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The Crumbling Pillars of Social Partnership

WOLFGANG STREECK and ANKE HASSEL

Stable relations of mutual recognition, institutionalised co-operation and regulated conflict between organised labour, organised business and government were core elements of the post-war political economy of West Germany. Social partnership came to its peak in the *Modell Deutschland* of the 1970s, with unions strengthened by the worker revolt of 1969 and by favourable legislation on workplace participation. Employers accommodated union strength by investing in skills, advanced technology and quality-competitive products. The social-liberal government depended on union co-operation in keeping the national economy competitive.

First fissures in the West German industrial order were observed in the 1980s when unions divided over how to respond to persistent unemployment. Opposing the reduction of weekly working hours pursued by the left wing of the union movement, the Kohl government invited employers, works councils and dissenting unions to rely on the social security system for reducing the supply of labour. Simultaneously it took steps to curtail union power. For a short time, unification restored tripartite co-operation as government, business and labour worked hand in hand to transfer West German institutions to the new Länder of the east. The ensuing economic crisis, which was exacerbated by the accelerated internationalisation of European economies, drove a wedge in the employers' camp, caused a mismatch between institutionalised union strength and economic conditions, and forced the government to do something about rising social security expenditures and public debt. When in 1996 government attempts at consensual labour market and social security reform failed – mainly due to opposition in the government camp demanding more aggressive intervention – a solution was sought by unilateral legislation. Causing unprecedented union protest while falling short of business demands, it contributed to Kohl's defeat two years later.

While the Schröder government succeeded in setting up the tripartite Alliance for Jobs (*Bündnis für Arbeit*) that had eluded its predecessor, it failed to break the deadlock over reform and Schröder had to end his first term almost empty-handed. In part, the political stagnation of the first Schröder term reflected a progressive erosion of the organisational capacities of business and labour especially in the 1990s. With unions declining and business leaders having to pay more attention than ever to small and medium sized companies (*Mittelstand*), tripartite meetings were little more than public rituals. Incremental adjustments were made at the level of individual firms, by modifying and undercutting central agreements, while erosion of the labour market regime made unions all the more tenacious in its defence. Also, unions were unenthusiastic about the government retreating from the early retirement policies of the 1980s that continued to be highly popular with their members. In the end, the Alliance resulted in little more than two years of union wage restraint, which had to be purchased by the government with inactivity on labour market reform.

The discussion will proceed as follows. Starting with a brief recapitulation of the origin and the architecture of post-war German social partnership, it will examine the emerging conflicts of the 1980s and the crisis caused in the 1990s by unification and European integration and then trace the erosion of the organisational strength of business and labour that began in the 1980s and rapidly accelerated in the 1990s. Next, it will recount the experience of the Schröder Alliance and end with a few tentative conclusions on the changing character and significance of tripartite relations between government, business and labour in Germany.

SOCIAL PARTNERSHIP IN POST-WAR WEST GERMANY

Like other capitalist democracies, the post-war settlement in West Germany for the first time in the history of the country safely institutionalised union rights to free collective bargaining and political participation. Recognition of organised labour as a co-equal partner of business and the state in the governance of the West German political economy was facilitated by reorganisation of the politically divided unions of the Weimar Republic as industrial unions (*Einheitsgewerkschaften*). The 1950s witnessed the gradual establishment of a sectoral collective bargaining system and a stable division of labour between the bargaining autonomy of unions and employers (*Tarifautonomie*), on the one hand, and government social policy, on the other. Unions also achieved a recognised role in the administration of the social security system (*Selbstverwaltung*) and in the management of individual firms (*Mitbestimmung*).

Again as in other countries, the unofficial strikes of the late 1960s boosted union power and recognition. Under the Grand Coalition and the social-liberal governments of Brandt (1969–74) and, less so, Schmidt (1974–82), German unions moved into the centre of political power. Regular meetings between government ministers, unions and business representatives on the economic situation in the framework of ‘concerted action’ (*Konzertierte Aktion*) visibly established tripartism in government economic policy and were, if nothing else, of high symbolic significance. Co-determination at the workplace was extended in two landmark pieces of legislation in 1972 and 1976, legislation that is still on the books. Public recognition and institutional support for union organising efforts produced an unprecedented increase in membership during the 1970s. Unions were able to maintain good working relations also with the conservative opposition, which has a strong labour wing.

West German tripartism was distinguished by a conjuncture of a weak and fragmented ‘semi-sovereign’ state with a strong organised and centralised society.¹ Its condition of semi-sovereignty, which applied in domestic just as in foreign affairs, constrained the West German state to cultivate more subtle means of governance, which could be found in and further developed out of long-standing corporatist traditions, rather than direct state intervention. West German political and economic success resulted in large part from the fact that semi-sovereignty protected the post-war German state from illusions of omnipotence still held by other states, and promoted a policy style that happened to be better matched than state intervention to post-war problems of social integration and economic management.

Due to limited state capacities for direct control, post-war West German statecraft consisted, more than in other countries, of arranging deals with and between well-organised independent actors in civil society commanding their own sovereignty which the state could not ignore or circumvent. The high art of government in West Germany was to turn social organisations with guaranteed autonomy and independent power into agents of publicly licensed self-government, in the context of a negotiated public order within which the state was just one participant among others. Where this was successful, social autonomy was transformed into delegated public responsibility, and organised interest groups became quasi-public agencies more competent and legitimate in governing their constituents than state agencies.

More specifically, social order and economic governance in post-war West Germany depended not on the strength of the state, but on a politically managed *balance of power* between social groups as well as on a *corporatist pattern of social organisation*, together holding organised

private interests accountable to public purposes. As to the former, while the German state was constitutionally barred from a statutory incomes policy, its political and economic institutions have, over the years, provided a framework that enabled the fine-tuning of the relative power of unions and employers' associations in such a way that wage settlements never strayed too far from a path of high growth, low inflation and stable employment. Carefully balanced rights of unions to strike and of employers to lock out, combined with co-determination at the workplace allowing for moderate wage drift, externalising distributional conflict to the sectoral level, protecting the strike monopoly of industrial unions and enabling co-operation between management and workforces in pursuit of high productivity and international competitiveness, were central elements of this regime. At the same time, the autonomy of the Bundesbank protected unions in particular from Keynesian illusions and located responsibility for employment within the system of free collective bargaining. The strict refusal of the Bundesbank after 1974 to accommodate inflationary wage increases required tight discipline, which could only be delivered by wage bargaining institutions sufficiently centralised to contain wage pressures from sheltered sectors.²

Second, the West German state, through a variety of legal and other means, helped insure that social interests were represented by a small number of encompassing organisations that could effectively and legitimately speak on behalf of their constituents, covering the society as a whole and not excluding any significant social category. Such organisations, described as 'neo-corporatist' by the literature of the 1970s,³ define their interests in such a way that they take the public interest sufficiently into account⁴ to enable a semi-sovereign state to stay out of industrial conflict. Rather than intervening directly, semi-sovereign governance relying on corporatist intermediation tries to arrange for social interests to be represented by non-competitive encompassing organisations, externally inclusive to make it impossible for them to impose the costs of their policies on outsiders, and internally heterogeneous to force them to integrate divergent special interests and learn to align them behind a broad, centrist compromise.

THE 1980s: FIRST FISSURES

Under the West German financial regime there never was a place for a Keynesian monetary policy. Faced with rising unemployment, the government of Helmut Schmidt placed its hopes on internationally co-

ordinated fiscal reflation at the Bonn summit of 1978. However, in an unexpected turn, American economic policy at the end of the Carter administration abandoned the 'locomotive' strategy and left Germany with high public debt and, after another oil shock, even higher unemployment. In 1982, Schmidt was succeeded by Kohl, who began a cautious policy of fiscal consolidation and union retrenchment. In turn, the metalworkers' union, IG Metall, embarked on a campaign to restore full employment by a reduction of weekly working hours through collective agreement. This resulted in a split in the national union confederation, the DGB, as five other unions under the leadership of the chemical workers – the 'Gang of Five' – sought early retirement instead.⁵ The split among the unions was exploited by the government, which supported the more politically moderate unions. Increasingly the social security system was relied upon to cut the labour supply.

In 1984, IG Metall won a national strike, the last major strike in Germany, for a gradual introduction of the 35-hour week. The union had to pay dearly for its success as it had to accept an increase in working-time flexibility. As a result, unions and works councils lost control of the wage-effort bargain at the workplace. In subsequent years, cuts in working hours were compensated by employer-driven productivity increases, and the same was true for high wage settlements, at least in large firms. Where cost and productivity increases caused by wage settlements and working-time cuts reduced labour demand, early retirement offered employers and works councils an easy way out, paid for by public money.

Developments in the 1980s changed the balance of power between business and labour and pulled the state into the management of the labour market. Government support for reducing labour supply relieved the pressure on the social partners to behave responsibly. While workplace flexibility increased the power of employers on the shop floor, it weakened employers' associations. Companies lost interest in fighting wage increases and resisting strikes by lock-out – given that they could respond to high wage settlements by reorganising production and shifting redundant workers into rapidly expanding early retirement schemes.⁶ Social policy began to play the role that Keynesian demand management had played outside Germany in the 1970s. It accommodated and underwrote wage settlements that jeopardised employment. This was the beginning of a new configuration between the state and organised interests that we have elsewhere called 'welfare corporatism'.⁷

The strike and its settlement also set in motion a trend towards decentralisation of collective bargaining, with works councils and

individual employers regulating a growing share of wages and working conditions at the firm level.⁸ Meanwhile, relations between the Kohl government and the unions deteriorated. The bankruptcy of the trade union-owned real estate company *Neue Heimat* gave the Kohl government an opportunity to undermine the political legitimacy of the trade unions in the 1987 election campaign.⁹ In 1988, the government set up a deregulation committee to introduce flexibility in the labour market. It also retaliated against IG Metall's strike strategy, with legislation barring unemployment benefit being paid to workers laid off as an indirect consequence of a strike. While all this prevented a return to the amicable relationship of the 1970s, continuing union strength kept the Kohl government from adopting a more Thatcherist anti-union policy. It did not, however, prevent a slow attrition of union power.

THE 1990s: UNIFICATION, RECESSION AND THE END OF CONSENSUS

German unity halted the decline of social partnership and temporarily restored and re-centralised co-operation between government, business and labour. The Kohl government was eager to mend its fences with the unions and found an ideal ally in the leader of the chemical workers' union, Hermann Rappe, who had always been adamant in defending his union's independence from IG Metall. In part, reconfirmed recognition of unions, as one of three main pillars of public order in Germany, was to prevent an increase in the strength of the union left-wing due to the accession of East German members and officials. It also was needed for managing the disastrous economic consequences of unification, first in the east and then in Germany as a whole.

The overriding objective of the Kohl government, after initial hopes for a fast recovery of the East German economy did not materialise, was to avoid raising taxes while containing the increase in the national debt. Still, between 1992 and 1996 public debt as a share of GDP grew by 20 percentage points, to 66 per cent. The price unions had to pay for their place at the court was that a large part of the costs of unification was imposed on the para-fiscal social security funds that paid, among other things, for vast early retirement and labour market programmes. To secure union support for his unification strategy, Kohl was willing to accept tensions with business, whose representatives increasingly accused him of a lack of understanding of economic affairs.

The unification boom was followed by the worst recession since the Second World War. Half a million jobs were lost within a year in the

manufacturing sector in 1992/93. The recession was exacerbated by the restrictions that came with European economic integration. In many ways, integration had suited the German industrial order perfectly. German industry had been a strong competitor on world markets and did not have to fear the internal market. The outstanding performance of the German currency during the 1970s combined with industrial strength had made the German economy a role model for the rest of Europe. However, the high costs of unification, the Bundesbank's strong reaction to high wage settlements, and the liberalisation of previously sheltered sectors put a heavy burden on the labour market and on German business, which was already under strain from the competitive pressure of emerging economies.

By the mid-1990s at the latest, a political-economic crisis had matured that had long been developing. Centralised collective bargaining continued to produce both high wages and an egalitarian wage structure, and rising productivity kept unit cost increases moderate and provided for monetary stability and international economic competitiveness. Gradually, however, the expansion of national and international markets paying for high-cost labour of the German sort had begun to lag behind the continuing increase in German wages and productivity. As a consequence, the number of workers employable by the German economy began to shrink. Rather than changing the institutions governing the labour market, the state had agreed early on to take surplus workers out of the labour market. Meanwhile, firms continued to respond to wage increases by augmenting their productivity and trimming down their workforces. Whether or not the emerging combination of high productivity and low employment, or of 'high equality and low activity', would have been socially viable in the long term may be an open question. It soon ceased to be economically viable, however, since the German welfare state, which bore the costs of defensive labour supply management, is funded by payroll taxes. As a result, the more labour was taken out of the market, the higher became the cost of labour, forcing further productivity increases which, in turn, required even more workers to be laid off.

It was the employers who first began to press for a departure from the new 'German model'. Rising non-wage labour costs had become a burden on the international competitiveness especially of small and medium sized firms. *Mittelstand* employers became ever more vocal and began to contest the leadership of large companies in employers' and business associations. After the last of the tripartite Chancellor's Rounds (*Kanzlerrunden*) on German unity in 1995, employers asked for new talks, this time on labour market reform, cost reduction and generally the competitiveness of the German economy (*Standortdebatte*). Divisions showed between the

confederation of trade associations, BDI, which openly pressed for a neo-liberal course, and the national association of employers' associations, BDA, whose affiliates have to deal with the unions in collective bargaining. The more militant employers connected with the small coalition partner, the FDP, and with a growing opposition to Kohl in the Christian Democratic Union, especially with the leader of its parliamentary group and potential Kohl successor, Schäuble.

The unions, for their part, were soon to experience the drawbacks of institutional strength in a time of economic distress. The surprise victory of the metalworkers in the *Bayern-Streik* in 1995 documented the vulnerability of employers under just-in-time production and the declining ability of their associations to organise a lock-out.¹⁰ It also had the unexpected effect of a revolt inside the employers' camp. Smaller firms began to leave the employers' associations and collective bargaining coverage declined, especially in the east, where collective agreements were disregarded by large numbers of firms. In big companies a wave of concession bargaining forced works councillors to sign away bonuses that companies paid on top of collectively agreed wages, which questioned the authority of the union on wage bargaining.¹¹ In 1995, the leader of IG Metall, Klaus Zwickel, called for an 'Alliance for Jobs' (*Bündnis für Arbeit*), under which unions were to make wage concessions if employers promised more employment and the government agreed to forgo social policy cuts.

The government, however, was internally divided. Negotiations with unions and employers took place and an agreement was almost reached in early 1996. But then the internal opposition in the government camp – especially the FDP in alliance with the BDI – raised the stakes and demanded more radical changes, especially in sick pay, which the unions could not accept. Predictably they walked away from the bargaining table and the government was both free and forced to take unilateral action. Various legal measures were passed, but the cut in sick pay, which was the most visible, did not take root since sick pay in Germany is regulated not just by law, but also by collective agreement. Large firms like Siemens and Daimler quickly caved in to union resistance and left their associations and the government holding the bag. The rift between government and unions, as documented by a large union protest rally in May 1996, was not healed until the election in September 1998. Kohl lost to Schröder, having failed at both consensual and unilateral reform.

EROSION OF ORGANISATIONAL CAPACITIES

From the mid-1980s, core elements of German social partnership started to show signs of accelerating decay, among them the organisational capacities of unions and business associations, the stability of the collective bargaining regime and the ability of the government to bring the special interests of unions and employers in line with the public interest.¹²

Disorganisation of business and labour reinforced the destructive effect on tripartite co-operation of their changed balance of power. *Trade union membership* dramatically declined in the 1990s, in East as well as West Germany. In 2000, there were no more union members in united Germany than there had been in West Germany in 1990. More than four million members, equivalent to the entire membership increase after unification, were lost within ten years (Table 1). Union membership among those under 25 dropped to about ten per cent, and density among white-collar workers went down to less than 13 per cent (Table 2). Unions became increasingly locked in the declining group of blue-collar workers. By the late 1990s, pensioners accounted for 19 per cent of DGB membership. Excluding the retired and the unemployed, overall union density in the private sector of the German economy fell from 27.3 per cent in 1980 (West Germany) to no more than 17.3 per cent in 2000.

The bleeding was not stopped by the union mergers of the 1990s. Low union membership reflected low employment as much as, especially in East Germany, high unemployment. It was also related to the growth of the informal economy and of non-standard forms of employment, caused mainly by high costs of labour. In addition, general demographic change and reluctance of younger workers to join unions – due to different employment conditions, work experiences and career expectations –

TABLE 1
TRADE UNION MEMBERSHIP (IN 1,000), 1970–2000

		West		West and East	
	1970	1980	1990	1991	2000
DGB	6,713	7,883	7,938	11,800	7,772
DAG	461	495	505	585	451
CGB	195	288	309	330	305
DBB	721	819	799	1,053	1,200
Total	8,207	9,484	9,552	13,768	9,728

Source: Ebbinghaus, 'Dinosaurier der Dienstleistungsgesellschaft? Der Mitgliederschwund deutscher Gewerkschaften im historischen und internationalen Vergleich', MPIfG Working Paper 02/3 (2002).

TABLE 2
NET UNION DENSITY (%), DGB ONLY, BY STATUS, SEX AND AGE, 1970–2000

		West		West and East	
	1970	1980	1990	1991	2000
Total	25.4	27.3	24.2	28.1	17.31
Blue collar	40.7	47.3	48.4	48.1	36.9
White collar	12.6	16.3	15.1	16.1	12.6
Women	13.6	17.5	18.8	27.1	16.2
Under 25	20.4	21.1	20.5	22.6	10.2

Note: Net union density: members in employment, in per cent of all employees in the respective category.

Source: See Table 1.

resulted in a rapid increase in the average age of union members while early retirement raised the proportion of pensioners among the membership.¹³ At the same time, new divisions emerged in the employers' camp as a consequence of the internationalisation of product markets and production systems. Facing unprecedented price competition in domestic and international markets, large and increasingly multinational firms responded to cost increases by asking their domestic suppliers for price reductions. Sometimes this directly followed wage rises conceded by the large firms, in their capacity as leaders of the employers' association, not just on their own behalf, but also on that of their small suppliers. Generally, declining resistance of large firms to wage demands, due to both foreign competition for market share and the new opportunities to compensate wage rises by productivity increases, convinced many small and medium sized employers that the large companies used the employers' associations to secure labour peace for themselves at their expense.

By the mid-1990s, after the end of the unification boom, an unprecedented revolt was under way inside the system of business associations. In the 1970s, Hanns-Martin Schleyer, the president of the BDA, was elected president of the BDI. During his double presidency, which coincided with the Schmidt government, the corporatist centralisation of German business associations reached its peak, and so did the role of employers as compared to trade associations. One-and-a-half decades later the situation had almost reversed. After the short interlude of national unity following 1989, the more specialised and less encompassing trade associations came to serve as representatives of the interests of smaller firms, and their most forceful and militant spokesman, Hans-Olaf Henkel,

became the president of the BDI. Using neo-liberal rhetoric hitherto unheard from a German business leader, Henkel became highly visible by publicly confronting his counterparts at the BDA, first Klaus Murmann and then, after causing Murmann's resignation, Dieter Hundt.

Radicalisation among employers coincided with declining membership in employers' associations (Table 3). While large firms wanted to preserve sectoral bargaining since it protected them from having to pay wages in line with their economic performance, small and medium sized firms began to defect in rising numbers, especially after the 1995 strike in Bavaria.¹⁴ Employers' association membership was particularly low in the east, where most firms had never joined an association in the first place.

Union decline and employer divisions contributed to a progressive *encapsulation* of the traditional system of industrial relations, in both a sectoral and generational sense. Co-determination and sectoral-level collective bargaining remain increasingly confined to industries, large firms and workers who came of age in the 1970s, with prospects for a further

TABLE 3
MEMBERSHIP DENSITY (%) METAL INDUSTRY EMPLOYERS' ASSOCIATION
(GESAMTMETALL)

	Companies		Employees	
	N	Density	In 1,000	Density
1993	8,863	42.8	2,663	63.1
West	7,752	44.0	2,459	63.3
East	1,111	35.7	204	60.0
1998	6,810	31.8	2,167	62.2
West	6,307	34.1	2,079	64.8
East	503	17.1	88	32.2

Sources: Gesamtmetall, Statistisches Bundesamt, own calculations.

TABLE 4
PLANTS AND EMPLOYEES NOT COVERED BY COLLECTIVE BARGAINING,
1998–2000

	Plants (%)		Employees (%)	
	West	East	West	East
1998	48	67	24	37
1999	52	74	27	43
2000	52	73	30	45

Note: Including workplaces in the public sector.

Source: IAB Betriebspanel.

gradual but steady decline of their reach. Survey data show that between 1998 and 2000 the percentage of West German plants not covered by collective agreements increased from 48 to 52 per cent (Table 4). In East Germany, where industry-wide collective bargaining never really took root, the share of plants without a collective agreement increased from 67 to 73 per cent.¹⁵ Moreover, collective agreements were increasingly company agreements. In 2000, about 39 per cent of all collective agreements were company agreements, as compared to 27 per cent in 1990 (Table 5).

Coverage by works councils in the private sector had decreased already in the 1980s (Table 6). The decline accelerated in the 1990s and coverage fell from 50.6 per cent in 1981 (West Germany) to 39.5 per cent in 1994.¹⁶ In the domain of IG Metall, coverage declined by five percentage points between 1994 and 1998, from 68 to 63 per cent. This adds up to an overall decline between 1984 and 1998 of 15 percentage points.¹⁷

Within the shrinking core of the German system of industrial relations, older tendencies towards *decentralisation* to the plant level continued to operate with new force. Works councils took over a growing share of the subject matter that used to be regulated in industrial agreements, and unions and employers' associations began to write industrial agreements that have left broad space for workplace parties to negotiate customised workplace-

TABLE 5
NUMBER OF COLLECTIVE AGREEMENTS
(COMPANY AGREEMENTS AS % OF ALL AGREEMENTS)

	West	East	Total
1990	33,449 (26)	670 (64)	34,119 (27)
1997	40,066 (33)	7,268 (46)	47,334 (35)
2000	46,277 (37)	8,663 (49)	54,940 (39)

Source: Federal Ministry of Labor and Social Affairs, *Tarifvertragliche Arbeitsbedingungen im Jahre 2000* (Bonn 2001).

TABLE 6
PLANTS WITH ELECTED WORKS COUNCILS, PRIVATE SECTOR;
EMPLOYEES COVERED BY WORKS COUNCILS
(% TOTAL PRIVATE SECTOR EMPLOYMENT), 1981-94

	1981	1984	1987	1990	1994
Number of plants	37,650	36,492	35,687	35,198	38,425
% employees covered	50.6	49.4	47.9	45.4	39.5

Source: A. Hassel, 'The Erosion of the German System of Industrial Relations', *British Journal of Industrial Relations* (Sept. 1999), pp.484-505.

level arrangements. Of the few forms in East Germany that are covered by an industrial agreement, a growing number pay less than the official wage, often with the consent of works councils desperate to protect employment in their workplace.¹⁸ Paying below the going rate as set by a collective agreement (*unter Tarif*) has spread to firms under distress in the west, and so has the practice of more or less tacit concession bargaining between employers and works councils.¹⁹

De facto decentralisation of industrial relations is forcing unions to rethink their role with respect to the new bargaining arenas at the workplace, where workers are represented not by unions but by works councils. Local autonomy is causing unprecedented diversity of working conditions between firms, as reflected particularly in a wave of so-called production site agreements (*Standortvereinbarungen*) between works councils and managements, often tolerated and sometimes co-signed by industrial unions. *Standortvereinbarungen* contain workforce concessions, often involving derogations from collective agreements, in exchange for employment guarantees or management commitments to future investment at a given production site. Agreements of this sort have the strong support of employers' associations, which refer to them as local *Bündnisse für Arbeit* and ask for changes in the law on collective agreements to make them easier to negotiate and safer from legal challenge.²⁰

Unions, and especially IG Metall, have helplessly watched the de facto decentralisation of collective bargaining, sometimes trying to prevent it, sometimes condoning it under pressure from the membership, and often looking the other way. Ironically, decentralisation is in part another outgrowth of the 1984 working-time settlement, which gave works councils and individual employers the task of setting the details of working time regimes, thereby preparing the institutional arena for the new workplace bargaining of the 1990s. Under pressure from works councils, unions agreed to insert clauses in industrial agreements that allowed individual employers, with the consent of the works council or of the social partners, to suspend wage increases, extend working hours, or cut working hours at reduced pay (so-called hardship or opening clauses). As a result, reform of the sectoral collective bargaining regime is very much under way, although more or less surreptitiously. So far, national unions are still puzzling over their response. In 2002, IG Metall rejected a proposal by its leader for differential wage settlements for firms in different economic conditions.

THE SCHRÖDER DEADLOCK: WEAK STATE, WEAK ASSOCIATIONS

When Schröder came to power in the autumn of 1998, he had seen Kohl fail twice in attempts to deal with the – mutually intertwined – crises of the labour market and the social security system. First, when he tried in vain for a negotiated consensual approach and, second, when he was forced to take unilateral action, which led to his defeat at Schröder's own hands. As a social democrat, Schröder might have thought he had a better chance than his predecessor to get the unions to support the necessary changes. In any case, the social-democratic Left, which had never liked him, and in particular his rival Oskar Lafontaine still controlled the party. Already during the campaign Schröder promised to create the *Bündnis* that Kohl had been unable to forge in 1996. This was not least to avoid answering questions about his employment policy, which, as he repeated again and again, was a matter for discussion in the new *Bündnis*. Otherwise, deep disagreements inside his camp, both within the party and between party and unions, would have been revealed.

The Left, however, was less than enthusiastic about tripartism. Their sentiment was shared by powerful forces inside the unions, which did not see why they should share with the employers access to a government that had come to power mainly because of their political and financial support. Moreover, almost from the beginning, major government ministries regarded the Alliance as a barely concealed instrument of the Chancellery to centralise government decision-making by controlling external relations with business and labour. This was true in particular for the Ministry of Labour, which was to be just one participant among others in the government delegation, and for the Ministry of Finance. In addition, the parliamentary party of the SPD was concerned about tripartite agreements that it would be expected to execute unchanged. Other than Schröder and his circle, only the employers were really interested in an alliance as it promised them formal and regular contacts with a chancellor who was not a member of their political family.

In December 1998, the Alliance for Jobs, Training and Competitiveness was formally instituted.²¹ Operated out of the Chancellor's Office, it started with a long declaration of intent, in many points similar to the document Kohl had tried to get accepted, which promised far-reaching reforms aimed at increasing employment.²² The first on a long list of measures for this purpose was a 'fundamental reform of the social security system'. An elaborate system of committees was set up, overseen by a 'Steering Committee' chaired by the head of the Chancellery, at the time a cabinet minister and Schröder's closest aide. Soon it became apparent that the

Alliance had a much harder time to get into operation than the chancellor might have hoped. Difficulties abounded on all three sides of the bargaining table; indeed, they rather increased than subsided in subsequent years.

As far as the government was concerned, it never achieved the internal unity that would have been required for hard bargaining with unions and employers. Lafontaine, by and large, boycotted the meetings; publicly he and his secretary of state encouraged high union wage claims which, they argued, were needed to increase demand and thereby improve employment.²³ Other ministers insisted that Alliance committees dealing with issues under their jurisdiction had to be chaired by them – which meant that the ministries' established advisory bodies continued to operate as before, under new names but still out of the Chancellery's sight. The Ministry of Labour, which traditionally was the bridgehead of the unions in the federal government structure, continued to control the Federal Employment Office (Bundesanstalt für Arbeit), the largest of all clientelistic structures as it was governed by a board of delegates of employers' associations, trade unions and the three levels of government, *Bund*, *Länder* and local communities.²⁴

At least equally important, however, was the fact that the social-democratic Left was adamant that the party keep its election promises to the unions. As a result, Schröder had to scrap all of Kohl's social security reforms by January 1999, without having a chance to extract anything in return from the unions, for example concessions on labour market reform. Moreover, the party immediately proceeded to legislate on a number of other issues dear to the heart of the unions, like higher social security contributions for low wage earners and curbs on the so-called 'pseudo self-employed' (*Scheinselbständige*), many of whom were by law declared wage earners, thus becoming liable to pay social security. None of this ever came to the Alliance bargaining table, and all of it was handed to the unions for free.

Employers, for their part, were satisfied with having a foot in the door of the new government and looked the other way when the Alliance, almost immediately after it had been set up, was circumvented by bilateral agreements between government and unions. In the longer term, employers regarded the Alliance as an opportunity to push for wage moderation – or, more precisely, to involve the chancellor in wage negotiations where, given the economic situation, he could not but be supportive of their position. Obviously the unions, insisting on the constitutional principle of free collective bargaining, immediately threatened to walk out if wages were mentioned in any other than the most general way. Being able on their own

to get what they wanted from the Ministry of Labour and their friends in the SPD parliamentary party, they saw no reason to talk about wage restraint. The most obvious case in point was the amendment of the Works Constitution Act in 2000, which was to prevent a further erosion of the organisational position of unions at the workplace. This bill never came on the agenda of the Alliance, nor was it in any way part of a tripartite or, for that matter, bipartite *quid pro quo*.

Employers, too, had pet projects that they were averse to seeing discussed in context, let alone in that of a joint policy pledged to increasing employment. While the unions and the Labour Ministry became obsessed with raising money to save the pension system and fund labour market policy, business concentrated its efforts on the reform of corporate taxation, which it strongly preferred to pursue on a bilateral basis.²⁵ The Labour Ministry, for its part, tried increasingly single-mindedly to get a pension reform passed. Both tax reform and pension reform were dealt with on their own terms, in intense political wrestling between government and opposition in the Bundestag and especially in the second chamber, the Bundesrat. At no point during Schröder's entire first term was there an attempt at a comprehensive discussion, not to speak of a trilateral give-and-take, in the *Bündnis für Arbeit* of the relative merits or the interdependence of these two central government projects from the perspective of employment.

This is not to say that bargaining with the unions over pension reform was anything other than contentious. At first the issue was complicated by its linkage to early retirement and labour market supply management. Once *Rente mit 60* had been cleared out of the way, the government proposed an obligatory supplementary pension scheme, fully funded by worker contributions only, to compensate for declining benefits under the existing pay-as-you-go system. When the opposition rejected compulsory participation, the government had to throw in high subsidies as an inducement to subscribers. As a concession to the unions, cuts in public pensions had to remain far below what had originally been intended. Moreover, unions and employers managed to convince the government to make the public subsidies available also to occupational pension schemes provided by employers, and to exempt worker contributions to these from social security taxes if made under a collective agreement. In the end, Schröder's and Riester's pension reform not only involved significant future commitments of tax money, but also cut public pensions less than deemed necessary, while at the same time reducing the revenues of the public pension system.

Not a single package deal cutting across the jurisdictional boundaries of different ministries ever came to pass. After two years, the Bündnis had become an empty shell. Meetings provided photo opportunities for a chancellor who, at the end of 1999, had been pronounced politically dead and was rescued only by the party finance scandal caused by his predecessor. Alliance committees produced papers and nothing else, apart from minor changes in labour market policy that were enacted in early 2002 but soon overtaken by the dramatic developments later that year. Tripartite meetings were convened every half year, and always under threats from unions or employers, and in the end also from the chancellor, no longer to take part. It seemed the only reason why unions and employers allowed the Bündnis to continue was that they needed it to threaten each other and the government with resigning from it.

The one major accomplishment with which the public credited the Alliance was the moderate two-year wage settlement in early 2000.²⁶ It is true that Schröder, like all his predecessors who used to hold private discussions with the main players in critical wage rounds, was involved in circumventing the peak associations and talked directly to the sectoral associations. While the unions, clinging to the sacred principle of *Tarifautonomie*, denied such talks had taken place, insisting that they could in no way be binding for them, the employers to the contrary celebrated the moderate settlement as a triumph of the Alliance, so as to assuage their *Mittelstand* members who had grown ever more sceptical about tripartite talks which excluded wages. The government was helped by the division in the union camp between IG Metall and the chemical workers' union, IG BCE, which settled ahead of IG Metall at a level that was generally considered moderate.²⁷

Two years into his four-year period of office, Schröder found himself in the same situation as Kohl at the end of his reign, in that both unilateral and negotiated solutions to the labour market crisis had eluded him. Indeed his party and the electorate, in a sequence of Länder elections, had made it clear that they would not stand for effective unilateral measures to lower non-wage labour costs or increase labour flexibility. As a result, Schröder's bargaining power with the unions – which had proven in the 1998 campaign that they were capable of punishing a hostile government at the polls – was probably lower than Kohl's in 1996. Government weakness, exacerbated by Schröder's early loss of his Bundesrat majority, was complemented by declining organisational strength of the social partners. Among employers, BDI and BDA watched each other suspiciously, the personal relations between their leaders poisoned beyond repair. Making concessions to

unions and government even more difficult, neither of them could afford any longer to set aside the interests of the increasingly vocal small and medium sized firms.

On the union side, the peak association DGB was less than ever able to speak for IG Metall, which was immersed in a lasting succession crisis. Moreover, IG Metall was desperately looking for a way to extricate itself from its historical demand for further cuts in weekly working hours, which had become thoroughly unpopular with the membership. To conceal its *volte face*, the union demanded a lowering of the legal age of retirement from 65 to 60. As much as the government might have been willing to oblige, this was out of the question given the demographic situation. The government did, however, include in its pension legislation the possibility for unions and employers' associations to regulate occupational pensions by collective agreement and use them to fund early retirement. Meanwhile, Alliance meetings finally took on a ceremonial character. From the summer of 2001 on, the Bündnis was kept alive only for public consumption.

At the beginning of the election year, all the old problems the government might have hoped would be covered up by a few more months of the bubble economy began to return with a vengeance. Unemployment again approached four million. The supplementary pension system, the pride of Schröder's social policy, was only slowly being taken up. Non-wage labour costs were not falling; in fact, all the pension reform and the energy tax had accomplished was to keep them from rising, and only for a short breathing space. Both the health care and the pension systems would soon need fresh money. At the same time, large cuts in corporate taxes, designed to please business and thereby force the opposition to let them pass the Bundesrat, were starving the budgets of the federal government, the Länder and the local communities. As the government was unable to cut expenditures even further, it was getting in conflict with the budget consolidation targets under Monetary Union. As a result, the European Commission was getting ready to put Germany on notice for breaching the Stability Pact. Politically this would undercut Schröder's only remaining claim to fame – beginning to reduce the national debt.

In this situation, Schröder all of a sudden dropped all previous pretensions at tripartite consensus and abruptly switched to unilateral action, skilfully exploiting the approaching campaign and using his weakness in the opinion polls as a source of strength. A scandal was revealed in the Bundesanstalt für Arbeit, where it had become common practice for officials to falsify their job placement statistics. While this was not news among insiders or in the Chancellery or the Ministry of Labour,

Schröder used a secret report by the government accounting office to fire the leadership of the Bundesanstalt and appoint a close confidant as its president. The government also pushed through the Bundestag legislation that curtailed the influence of the social partners on the Bundesanstalt and fundamentally reorganised it, to make the speedy placement of job seekers its principal activity. With the election approaching, SPD and unions could not but close ranks behind the Chancellor, no matter how much they may have disliked the new policies he imposed on them.

Moreover, to design a long-term reform of labour market policy, Schröder appointed a commission under the VW personnel director, Peter Hartz, which was to report in August, a month before the elections. The composition of the Hartz Commission represented a break with the tripartite philosophy of the Alliance for Jobs in that its 21 members included no more than two union representatives and only one official of a – small firm – business association, the Federation of Craft Associations (Zentralverband des Deutschen Handwerks). Behind the scenes, the Chancellery remained deeply involved in the work of the commission, quite unlike the aloof position it had taken in relation to the various bodies of the Alliance. Having publicly committed himself at the outset to full implementation of whatever the commission proposed, Schröder pressed the unions and his party to profess their support for Hartz throughout the campaign and to allow the commission to issue a unanimous report. Not knowing whether Schröder's last minute manoeuvre would cut any ice with the voters, and in any case expecting to be able to renege after the election, Schröder's followers reluctantly acquiesced in his exercise in state unilateralism.

Once the election was won, the SPD parliamentary party and the unions began to chip away at the Hartz proposals. However, when the new coalition agreement between the SPD and the Greens was gradually revealed,²⁸ the continuing financial crisis of the state and the social security *parafisci* came back to the attention of an electorate that, under the influence of Schröder's campaign rhetoric and hardly disturbed by an exceedingly cautious opposition candidate, had spent the summer in a happy condition of collective amnesia. A series of stop-gap measures, such as an increase in social security and health insurance contributions as well as in various taxes, had a devastating impact on an unprepared public and caused an unprecedented loss of government support in the opinion polls that was to last well into 2003.

Perhaps anticipating that he might have to spend the rest of his second term defending an unending string of improvised emergency measures to an increasingly impatient electorate, Schröder returned to his approach of

before the election. In a surprise move, he dissolved the Ministry of Labour, assigned labour market policy to the jurisdiction of the Ministry of Economic Affairs, and appointed a political heavyweight and proven right-winger, Wolfgang Clement, to the new *Superministerium*. Having deprived the unions of their bridgehead inside the state and facing two major regional elections, the government announced a series of painful labour market and social security reforms that rendered the new coalition agreement meaningless. Replaying Hartz, it appointed another commission, under the economist Bert Rürup, to propose a reform of the health care system within a year, pre-empting the minister in charge who was an exponent of the conservative wing of the SPD parliamentary party. Also, with the help of the opposition, the government passed various pieces of legislation derived from the Hartz proposals but in part going beyond them, for example on temporary work and low-wage employment. In effect, it replaced the restrictive legislation of early 1999 with measures that were exactly its opposite. With a new and unproven DGB leader, the unions looked on in bewilderment.²⁹

OUTLOOK: FROM STABLE STATE TO STALEMATE?

In its heyday, *Modell Deutschland* disciplined business and labour and forced them to work with each other, pursuing their respective interests in ways that did not interfere with the sustainability of the existing industrial order. With hindsight, it appears that this accomplishment was conditional on a range of factors which were beyond the control of the parties involved. Foremost among these were world markets that not only put a premium on the comparative advantages of the German labour market regime, but also allowed for near-full employment in Germany at high and relatively egalitarian wages. This condition slowly began to wither away in the late 1970s and finally came to an end in the years after unification, when high unemployment combined with low labour market participation became the signature characteristic of the German economy.³⁰

While social partnership had been a solution to the problems of the 1960s – which were problems of political institution-building, social integration and industrial modernisation – it became itself a problem in the 1980s and 1990s. As unemployment increased and turned into a permanent condition, the government of the weak German state was unable and unwilling to reorganise the labour market – unable because of strong unions and employers bent on avoiding industrial confrontation, and unwilling for fear of electoral retaliation. Instead, corporatist social partnership responded to the national and international monetarism of the 1980s through large-

scale early retirement and costly labour market policy programmes. This practice reached its peak after unification in the early 1990s when it underwrote tripartite consensus on preserving the West German model by transferring it wholesale to the east.

That consensus, however, was bound to break up. With the shrinking of the core of *Modell Deutschland*, and the corresponding need to pay for a growing number of casualties, resistance to consensus and its costs increased among employers. Also, high and persistent unemployment sent union membership into a tailspin, and unions and co-determination became encapsulated in a still highly productive but inevitably shrinking industrial sector. Wage and employment policies that had been inclusive and encompassing in the past became insider policies, leaving it to the government to take care of the outsiders. Too weak to take risks and too strong to give way, German unions turned into a thoroughly conservative political and industrial force opposed to experiments of any kind and defending, with industrial and political-electoral means, the accumulated entitlements of an ageing core membership. Just as their weakness made unions unwilling to make concessions, it encouraged employers to demand deeper changes than even a conservative government could make without endangering its electoral support.

The deadlock that began in the final years of Kohl is not likely to be overcome any time soon. Public finances are overdrawn, the European Union effectively enforces fiscal austerity and the limits of taxation have long been reached, especially with respect to social security contributions. There is, therefore, little if anything a government could offer unions in exchange for co-operation in labour market reform. Improved workplace participation, as demonstrated by the controversy over the minuscule changes in the *Betriebsverfassungsgesetz* passed by the Red-Green government in 2000, is bound to antagonise employers, especially of the *Mittelstand*, given continuing pressures for industrial restructuring. Macroeconomic reflation is out of the question in the Europe of Monetary Union. More employment requires more flexible labour markets, but flexibility endangers the security unions are committed to defending. 'Flexicurity', the new magic formula for consensual change, is still no more than a word. Nobody knows what a new sort of security could look like that would be both supportive of flexibility and acceptable to the unions.

During his first term Schröder was in the same situation as Jospin, Prodi, d'Alema and other social-democratic modernisers searching for something attractive to offer their union supporters to make them give up their resistance to more flexible labour markets. Schröder's experiment with

unilateral reform shortly before and then again after the 2002 election may signal the final end of his hope for a politically safe consensual solution. Business, including its associations, showed no gratitude for the corporate tax reform the government had handed them. Instead, it openly sided with the opposition in the election campaign, and may have convinced Schröder further that if he was to accomplish anything, he had to accomplish it unilaterally.

In early 2003, having failed in his first term to cajole the unions into co-operation within a tripartite setting, Schröder appeared to have given up on the Bündnis and seemed to be seeking an alliance with the opposition instead. The CDU victory in the February 2003 Länder elections having cemented opposition dominance over the Bundesrat, Schröder found himself having to convince the CDU/CSU that they had to share responsibility for reforms, while convincing his party that anything other than joint policies had become impossible. But it remained questionable at best whether the SPD parliamentary party and the social-democratic Left would support the sort of reforms that Schröder and Clement hoped to negotiate with the opposition. Given the congenital weaknesses of the semi-sovereign German state, the prospects of government unilateralism, short of a Grand Coalition, seem in the end not much better than those of the old politics of consensus.

NOTES

1. P.J. Katzenstein, *Policy and Politics in West Germany: The Growth of a Semisovereign State* (Philadelphia: Temple University Press 1987).
2. See F.W. Scharpf, *Crisis and Choice in European Social Democracy* (Cornell University Press: Ithaca 1991); W. Streeck, 'Pay Restraint without Incomes Policy: Institutionalized Monetarism and Industrial Unionism in Germany', in R. Dore, R. Boyer and Z. Mars (eds.), *The Return of Incomes Policy* (London: Pinter Publishers 1994); P. Hall and R. Franzese Jr., 'Mixed Signals – Central Bank Independence, Coordinated Wage Bargaining, and European Monetary Union', *International Organization* 52/3 (1998), pp.505–35.
3. See P.C. Schmitter, 'Still the Century of Corporatism?', *Review of Politics* 36 (1974), pp.85–131; P.C. Schmitter and G. Lehmbruch (eds.), *Trends toward Corporatist Intermediation* (Beverly Hills, CA: Sage 1979).
4. M. Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (New Haven, CT: Yale University Press 1982).
5. In addition to the chemical workers, the 'Gang of Five' included the miners (IG BE), the food workers (NGG), the construction workers (IG BSE) and the textile and garment workers (GTB).
6. On the expansion of early retirement see C. Trampusch, 'The Blurring of Divisions between Institutional Stability and Institutional Change: The Case of Germany's Early Retirement Policy', in W. Streeck and K. Thelen (eds.), *Continuity and Discontinuity in Institutional Analysis* (forthcoming).
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Semisovereignty Revisited: Governance, Institutions and Policies in United Germany (forthcoming).

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9. The government set up a parliamentary investigation committee on the bankruptcy of *Neue Heimat* in order to highlight the economic incompetence of trade unions. This was unprecedented since these committees are designed to deal with wrongdoings of governments not of private firms.
10. K. Thelen, 'Why German Employers Cannot Bring Themselves to Dismantle the German Model', in T. Iversen, J. Pontusson and D. Soskice (eds.), *Unions, Employers, and Central Banks* (Cambridge: Cambridge University Press 2000), pp.138–172.
11. A. Hassel and B. Rehder, *Institutional Change in the German Wage Bargaining System: The Role of Big Companies*, MPIfG Working Paper 01/9 (Cologne: MPIfG 2001).
12. A. Hassel, 'The Erosion of the German System of Industrial Relations', *British Journal of Industrial Relations* 37 (1999), pp.483–505.
13. The median age of members of IG Metall was 38 years in 1979, 44 in 1994, and 48 in 2002 (own calculations based on IG Metall membership figures).
14. See Hassel and Rehder, *Institutional Change in the German Wage Bargaining System*. For data on resignation from employers associations, see W. Schroeder and B. Ruppert, 'Austritte aus Arbeitgeberverbänden. Motive – Ursachen – Ausmaß', *WSI-Mitteilungen* 49 (1996), pp.316–29.
15. See S. Kohaut and C. Schnabel, 'Tarifbindung im Wandel', *IW-Trend* 26/2 (1999).
16. Unfortunately, there are no comparable data on the results of the works council elections in 1998 and 2002 for the private sector as a whole.
17. A. Hassel, 'The Erosion Continues. Reply', *British Journal of Industrial Relations* 40/2 (June 2002), pp.309–17.
18. I. Artus, *Das deutsche Tarifsysteem in der Krise. Erosion des Flächentarifvertrags in Ost und West* (Opladen: Westdeutscher Verlag 2001).
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26. 'Schroeder Hails Accord with Unions Over Wages', *International Herald Tribune*, 10 Jan. 2000.
27. See A. Hassel, 'The Problem of Political Exchange in Complex Governance Systems: The

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28. SPD/Bündnis'90/GRÜNE, '2002: Erneuerung – Gerechtigkeit – Nachhaltigkeit. Für ein wirtschaftlich starkes, soziales und ökologisches Deutschland. Für eine lebendige Demokratie' (Berlin, 16 Oct. 2002).
 29. Michael Sommer, an official of the former union of postal workers was elected chairman of the DGB in May 2002.
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