI.

The BDA had in the period of 'Modell Deutschland' succeeded in forming a consensus on broad social, political and economic strategies amongst a wide range
of companies, including large numbers of medium-sized firms and multinational corporations of the dimension of Daimler-Benz. In part the consensus amongst employers is achieved through membership on key committees; leading industrial decision makers dominating salient policy making bodies. In part German employers have evolved a common identity and awareness that individual interests are closely related to the general interests of employers throughout an industry.

But there was also a solidarity ethos amongst German employers, based on the principles and goals of the social market economy and an understanding that there are advantages to be gained in common macro-economic aspirations. Solidarity is cemented by a code of conduct which is supported by mutual assistance agreements between companies and which come into effect during periods of industrial conflict. Thus employers' associations have established funds for compensating firms affected by strikes. During the 1984 conflict over the reduction of the working week employers in the metalworking industry were able to lock-out 140,000 workers and an additional 315,000 through the cold lock-out. A remarkable demonstration of the ability of German employers to act in concert. Despite the lock-out employers perceived the 1984 conflict as a defeat and they successfully lobbied for a legal amendment in 1985 weakening the trade unions power in industrial actions through the cold lock-out.

Given the primacy of the engineering, vehicle and electronics industries in West Germany it is not surprising that the Federation of the Metal Trades Employers' Association (Gesamtverband des metallindustriellen Arbeitgeberverbände - Gesamtmetall), organising the metalworking industry, has an influence of
considerable magnitude within the BDA. It is, of course, *Gesamtmetall* that has the right to conduct wage bargaining.

As wage bargaining is conducted within an industry and at industry, or regional level, it can be appreciated why the metalworking sector assumes such a significant place in the German bargaining process. On the one hand this industry determines the going rate, on the other, as a negotiated wage agreement will cover such large and diverse number of companies and employees, it forestalls wage "leapfrogging" between companies. Further, as agreements in individual bargaining regions tend to be signed within a short period of time, and apply for the same duration, it can be argued that in practice there is a strong element of co-ordination.

But it is precisely the co-ordinating function of employers' association which has been subject to internal tension. The crisis stems from the steady decline of membership from employers' associations affiliated to the BDA. In particular the crucial metal sector has been affected. From 1984 to 1994 employers' associations have witnessed a reduction of the density ratio in this sector from 56 per cent to 43 per cent of all companies, with coverage declining from 75 per cent to 66 per cent of all employees respectively.

Dissatisfaction of the constituents of employers' associations predates reunification but the events since 1990 have acerbated the problem. The kernel of the criticism is the wage policy which led to collective agreements on parity of wage levels between east and west Germany and the reduction in working hours. Companies in the new federal states were hampered from interlocking factors: the lack of tradition of employers' associations, the disastrous labour productivity lagging behind the
increase in wage costs, the de-industrialisation and the numerous small and medium-sized companies. These latter companies, so important for the German economy, also criticised the high levels of membership fees, the reduction in service provisions and the cleavage between them and the large companies. All this fuelled 'Verbandsflucht', that is the flight from association. In the old Federal Republic the sober recognition by employers, that the productivity gap between German industry and their global competitors had suddenly placed the German export machine at a great disadvantage, increased dissatisfaction. It is not surprising that these anxieties led to an examination by individual companies and some employers' associations of their status in regard to regional and sectoral collective agreements.

Indeed, there is a profound change from the employers and their attitude towards collective agreements and the collective bargaining mechanism but the overwhelming majority still desires to retain the centralised system. This was clearly articulated by Klaus Murmann, President of the BDA, in an analysis of the situation:

"....Murmann stresses the fact that jointly agreed rules for wages and working condition played an important part in the "long-lasting social and political stability" in Germany; he speaks of the industry-wide agreement as the "proven instrument with which to regulate the conflicting interests of distribution between employers and employees" (Mueller-Jentsch and Sperling, 1995).

The confidence in the model is reflected in the low incidence of industrial conflict, table 2 shows that Germany is still below most countries, including Britain, when it comes to strike statistics.
Nevertheless, employers are also convinced that reforms are necessary in the arena of collective bargaining to deal with the changes which have been discussed by me. But reforms within Germany's distinctive system of industrial relations and that means adjustments to the 'dual system' rather than a radical transformation.

**Collective Bargaining Shifts**

Let me once more return to the events of 1993. Employers' associations did not only distance themselves from the harmonisation of wages and salaries between east and west Germany when they cancelled the *Stufentarifvertrag* on 18 February 1993 but they expressed their disagreement with the political promise of a speedy wage harmonisation and hoped to achieve realistic labour costs. In addition they wanted to exercise pressure on the west German collective bargaining policy and emphasise that the relationship between plant level bargaining and the *Flächentarifvertrag* required a new form of regulation.

Table 2

**AVERAGE STRIKE RATE IN SELECTED COUNTRIES 1990-1994**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>DAYS LOST PER 1000 WORKERS</th>
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<td>Greece</td>
<td>3500</td>
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<tr>
<td>Spain</td>
<td>492</td>
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<td>Italy</td>
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<td>EU Average</td>
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Source: The Times, Tuesday November 19, 1996

It is this relationship which the empirical evidence suggests has not only sustained the existing model of German industrial relations but is providing both continuity and stability. I have argued elsewhere that the strengthening of the works council as a bargaining agent had its genesis in 1984 when the collective agreement in the metal industry on the reduction of the 40-hour working week included an "opening clause" (Koch, 1992). This widened the scope of bargaining for the plant level actors, management and works council, and subsequent to this agreement around 10,000 plant agreements, on the issue of working time, were concluded in the metal industry. Although works councils are formally separated from trade unions, in practice there is a tight linkage. Furthermore, evidence from researchers such as Kotthoff demonstrate that works councils have gained in power and status over the last decades (Kotthoff, 1994).
Drawing on my own research findings there is support for the view that the scope of works council competencies are being extended (Koch, 1995). As I showed in a recent paper the *IG Metall* and the employers’ association agreed during the wage harmonisation plan that some companies could forbear wage increases under certain circumstances; the so called “hardship clauses”. The point is that the locus of bargaining had shifted to plant level. But the point is also that the German model has been flexible enough to allow this because of the subtle relationship between bargaining structures, bargaining procedures and works councils.

This may be illustrated by considering the bargaining mechanism in the metal industry.

*IG Metall* has 21 distinctive regionally based bargaining units each of which forms a representative body, the "Regional Collective Bargaining Committee", responsible for determining the pay increases to be negotiated. Although this committee has a substantial membership, it can be as high as 100 with a constituency composed from union representatives from major enterprises, local union offices and works council members, it is influenced by overall union strategy. The committee includes the regional secretary of the bargaining region and "experts" from the trade union executive. Some 1500 union officials are directly involved in shaping bargaining policy through the Regional Collective Baraining Committee. Regional secretaries exercise considerable influence on the composition of the smaller bargaining committee, around 30 in some bargaining regions, which is nominated from the central body. They certainly play a prominent and decisive role in the effective negotiating team of three to five members. The latter will include a representative
from the *IG Metall* executive providing for continuity of centrally defined bargaining policy.

Implementation of a centrally determined wage rate finds further encouragement in the formal provisions of the *IG Metall*. The union executive has the prerogative of terminating collective agreements, the initiation and cessation of industrial conflicts and of accepting or rejecting the negotiated results of the collective bargaining committee. There is a concentration of formal powers in the hands of the trade union executive which can, and does of course, from time to time, cause divisions between it and the rank and file membership. However, the regionally/sectoral agreed wage rate is implemented at plant level under the auspices of the works council. It needs to be stressed here again that works councils are representative bodies for all employees, but in practice, in the large significant enterprises of the metal industry, are dominated by the trade unions, in which 82 per cent of all works councillors belong to the *IG Metall*.

The conclusion is that there is a continuity from centralised bargaining to plant level bargaining allowing adaptability and flexibility of the German model. Needless to say this conclusion is based on west German developments. Particularly in east Germany plant level evolution has been fraught with problems. Recent research findings have concluded that works councils frequently continue a tradition of co-operation with management based on pre-unification patterns. It is an open question how long the current special plant industrial relations patterns in east Germany will persist (Kreissig, 1996).
I have presented the works council in terms of its expanding role as a bargaining agent. However, it is not only in this area that the significance of this institution lies; it is a decisive component of the German codetermination model. Perhaps, even the central component. Given the transformation of production methods, the advent of human resource management and the continuing innovation of new technologies it is astonishing that works councils have participated on the basis of what Kathleen Thelen has described as "negotiated adjustment" (Thelen, 1991). As new forms of direct participation have evolved, quality circles and team working are two examples, works councils and trade unions have had to develop wider horizons than the statutory requirements enshrined in the codetermination legislation.

It is clear that my own conclusion from these developments are that Tarifautonomie and codetermination are not only flexible to adjust to economic and social evolution but are intimately related. Works councillors are members of Collective Bargaining Committees; union secretaries are members of supervisory boards and, in some industries labour directors are part of the management board. There is a continuum in the German system and this, I believe, has contributed to its elasticity.

Conclusions

So what conclusions can I come to and how may I relate it to Britain?

What I have outlined is an industrial relations system subject to considerable challenges. Challenges stemming from the distinctive consequences of German reunification and the pressures on the German economy, but also challenges from accelerating European integration and globalisation.
What lessons can be drawn for Britain from the developments of the German system of industrial relations?

Firstly, I think that the extraordinary resilience of the German system of centralised collective bargaining, based on bi-partite negotiations between employers and trade unions, should be of interest to Britain. Government involvement in Germany is very limited, there is a national economic assessment, the Council of Economic Advisors, providing economic data. And, of course, there is the independent Bundesbank determining monetary policy. However, neither government nor Bundesbank intervene in the negotiations. Some institutional requirements, industrial unionism for example, are not present in Britain but it can be argued that the mergers within the British trade union movement are approaching as high a degree of concentration. Employer organisations, and their strength, are pivotal to the centralised and coordinated collective bargaining process in Germany. Despite the fault lines running through employer’ association, collective action is still regarded by German employers as the best means of achieving economic stability at the macro-level and an improvement of competitiveness at the micro-level. The German experience shows that centralised and decentralised bargaining mechanisms are not incompatible.

Secondly, the German experience of interest representation at plant level suggests two lessons for Britain. The first is that not only can an institution such as the woks council contribute to effective employer/employee relations but, secondly, it has an astonishing elasticity allowing it to change and adapt. Perhaps, there has been more misunderstanding about the nature and role of the works council in Britain than any
other continental European industrial relations institution. This is in part due to the fact that the works council is part of codetermination, that is employee participation structures, which in Britain, certainly by the trade unions, has been seen in terms of the Webb's theses that industrial democracy is build on collective bargaining. Ironically it is British trade unionism which has become a champion of the European Works Council; a modest institution in terms of its possibilities if compared to the German works council. Even if British trade unions do not agree entirely on forms of employee participation they have certainly moved a long way from their hostility in the 1970s towards European style institutions.

The German works council was also perceived as a threat in 1952 by the German trade unions and the employers' saw it as limiting their managerial prerogatives. By the 1960s this had changed. Works councils had become an established part of the corporatist German industrial relations model. And as I have indicated, despite the powerful legal statutes enshrined in the Works Constitution Act, it has adapted to the pressures of flexibility and deregulation.

I think what Britain can infer from this is that there can be, for all the actors in the industrial relations system, a positive interplay between normative, legal provisions and collective bargaining at central and plant level.
References


