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**Globalisation and the future of
central collective bargaining:
the example of the German metal industry**

by

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1 The German model under strain

All capitalist post-war societies are based on a complex structure of economic, political and social institutions whose interactions over several decades have led to political stability and remarkably successful economic development. The "golden age of capitalism" (Hobsbawm 1994) was determined by a historically unique constellation of prosperity. Major features of this mode of 'fordist' capitalism were a growth model led by mass production and mass consumption as well as the establishment of welfare states supported by stable patterns of industrial relations. The latter can be seen as an 'historical compromise' between capital and labour which enabled an 'institutionalisation of class conflict' and ensured the corporatist integration of the labour movement and trade unions into the system.

1.1 The role of collective bargaining in German capitalism

This process of integration molded the German model which is in essence an arrangement of interconnected economic institutions in which the representation of employees interests had a prominent place. Against the backcloth of the economic crisis of 1929-33 and the experience of German fascism on the one hand and the rising competition with the socialist camp on the other hand, the basic approach of the "social market economy" was to "combine a market economy based on private property and profit orientation with the principle of social justice, meaning the correction of perceived unjust results of stability and distribution" (Rürup 1996).

The German model of capitalism has been widely regarded as a successful synthesis between a high level of international competitiveness, a comparable high level of wages and welfare and a relatively low level of social inequality. A relatively low earnings dispersion between the different income groups is thus a particular feature of German capitalism.¹ According to an OECD study, only the Scandinavian countries and Belgium have a lower earnings dispersion (table 1). Obviously, there is a strong connection between earnings dispersion and systems of collective bargaining. Countries with a more centralised bargaining systems usually have a lower income dispersion, which underlines the solidarity function of centralised collective bargaining.²

¹ This does not mean, however, that there is no low wage sector in Germany. On the contrary recent studies find even in Germany a growing number of "working poor" (Pohl/Schäfer 1996).

² An important exception to this is Austria which has a rather highly centralised bargaining system and at the same time one of the highest earnings dispersions.

Table 1 Earnings dispersion in OECD-Countries

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

D = earning deciles, D1: lowest earning decile, D5: fifth earning decile, D9: ninth earning decile
Source: OECD Employment Outlook 1996

German collective bargaining is mainly conducted at the sectoral level between representative employers' associations and trade unions. The German constitutional law guarantees the collective bargaining partners an 'autonomous' regulation of labour relations. The collective bargaining law ensures that collective agreements are legally binding. At the same time it gives the government the possibility to declare collective agreements legally binding for all companies in the sector. Sectoral "central or association-level collective agreements" (*Flächentarifverträge*) are usually negotiated at the regional level. In some sectors (building sector, public sector, banking and insurance) collective bargaining takes place at the national level. In addition, there are "company agreements" (*Firmentarifverträge*) which are negotiated between a company - usually not a member of an employers' association - and a trade union. At the end of 1996, there were more than 45,000 collective agreements in Germany, a third of which were company agreements (table 2).

Table 2 Number and structure of collective agreements in Germany (1996)

type of collective agreement	registered collective agreements		
	in total	west Germany	east Germany
association-level agreements	29.777	26.257	3.520
company agreements	15.371	12.251	3.120
in total	45.148	38.508	6.640

Source: German Ministry of Labour, Register of Collective Agreements.

The overall coverage of collective agreements remained still very high. According to the results of a company survey by the Institut für Arbeitsmarkt und Berufsforschung (IAB),

in 1995 about 62% of the companies and 83% of the employees were covered by a collective agreement in west Germany (table 3). The overwhelming majority of employees (72.2%) were covered by association-level agreements at sectoral level. In addition, about 10% of the employees were covered by company agreements. The German collective bargaining system, has not thus far permitted the emergence of a major non-union sector as is the case in Anglo-Saxon countries. Although more than 38% of west German companies are using no collective agreement, these firms are mainly small and medium-sized companies covering only about 17% of west German employees altogether.

Table 3 **Collective bargaining coverage of companies and employees in west Germany in 1995**

	percentage of companies	percentage of employees
association-level agreements	53.4	72.2
company agreements	8.2	10.9
no collective agreement	38.4	16.9

Source: IAB company survey (Kohaut/Bellmann 1997)

The implementation of central collective agreements is organisationally dependent on strong and active associations which are able to ensure the acceptance of agreements by their membership. A centralised structure of associations developed in Germany after the second world war: on the workers' side industrial trade unionism was established in which the individual trade unions aimed at organising all employees of a particular industry regardless of their politics and religion. Although the union density in Germany never went above 40%, the DGB affiliated trade unions succeeded in establishing a monopoly of representation which was massively supported by the involvement of those unions in social security functions and court rulings. The employers' side developed in a parallel way to the trade unions on sectoral lines with even a higher number of all companies being members of employers' associations. The level of organisation on the company side is high by international standards and supports the view of a traditionally broad acceptance of the German system of collective bargaining by employers.

Central collective agreements follow the trade union demands of relatively uniform wages and terms and conditions. For the employees they have therefore the function of *protection* and *participation*. They define the minimum terms and conditions which have led to relatively small differentiation in the income structure on the one hand and have secured a relatively "equal" participation of the employees on the economic growth. At the level of the economy, they have the function of acting like a *cartel*, by taking the price for the factor labour out of competition on the labour market and create the same conditions for all companies. From the viewpoint of the employers, this system

of wage determination was very efficient, in particular during the 1950s and 1960s under the condition of high growth rates and full employment in order to control the general development of wages. Indeed, until the mid-1970s wages in Germany rose in line with the general growth rates of the economy (Afheldt 1994: 31).

For employers, central agreements also have the function of *order and peacekeeping*. They offer to companies secure planning with regard to labour costs and ensure that industrial action is confined to a short and calculated period of time. Before the expiry date of collective agreements, trade unions in Germany are subjected to a peace keeping obligation which enables them to take industrial action only after negotiations have broken down. The system of central collective agreements is aimed at a high degree of consensus and co-operation and has contributed to strike rates which are among the lowest in the western world. The production factor 'social peace' is therefore another trade mark of German capitalism.

Finally, the German system of collective bargaining has led to a production structure which is less based on "price-competitive production", but on "quality-competitive production" (Streeck 1995: 13 ff.). Its strength lies in defending its competitive position of quality and innovation in technologically advanced capital goods. At the plant level this corresponds with the focus on the skilled worker in a "diversified quality production" process (Streeck 1995: 13, Wittke 1995) again institutionally supported by the system of vocational training. A company which aims at improving its competitiveness by lowering its labour costs has to operate within very tight boundaries of centrally agreed minimum wages. Companies are forced to counteract a lack in competitiveness by an increase in productivity. Therefore, central collective agreements also have the function of increasing *productivity and innovation*. "One of the major advantages of the German collective bargaining system... lies in the fact, that it does not allow the gap in innovation between companies to become too big and that it gives incentives for plant level structures to develop uniformly and within acceptable periods of time in the plants" (Bahnmüller/Bispinck 1995: 149).

1.2 Challenges of the German model

While the German model was based on a complex and differentiated structure of institutions, it was also dependent on a range of socio-economic pre-conditions:

- *Stable economic growth*: only sufficient growth rates enabled the German model to achieve full employment and simultaneously create sufficient scope for redistribution, which then could be used for real wage growth and sustain the fundamental consensus between capital and labour.

- *Compatible international environment*: The export-led growth model is dependent on a stable and compatible international environment. The high degree of integration into the world market has made the German economy dependent on the dynamic development of the world economy which creates a sufficiently large market for German capital goods.
- *High rate of productivity and profitability*: The relatively low wage disparities in the German model are based on an appropriate level of productivity and capital profitability. On the side of companies this requires a capacity of on-going innovation which leads to a continuing process of modernisation of work and production processes.
- *High capacity for innovation*: The broad range of high quality capital goods requires a high level of innovation capacity of the German society. This is mainly based on a qualitatively high level system of vocational training which produces a large number of highly skilled workers. In addition, there needs to be an equivalent infrastructure of research and development in order to maintain top level technological progress. German companies are required to achieve a fast developing system of product innovation in order to remain internationally competitive.

1.2.1 Structural changes of the German model since the mid 1970s

The particular set of socio-economic preconditions for the German model has been subject to erosion ever since the world economic crisis of 1974/75. A drastic reduction of economic growth rates, a clear reduction of capital profitability as well as the reappearance of mass unemployment indicated that the long period of prosperity after the war had come to an end. The phenomenon of crisis was not confined to Germany alone, but was accompanied by a parallel development in most western industrialised countries. The historical turning point of the German system of capitalism was also the beginning of debates on structural adjustment and the future of the German model.

In 1975, the unemployment rate in Germany went beyond the figure of one million unemployed for the first time since the early 1950s. The "Modell Deutschland" had reached its limits. The transition from the Brandt government to the Schmidt government introduced a fundamental political shift in strategies in order to adjust the German model to the changing framework of the world economy (Esser 1982: 76ff; Bonder et al. 1992: 156ff.). In essence this meant a replacement of the principle of Keynesian global demand policy by an active concept of structural policy for the 'modernisation of the economy' (Hauff/Scharpf 1975). The encompassing state run policy on infrastructure and technology was aimed at increasing labour productivity and capital rentability of the

export oriented industries in order to maintain and improve their competitiveness in harsh international competition.

The social democratic strategy on modernisation of the late 1970s was based on the assumption, that the high level of wages and welfare could be maintained by strengthening the traditional strong sectors of the German economy. Although the trade unions walked out of the tripartite talks of the 'concerted action' in 1977, after the employers had showed their opposition against the co-determination law in 1976, they stayed within the modified overall regulatory set up of the German model, in which the corporatist structures were increasingly moving from the macro level to the meso and micro (sectors and regions) level (Esser 1982). In addition, the social democratic concept of modernisation also gave up the role of an active employment policy in order to implement an austerity policy which was focused on stability. As a consequence, mass unemployment became a continuing structural problem of German capitalism. Since the economic upswing of the late 1970s only led to marginal employment effects, the unemployment figure increased to more than two million during the economic recession of 1981/1982.

When the newly elected conservative-liberal government took power in 1982 (CDU/FDP) it could continue the political change of paradigm of the 1970s from a Keynesian employment policy towards a neo-liberal supply-side policy. Despite its rhetoric of a so-called 'Wende', the German version of neo-liberalism never achieved the radical tone of its US or British counterpart, but aimed at a slow transformation of the 'model Germany' without questioning its fundamental structures (Esser 1989). The high stability of its institutional structures - including its system of labour relations - was one of the most remarkable features of German capitalism until the early 1990s.

This continuity of the German model of regulation, had its price however which was paid with what Traxler called the transition from a Keynesian demand corporatism to a world market oriented 'supply corporatism' (Traxler 1992). The institutional regulatory capacities were increasingly subordinated to the primary goal of international competitiveness and functionally modified in order to serve an export dominated macro economic structure. At the same time, its fundamental structural problems like mass unemployment, exhaustion of social security systems and increasing public deficit remain unsolved and have become a burden of the German model. On top of these structural changes to the German economic model, the 1990s presented two further challenges for the German economy: the costs of German unification and the increase in economic internationalisation.

1.2.2 The impact of German unification

Obviously, the "shock of unification" (Streeck 1995) indicates strong pressures for the further development of the 'Model Germany'. Even if the potential economic power of German capitalism is expected to become stronger in the long run, first of all, the unification process seems to create some serious challenges for the German model. One major problem is that for the foreseeable future East German economic development will depend heavily on massive financial support through the West. Between 1991 and 1996 about 900 Billion German Marks (DM) of public expenditure were transferred into the five new "Länder" (Wegner 1996: 20f.). More than half of the payments were related to labour market activities and social policy measures which became necessary after the adoption of the West German social security system and the sharp rise in East German unemployment rates. In addition to that, about 40 Percent of the expenditure were given to improve the infrastructure and to support new investments in the East. The latter could be interpreted as an enormous Keynesian demand-creating programme again primarily benefiting West German capital and creating a huge West German trade surplus of nearly 200 Billion DM per year (Vesper 1996).

On the other hand, the immense financial transfers to Eastern Germany were one major source for the sharp rise in the German public deficit. In 1996, the budget deficit was more than 140 Billion DM leading to an overall public deficit of more than 2.000 Billion DM or more than 60 Percent of the current GDP (DIW et. al. 1996b). To handle the "costs of the unification" the German government firstly adopted a special "solidarity tax" ("*Solidaritätszuschlag*") for East German recovery. But when it became clear, that this tax will not solve the budget problems the German government decided to have further cuts in particular in welfare programmes and social benefits. The culmination of this policy so far has been the so-called "programme for further growth and employment" from 1996 which contains a wide range of social cuts and worsening of employment rights (e.g. in the field of sick pay or protection against dismissals). The programme was heavily criticised and led to a new wave of social protest in Germany. The fact that the financial burden of German unification were mainly put on the employees as well as on those depending on public transfer payments has serious implications for the political climate in Germany. Therefore, more and more observers see the German unification as a possible starting point for the erosion of the German model of social consensus (Streeck 1995).

Collective bargaining in Eastern Germany was from the beginning overshadowed by the broad expectations of the East German people to reach the same standard of living as in the West. After unification in autumn 1990 the average gross income of an East German employee was only 35 Percent of his or her Western counterpart (DIW 1996a). Both, the

employers and the trade unions agreed, that an assimilation of income levels would be necessary in a certain period of time. In some sectors (e.g. the metal industry) collective agreements were signed with a phasing-in plan, which fixed a step by step increase of East German wages until they reached the Western levels (Bispinck 1995a).

In the mid-1990s collective bargaining unity for whole Germany is still far away. In 1995 the average gross income of an East German employee was 72 Percent of the western level (DIW 1996), while the differences vary from sector to sector between 60 and 100 Percent. Additionally there were still some substantial differences in working time and further social benefits (Bispinck 1995a). Although since 1991/92 the speed of alignment of wages and salaries has decreased from year to year in the current German public debate it is very common to blame the supposed "high labour costs" for the still poor economic recovery in East Germany. Indeed, for political reasons mentioned above, East German wages have to grow relatively faster than productivity, which leads to an increase of unit labour costs.³ But the main problem seems to be, that German capital is trying to use East Germany as a low cost and low wage area and thereby is failing to improve the Eastern productivity level. In the end, there is a clear danger, "that a low wage regime in the East might erode the high-wage and high-skill regime in the West by opening up opportunities for low wage production that might lure German firms away from the upgrading path of industrial virtue" (Streeck 1995: 21).

The experiences of the post-war West German growth model showed that its success was based on a "quality-competitive" strategy. Even for East Germany it is rather unrealistic to assume that it could succeed in pure price competition against other countries with rather lower income and social welfare levels. On the other hand, since unification German capitalism seems to have more and more problems to preserve or even to renew West German competitiveness and to rescue East German economic recovery at the same time.

1.2.3 The impact of globalisation

The western post-war societies identified by fordist capitalism primarily based on a national growth model which concentrate itself mainly on the development of national single market performance. From a historical perspective fordist capitalism could be characterised as the constitution of a 'real national economy' which at the same time produce the basic requirements for a highly politically and socially regulated market economy (Krebs 1996: 23f.). Since the 1970s, as one major reaction to the structural

³ The method to measure unit labour costs is still quite controversial. The figures of East German unit labour cost varied between 15 (Hofmann 1996), 35 (Wegner 1996) and 70 Percent (DIW 1996) above the level of West Germany.

crisis of fordist capitalism, it could be observed again a growing internationalisation of economic activities, such as an intensification of transnational trade relations and investments as well as an accelerating international flow of financial capital. From the beginning of the 1990s the notion 'globalisation' has become the dominant feature in the political and economic debates.

Even if the use of the term 'globalisation' mostly is rather vague it more or less stands for the notion of a qualitatively new stage in international capitalism. It mainly focus on a fundamentally change in the relation between transnational capital and the nation state. Following the globalisation thesis the nation state is loosing more and more its traditional capacity to regulate its economy. "Market-modifying and market-correcting political intervention in the economy, including publicly associational self-regulation, can take place only within nation states, because it is only here that the public power necessary for the purpose can be mobilised. Economic globalisation therefore erodes the conditions for such interventions and ... leaves only de-politicised, privatised and market-driven forms of economic order" (Streeck 1995: 27). Because of the new mobility of capital national social and welfare regimes stands in competition to each other in attracting investment to safeguard social wealth and employment. In this situation, the principle function of the state has to change from its traditional post-war role as a "Keynesian welfare state" to a new "Schumpeterian competition state" (Jessop 1992).

In Germany, as well as in other countries, the debate on globalisation has a major influence on the current developments in industrial relations. Under the new circumstances of a globalised economy the high wage and high productivity performance of German capitalism seems to lose its traditional efficiency. "*Standort Deutschland*" (Germany as a location for economic activity) became widely accused of being too expensive and too over-regulated to compete on world markets. In particular, the system of central collective bargaining might have to give up its principle functions of determining general binding wage and working conditions, because capital is more and more able to switch its activities to other countries (Soltwedel 1996). In this perspective, the growing number of German foreign investments (FDI) in the recent years are interpreted as an "emigration" of capital from the less profitable production possibilities in Germany.

Looking to the regional distribution of German trade and foreign investments (table 4) one can not speak of a truly globalised economy. In 1995 about two-thirds of all imports and exports and foreign investments were related with other Western European countries. Since the mid-1980s with the adoption of the European Single Market programme there is a strong tendency that German capital concentrates its foreign activities even more on Western Europe. So far, the internationalisation of the German economy mainly takes the form of European regionalisation.

Table 4 Regional Distribution of German Trade and Foreign Direct Investments (FDI) in 1995 (in %)

	Trade		FDI	
	Export	Import	Flows	Stocks (1994)
Developed Countries	76.5	76.6	81.0	86.3
Western Europe	65.0	62.4	68.0	57.9
USA	7.5	7.0	10.6	23.0
Japan	2.6	5.5	0.9	2.2
Former Socialist Countries	9.9	11.6	9.6	2.6
Developing Countries	13.7	12.0	9.3	11.1
All Countries	100.0	100.0	100.0	100.0

Sources: Statistisches Bundesamt, Deutsche Bundesbank

In addition to that, the proportion of German FDI going to low-wage countries is still very low, while the biggest amount of German investment goes to other highly developed industrial countries. In particular, the stock of FDI in Eastern European countries, which in the current public debate play the most prominent role as the major "threat" for the "Standort Deutschland", still lies below three Percent of all German FDI and have, therefore, only a very limited meaning for the German economy (Dörrenbecher/Nuding 1996). The regional distribution of German FDI also makes clear, that its main motivations lies not in the costs argument, but more in the aim to develop and safeguard new markets (Härtle et. al. 1996, Köddermann 1996). Of course, there are a (probably growing) number of single firms, which switch their production to low wage countries, but so far they are still a minority, while the overwhelming amount of FDI seems to strengthen the job performance of the German economy. Altogether, from a macro-economic perspective German capitalism is still primarily benefiting from its highly internationalised economy. Therefore, one cannot say that globalisation *as such* is undermining the principal foundations of the German model including its system of centralised collective bargaining.

The actual challenge of globalisation for German collective bargaining can, however, be grasped in a *micro-economic* perspective. The relationship between globalisation and collective bargaining assumes different forms according to different degrees of international interconnectedness in different industries and enterprises. A large number of transnational companies have established cross-border production chains in which sites in Germany compete directly with locations in other countries. New information and communication technology makes continuous comparisons of relative costs and productivity levels possible, and therefore intensifies competition within transnational enterprises. The internal logic of the organisation of cross-border production chains lends itself to the emergence of enterprise bound collective bargaining and increasingly contrasts with central collective bargaining (Marginson/Sisson 1996).

There are two aspects of transnational production networks and "value-added chains" that contribute to the erosion of industry-level collective agreements (*Flächentarifverträge*). First, the "*cartel function*" of central collective bargaining, which is limited to regions or nation states, is being undermined by growing exit-options available to companies. Second, intensified competition and growing mass-unemployment enables companies to compensate for the traditional "*peace-keeping and productivity functions*" of industry collective agreements by way of "modernising and competition coalitions" (Streeck 1996).

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

Finally, the viability of industry-level collective bargaining in times of globalisation is also a political question. The emergence of cross-border production networks has contributed to a marked shift in power relations between transnational capital and local labour organisations. Recently there has been a growing number of cases where management forces concessions from works councils by way of threatening (cross-border) relocation of production. Sometimes these concessions lay already below the collectively agreed standards and, actually, in a formal sense must be claimed as illegal. Since more and more companies are using "globalisation as an option" (Dörre 1996) new forms of "wildcat cooperation" have been developed which clearly undermine central collective bargaining.

In conclusion, there are clear signs that a complexity of different economic pressures might lead to drastic institutional changes: structural challenges since the early 1970s, the impact of unification since 1989 and the impact of globalisation since the mid-1980s. Given the embeddedness of the German system of industrial relations in an historically defined German model of capitalism, two questions emerge: how can the German institutions of collective bargaining deal with the difficult adjust process in the 1990s? What are the mechanisms of relating collective bargaining to economic adjustments and why and to what extent have they reached their limits? In order to give tentative answers to these questions and an indication to where the German model might be

heading, the following sections look in more detail into the economic institutions governing the German metal industry.

2 The case of the German metal industry

The German metal industry has always played a prominent role in the German model, not only since it is the main export dominated industrial sector of the German economy, but also regarding its institutional set up. Given its importance in terms of size and economic power, collective agreements in the metal industry often had the function of role models. Major innovations in collective agreements such as the 35 hour week originated in the metal sector and then spread to other sectors. The metal sector union is by far the biggest trade union within the German trade union movement accounting for almost a third of all union members. Also, compared to other economic sectors, collective bargaining in the metal sector is particularly centralised.

Firstly, the structure of actors is very simple: on the one hand one employers' confederation, Gesamtmetall, on the other hand one trade union IG Metall. There is no other major player involved in collective bargaining, as both organisations have almost complete monopoly over the industry.

Secondly, collective agreements in the metal industry cover a very heterogenous group of different economic branches and a vast number of employees. One agreement per region generally covers all branches in the metal sector, including the car industry, the computing industry, the electronic industry and the machine tool industry.⁴ In total the collective bargaining arena in the German metal industry covers about 3.5 million employees. According to IG Metall (1997a) about 66% of all metal workers in west Germany and 57% in east Germany are covered by a central collective agreement. Another 10 to 15% of metal workers are covered by a company agreement. The overall collective bargaining coverage in the metal industry is still about 80%.

Thirdly, the regional set up of collective bargaining into 15 collective bargaining regions leads not to different wage agreements. The wage agreements of the regions follow the pattern of the first region which concludes an agreement. Decisions about regional collective agreements are co-ordinated by the central executive bodies of both organisations. The regional autonomy of the organisations is relatively small.

⁴ with only few exceptions: heating industry, fine can packing industry, jewellery and watch industry, fountain pen industry (Bispinck 1995b: 63).

2.1 Collective Bargaining Parties as Organisations

The two collective bargaining parties in the German metal industry IG Metall and Gesamtmetall are both entirely voluntary organisations. Membership for companies or employees in their respective interest associations is not compulsory under any circumstances. In this respect, as organisations they both have to rely on the support of their membership for their collective bargaining outcomes in order to maintain membership levels.

On both sides, the commitment towards central collective agreements in the post-war period was not only high but also remarkably stable throughout the 1980s, when increasing economic difficulties led to a rapid decrease in confidence in interest associations in a number of countries such as Italy, UK or the Netherlands (Traxler 1995). In 1985, about 45% of all employees in the German metal industry and 55% of all companies were members of an association.

In the course of unification, trade unions and employers' associations were set up in eastern Germany within the period of 1990/91. For the *West German trade unions* there was first of all the question how to deal with the old communist unions of the former East German regime. Paradoxically some of the more conservative and traditionally strong anti-Communist unions (like the chemical union IG Chemie) decided to take over the whole apparatus and most of the functionaries of the old Eastern unions, while other more "leftist" unions (like the metal union IG Metall) went to build up totally new structures from the ground (Kreißig 1992). In any case the trade unions were quite successful in setting up their organisations reaching a similar or even higher degree of membership in a relatively short time.

On the employers side, regional employers' confederations were rapidly set up mainly by western managers with the support of the Treuhandanstalt (Henneberger 1993, Ettl/Heikenroth 1996). Already in 1990, the first regional metal employers' association were founded in Thuringia and Saxony. However, the *West German employers organisations* had much more difficulties to build up their structures, because with the exception of a few small companies there were no private capital in the former GDR. Nevertheless, the Western employers federations tried to transfer their institutional structure to the East, but until now the East German employers organisation are much more fragmented. The level of organisation of East German companies is still substantially lower than in the West varying between 75 Percent in the chemical industry to around 35 Percent in the metal industry (Artus/Schmidt 1996). In the latter the number of companies which are members of an employers organisation declined from 60 Percent in 1992 to 35 Percent in 1994. While most of the big companies are still belonging to an employers federation, most of the new established small and medium-sized companies reject a

membership (Schroeder 1996). Therefore, from the employer side the institutional basis for central collective bargaining is quite weak.

In both cases, the eastern associations developed with great assistance from the west usually in the form of 'god-parenting' relationships between a western region and an eastern region. The western regional association was meant to provide technical knowledge and practical help and was also expected to 'loan' officials and material to their eastern partner region. The rapid creation of trade union and employers' associations could however not conceal the fact that the basis for these associations was not only weak, but also volatile. For both, union and employers, unification turned out to weaken their membership base in the longer run and prevented the organisations from discovering and - maybe - counteracting long term trends in their membership which had been visible since the late 1980s:

As was and is the general tendency in labour organisations in most western countries, the IG Metall membership in the 1980s began to age and include increasing numbers of pensioners (early retired workers) as well as unemployed workers in its membership records. Also, historically underdeveloped membership groups such as women and white collar workers did not manage to catch up in the organisation, but remained underdeveloped during the 1980s. The structural unevenness in its membership started to worry the leadership in the late 1980s and several recruitment campaigns were set up.

Table 5 IG Metall membership and density 1980-1995

Year	Members, west	Members	non-working members	metal sector employment	union density gross	union density net
1980	2,622,069		322,514	4,975	52.7%	46%
1985	2,553,041		456,994		52.6%	44.9%
1990	2,681,253		ca. 650,000**	5,058 *	53%	40%
1991	2,681,346	3,625,428		5,246 *	51% *	
1992	2,638,248	3,394,282	931,306	5,166 *	51%*	
1993	2,528,188	3,146,437	1,045,876	5,482	57.3%	38%
1994	2,450,448	2,995,738	1,013,867			
1995		2,869,469	1,013,867			
1996		2,752,226				

Source: IG Metall, Statistisches Bundesamt, Armington 1988; Note: * only west Germany ** estimated

Unification then brought an influx of membership of nearly one million new members which not only increased overall union density, but also the relative share of white collar workers and women workers, since those workers were much better organised in the new eastern states. This new influx of members however soon turned out to be an illusion: not only did membership decrease rapidly in the following five years down to near pre-unification levels. Also, those of the newly organised members who remained members swiftly joined the rank of the unemployed and the share of non-working members

increased dramatically (see table 5). Already in 1992 the unemployed membership of the IG Metall outweighed the employed membership.

For Gesamtmetall, the structural membership problem also started to show in the late 1980s: Already between 1985 and 1990 membership density of Gesamtmetall decreased from 54.6% to 46.5% regarding companies and from 73.8% to 70.3% regarding employees (see table 6). After unification this drastic decline in density continued further. Within the five years between 1990 and 1995 the density of the employers' organisation decreased from 70% to 63% regarding employees. The underlying causes for the rapid decrease in employers' density was not a wave of resignation from the associations, but a drastic increase of new companies being set up from the late 1980s onwards which did not join the employers' associations any more. Between 1985 and 1992, the number of companies in the metal industry increased from 15,333 to 18,348 in western Germany (Schroeder/Ruppert 1996).⁵

Table 6 Density and membership of the metal employers' confederation Gesamtmetall

Year	Companies		Employees	
	No.	Density in %	No.	Density in %
1970	9,594		3,264,598	73.3
1980	9,108	57.5	2,950,325	72.7
1985	8,374	54.6	2,817,186	73.8
1989	8,116	46.5	2,890,687	70.3
1993 east & west	8,863	42.8	2,663,123	63.1
1993 west	7,752	44.0	2,458,665	63.3
1993 east	1,111	35.7	204,458	60.0
1995 east & west	7,886		2,352,289	
1995 west	7,094		2,210,541	
1995 east	792		141,748	

Source: Gesamtmetall, Statistisches Bundesamt, own calculations

In the east, the major problem of the employers' confederation was in the beginning the lack of real 'capitalists' in the sense of owners or managers of private companies. The main employer during these early years was the Treuhandanstalt which however did not take part in collective bargaining. The Treuhandanstalt perceived itself as part of public policy making and less as an employer and therefore would try not to be involved in collective bargaining. In later years however, the Treuhand encouraged its companies to join employers' confederations (Henneberger 1993). Those representatives of employers' associations who did take part in collective bargaining were often representative of western employers' confederations or western managers employed by eastern Treuhand

⁵ the increase of companies in the metal sector is not only due to the setting up of new companies in the computing industry, but also to a great extent to the restructuring of traditional companies in the sector.

companies. They were not genuine representatives of the interests of eastern private companies.

The weakening of the membership base of both associations in the first half of the 1990s shifted the focus of concern on both sides towards the dissatisfaction of its members. Under the pressure of decreasing membership figures - in real terms both sides lost almost 10% of their membership between 1990 and 1995 - both organisations had to redirect their collective bargaining policy more towards the interests of its constituencies rather than other demands of economic policy. In other words, both sides of the bargaining table were in need of a drastic solution for their membership crises.

2.2 The change of collective bargaining in the metal industry

One could say that the first signs of an approaching change in German collective bargaining appeared in the recession years 1992/93. The years 1990 and 1991 were the last collective bargaining rounds under the traditional regime of collective bargaining and economic adjustment in Germany in which highly centralised forms of negotiations provided higher wages and social progress for the employees concerned. In the collective bargaining round of 1990 for west Germany the final step of working time reduction was introduced: working time was to be shortened to 36 hours per week from April 1993 onwards and to 35 hours per week from October 1995 onwards (see table in annex). In 1991 the union managed to raise the wages for lower paid workers in the industry, which has also been a long-standing collective bargaining aim of the union.

In eastern Germany, the first bargaining round in 1990 led to a transfer of the western agreements to the eastern partner regions which resulted in a first increase in wages for the metal workers. In 1991, the union and employers agreed to fix the wages in the east to 62% of the western wages which was then supposed to rise step by step until a 100% parity should be reached in April 1994. Both sides argued that a long term step-by-step agreement would increase the planning security of management and companies during an economically insecure period and would help to set the foundations for new economic success. Also given, the implementation of other social policy measures, wage policy should not lag behind and a quick raise of eastern wages should stop people from eastern German moving to the west.

In both parts of the country the real difficulties started in 1992. In 1992 the IG Metall had to mobilise 1.5 million workers in warning strikes in order to reach an agreement which lasted almost two years and which was considerably lower than anticipated by the trade union. In 1994, the employers took the initiative for the first time in German post-war history to repudiate wage and holiday agreements. Rather than the traditional pat-

tern of the trade union side asking for more the employers countered by cancelling the existing agreements and asking for a whole range of concessions regarding holiday pay, working time arrangements and a wage freeze. In the general atmosphere of job losses and the biting recession, the solution centred around employment security. It was found after the car manufacturer VW set a pattern of allowing companies to cut hours and wages simultaneously when guaranteeing job security for a limited period of time (Rosdücher/Seifert 1994). The same principle was then transferred to regional collective agreements. The employers committed themselves to cut hours and pay for their employees rather than making workers redundant. In turn, the union agreed to a very moderate wage increase in line with inflation.

In the east, the step-by-step agreement which was settled in 1991 was cancelled by the employers in 1993 when it became clear that the position of the east German metal companies was nowhere near comparable to their western counterparts. A revision of the wage policy in the east was however not possible, since the public expectation was focused on the comparison of wage levels between the east and the west and the union staged a two week strike in Saxony and Mecklenburg-Vorpommern in May. Therefore, it resulted in a delay of the adjustment of eastern wages to western wages by two years and the step-by-step agreement was extended to July 1996. For the first time in German collective bargaining, the new collective agreement also included a hardship clause which would allow companies to be exempted from paying the rates of the agreement if it could prove its economic difficulties.

Since then the situation has become increasingly antagonistic between both sides. The wage round 1995 resulted in strike action in Bavaria and an agreement which left both parties dissatisfied and with the feeling of being hard done by. In order not to be too much on the defensive, the IG Metall launched the so-called 'pact for jobs' at its conference in autumn 1995 which aimed at an exchange of employment creation with union concessions (Bispinck 1997a). The pact failed after the first peak level talks in January when the government responded with a list of cost saving measures which included deep cuts into social security budgets. The union withdrew from the peak level talks and also withdrew from talks with employers when it was apparent that they would come to nothing.

The collective bargaining round 1996 was overshadowed by the battle on continued payment remuneration in the case of illness. The government passed a new law which cuts the legally defined minimum of so called "sick pay" from 100% down to 80% of the regular income. While the employers immediately try to introduce the new provisions the trade union - forced by spontaneous workers protests - announced their resistance to any cuts in sick pay. Finally, the collective bargaining parties reached an

agreement which safeguarded the 100% sick pay in exchange for moderate wage increases and cuts in yearly bonuses.

To sum up, during the first half of the 1990s collective bargaining in the metal industry has taken more and more the form of "concession bargaining". As the number of employees in the German metal industry was reduced about 1.5 million down to 3.5 million between 1991 and 1996 the trade union was under growing pressure to accept employers demands for cost reductions and further flexibilisation of working conditions.

3 Differentiation and decentralisation of collective bargaining

In the following we will argue that in the early 1990s the traditional mechanism to ensure wage differentiation between companies - the wage gap - has been diminishing while two new ways of differentiating have been introduced, which are however designed to transform the existing institutions of industrial relations into a new much more de-centralised model of wage determination. The first one refers to the efforts of the collective bargaining partners to open central agreements to company bargaining, while the second one to the complete opt out of individual companies of the central collective bargaining framework.

3.1 Traditional differentiation: the wage gap

Central and uniform agreements covering several million of employees and different industrial branches set certain employment conditions which are relatively independent from the specific needs of single companies and sub-branches. Employers are expected to meet certain standards in order to pay a certain amount of wages. However, high performing companies are in a much better bargaining position. Therefore, collectively agreed wages have always been seen as minimum wages which could be improved at company level depending on the economic performance of the company. Within the German manufacturing sector, and in particular within the German metal sector, the wage drift was the means of differentiating between high performing companies and low performing companies. This gap was traditionally filled by a wage drift between big and powerful companies and smaller companies, which was unofficial but accepted by all sides.

In particular big car manufacturers were not only paying 'above the going rate' (über Tarif), but also had a range of special provisions for their workforces such as special bonuses, special holidays for family reasons and special allowances for housing. For the employers this was a certain element of the prerogative of management that they could

unilaterally decide on wage developments in the industry and have a bargaining offer vis-a-vis the works council.

For the German trade unions also, the informal and often secret nature of local wage bargaining was a way of building a bridge between the political aim of a solidaristic wage policy and the real differences between companies to afford certain wage levels. While they officially rejected wage differentials and demanded the same wage for the same job, the ability to pay in big companies was always a factor in wage bargaining. (Streeck 1981: 159).

Although informal and often secretive, the wage gap was a factor which was to be taken into account in wage bargaining: In the annual report of the council of experts (Sachverständigenrat) 1989/90 the experts already recommended to open wage agreements in order to allow for wider wage differentials. At the time the German employers confederations rejected the idea by arguing that the wage drift between collectively agreed wages and real wages was sufficiently large enough to cope with existing pressures.

However, it was a major feature of the recession 1992/93 that big companies started to cut down on their wages above the going rate. During these two years, for example, every major car manufacturer decided to cut out wage increases by reducing the share which was paid above the rate.

Getting statistical data on the wage gap is not easy, since studies are rare. The government office on statistics only deals with wages for manual workers in manufacturing. However, one study which looked at the differential between collectively agreed wages and effective wages, has shown that the wage drift narrowed between 1973 and 1992. While in 1973 average real wages were 12.68% higher than collective agreement wages, in 1992 the gap was only 7.95% (Schnabel 1994: 41).⁶ Overall, there are some indicators which hint at a narrowing wage drift in the early 1990s which coincided with an increasing restructuring of supplier relations between companies at the same time. The precarious balance of uniform labour costs for all companies in the same sector and additional bonuses along the ability to pay had been distorted to some degree.

3.2 Regulated decentralisation

Given the presence of a two layer system with collective bargaining on the associational level and works councils at the plant level, there is some scope of delegating the regula-

⁶ Although the wage gap is usually not talked about, it became a topic when the trade unions started to compare eastern and western wages and calculated in some cases a general wage gap of 10% for some bargaining districts (Schnabel 1994; Meyer/Swieter 1997).

tion of terms and conditions from the level of collective bargaining to individual companies. The collective bargaining parties can delegate issues to the plant level, but if they don't do that, the plant level actors cannot circumvent collective agreements.⁷ If the collective bargaining parties want to delegate something to the plant level, they have to state this explicitly in the collective agreements through the introduction of so-called "opening clauses" which have to define the scope and limits of plant-level regulations.

This form of delegation from collective agreements to plant agreements can be called 'regulated de-centralisation' since it means that the collective bargaining partners ask the plant level actors to find a plant specific solution to a problem which they do not want to regulate at a central level. In the meantime several forms of regulated de-centralisation has been introduced in German collective bargaining:⁸

- When the metal sector collective agreement of 1984 was concluded which contained the step by step introduction of the 35-hour week, it maintained that not only a group of workers could be exempted from the working time reduction, but also that the distribution of working time could vary between companies. In order to allow for company-specific solutions, the agreement had an opening clause which allowed for plant-level negotiations on the distribution of working time. Over the years, this has led to a rather flexible use of working time which nowadays allow for annual working time schemes in which workers might work 45 hours per week in summer but only 30 hours per week in winter or even more varied depending on the order books of the company. The decision of how to distribute working time would stay with the plant level actors.
- The collective agreement on employment security settled in the bargaining round 1994 entails provisions for individual companies to vary the standard working time for their employees rather than making them redundant (Rosdücher/Seifert 1994). If an employer runs into economic difficulties he or she can now cut down working time down to 30 hours for a certain period of time in order to reduce labour costs. The decision of cutting working time and pay can be taken by the employer and the works council. According to a survey commissioned by Gesamtmetall in September 1994 about 10% of those companies which replied to the questionnaire, employing 16% of all employees covered by the survey, made use of the provisions. Gesamtmetall estimated at the time, that on average working time had been reduced by 10%, saving up to 50,000 jobs in the industry.

⁷ This is mainly referring to pay and working time. On issues where the collective agreement do not make any regulation, the companies are free to find their own devices, i.e. regarding work organisation and team work.

⁸ For an overview see (Bispinck 1997b, Schulten 1997b)

- In 1993 the collective bargaining parties agreed on the introduction of so called "hardship clauses" in the east German metal industry, which enable companies to apply to be exempted from the collective agreement if they are close to bankruptcy (Hickel/Kurtzke 1997; Schulten 1997a). The company would then be asked to demonstrate that it had a strategy for economic viability. The collective bargaining parties would then decide on the question whether the company could be exempted from paying the agreed rates for their employees. If no agreement is found between the collective bargaining parties, the original collective agreement is being upheld. Between 1993 and 1996 more than 180 have made an application for a case of hardship. About half of them were accepted by the collective bargaining parties (Hickel/Kurtzke 1997). The introduction of a "hardship clause" was an important step towards decentralising the German collective bargaining system since it took into account the differentiation between companies as an official category. In the meantime there exists a broad debate within the IG Metall whether or not hardship-clauses should also be introduced to west German collective agreements (Schulten 1997a). However, in practice it has always been possible for companies which were in serious economic troubles to diverge from the collective agreement even with support of the trade union side.

The examples show how the collective bargaining actors have carefully avoided delegating decision making rights to the plant level which would include a decision on the going rate for a particular job. Instead they have been more generous with the distribution and the reduction of working time at a standard hourly rate. Where companies would be enabled to cut down in hourly pay - as in the East German example - the final decision making right still rests with the collective associations.

3.3 Non-regulated decentralisation: Opting out

A complete opt out of the collective bargaining system for individual companies is not easy, but nevertheless possible and increasingly used as a tool of attaining more flexible labour conditions. It is also increasingly used for making a point in the public debate that companies are not only unhappy with collective bargaining, but also willing to stand up against it.

In essence, there are two ways of opting out: either the company resigns from the employers' association or it finds an agreement with its works council (and the workforce) to undercut the going rate provided by the agreement. While the first way is only a long-term solution - for reasons given above - it is nevertheless the only viable legal solution. Agreements with works councils which violate against collective agreements are not

only legally questionable, but also meet the fierce opposition by trade unions, if the details became available.

As was demonstrated above, the share of companies which are members of employers' confederations has been decreasing since the mid-1980s with the pace of decline higher after 1990. At the same time, the fact that there is a growing number of companies and employees which are not part of the centralised collective bargaining system, does not automatically mean that there is a growing share of employees who are not paid the going rate of the collective agreement. Some companies might have settled a company agreement with the union providing similar - and often better - conditions than the collective agreements. Other companies might not be part of the employers' association, but still pay the going rate. Paying the going rate is a means to keep the union out of the company and also to prevent industrial action or the necessity to get involved in collective bargaining for those companies which are not members of employers' association.

The computer company IBM, for example, resigned from the metal sector employers' confederations in 1990, because it wanted to achieve better and more flexible working time systems for its computing experts⁹ and not in order to achieve a better wage relations. Similarly, surveys covering east German companies have shown that 42.8% of all companies which do not belong to the employers' confederation still pay wages at the level of collective agreements (Scheremet 1995: 154; Ettl/Heikenroth 1996: 148). Since more than 98% of all companies with more than 500 employees pay the going rate and above, the share of employees who receive wages which are lower than the collective agreement provides, stays at 13% in east Germany.

On the other hand, companies which might still be a member of the employers' confederation increasingly opt out of collective agreements and find either openly or secretly agreements with their workforces or works councils for doing so. The survey on eastern German companies mentioned above also showed that in the category of companies with 500 to 1000 employees 100% of the companies were members of the employers' association, but only 78% paid the going rate (Ettl/Heikenroth 1996: 150).

In the west, companies tend to ask longer working hours from their employees for the going rate since cuts in pay are not easily accepted. A survey organised by the Association of Medium-sized Companies (VMU) has showed that a third of the companies stating that they do not strictly follow the collective agreement - mainly regarding working time arrangements.¹⁰ A prominent example for this tendency is the radiator manufacturer Viessmann who asked its workforce to agree to a working time model which includes an unpaid working time increase of 3 hours per week. In a vote about the

⁹ in particular to get away from the 35 hours week.

¹⁰ see Frankfurter Rundschau, 10.01.1996

contract which was offered to all employees more than 90% of the 3,760 in three plants voted in favour of worse employment conditions. In exchange, the company committed itself not to make employees in Germany redundant and not to set up a manufacturing plant in the Czech Republic. The offer of the contract had been made by the works council after the management decided to set up a plant in the Czech Republic and to transfer the production of gas heaters there.

Each employee signed an individual contract in which he or she had to accept that parts of the existing collective agreement of the metal sector being void since a worsening of employment conditions can not be concluded in a plant agreement (Betriebsvereinbarung). While the works council was in favour of this deal, the local IG Metall took the company to court, but lost the case, since it was neither part of nor affected by the change in individual contracts.

Another example for an Opting-out of the valid central collective agreements could be found in the German battery industry.¹¹ In 1995 when the battery industry was in deep economic troubles the works council of the battery producer Varta agreed to an unpaid extension of working time. After that the works councils of other battery producers were set under enormous pressure by their management to accept a similar working time arrangement and some of them also agreed on an unpaid working time extension. There was a clear danger, that the whole battery sub-branch would break out of the valid collective framework agreements for the metal industry. In that situation IG Metall tried to co-ordinate the policy of the works councils in the battery industry. For the majority of the battery plants the union finally succeeded either in preventing further working time extensions or in bringing already extended working time back to the collectively agreed standards.

In all cases, where terms and conditions were undercut in contradiction to the existing collective agreements, the existing works council played a crucial role. In the case of Viessmann, the works council was non-union and from the start in opposition to union protests. At IBM, the management was able to exploit the divisions between the works council majority which was IG Metall and the minority which belonged to the white collar union DAG. The DAG was then prepared to agree to a company agreement including longer working time. Works councillors are the crucial link when implementing collective agreements and linking the views of the workforce to union committees. At the same time, as union members they have also two loyalties, towards the company and towards the union. Under the existing arrangement of this loyalty conflict was balanced by the rigidity of framework agreements with limited freedom for plant level regulation. Without this framework, loyalty to the company increasingly outweighs the commitment

¹¹ for the following details see IG Metall (1997b)

to the union. However, the example of the battery industry shows that it is always also a political question, if the trade union is able to defend the provision of collective agreements against the pressures of the companies to realise short-term advantages in competition by undermining collectively agreed standards.

4 Proposals for a reform of collective bargaining in the German metal industry¹²

The German system of centralised collective bargaining has always been criticised from both sides of the political spectrum. While conservatives and radical neo-liberals have blamed the German system for privileging trade union power, more leftist groups have criticised it as an instrument of the corporatist integration of German trade union leaders into the capitalist system. Until the late 1980s, however, all main political parties, and the overwhelming majority of employers and trade unionists as well, not only supported the system but saw it as a major precondition for the overall economic success of the German model.

Nevertheless, since the early 1990s the critique on the system has increasingly shifted from the political periphery to the centre of relevant political and social players. Radical neo-liberal views on collective bargaining have become more and more popular among economic journalists, economists and even managers and employers. In particular, the "*Frankfurter Allgemeine Zeitung*" (FAZ) one of Germany's leading daily newspapers, is at the forefront in criticising the German model of centralised collective bargaining as "out of date" and calls for a radical shift to plant level bargaining (see for example: Barbier 1997; Hank 1996a,1996b; Soltwedel 1996). The FAZ newspapers' chief economic editor has even prophesied that "within ten years it will be part of the culture of successful companies not to be covered by a centralised collective agreement." (Barbier 1996).

Even if the majority of the German collective bargaining parties - not at least for their own organisational interest - do not want to abolish the basic principles of German central collective bargaining the earlier broad consensus about the German collective bargaining system has been replaced by a general agreement on the necessity to modernise the system. In the case of the German metal industry, however, the collective bargaining parties, as there are the employers' association Gesamtmetall and the metalworkers' trade union IG Metall, have rather different concepts on how to modernise the existing central bargaining system.

¹² main parts of this chapter has been drawn from Schulten (1997c)

4.1 The position of the employers' association Gesamtmetall

In recent years the employer's association Gesamtmetall has been confronted with growing criticism of their member companies on the existing collective agreements which have been accused of being too high in its standards and too inflexible for company-specific provisions. Hence, Gesamtmetall has taken the view that under the conditions of structural changes in the economy and increased international competition the existing collective agreements in terms of scope, content and bargaining procedures need some fundamental reforms. On the other hand Gesamtmetall also made clear, that it want to continue with the basic principles of central collective bargaining mainly because of its peace-keeping function. During the duration of a collective agreement the trade unions and employers are placed under a peace obligation which forbids any industrial action and therewith guarantees a relatively stable production process with no interference. Therefore, a change from central to company bargaining might also bring industrial action back to the company-level.

In June 1996 Gesamtmetall presented a first comprehensive document called "project to reform central collective agreements" (Gesamtmetall 1996). In that document the employers' association proposed to reduce the scope and content of branch-level collective agreements on seven core elements:

1. increases of wages, salaries and vocational training pay in percentage terms
2. determining the level of the basic pay rate (*Ecklohn*)
3. determining number of working hours which correspond with the basic pay rate (on the contrast actual working time should be determined at company level)
4. determining the number of holidays per year
5. provisions, forms and level of special bonuses
6. collective agreements norms for adopting legal provisions such as periods of notice or leaves of absence
7. new forms of binding conflict regulation and arbitration

In addition to that all other issues negotiated at branch-level are to take the form of framework agreements in which a general opening-clause allows the management and the works council to conclude company-specific provisions which might also differ from what has been agreed at branch-level. Gesamtmetall's reform project foresees a split of future branch-level collective bargaining including one part which has still a binding character for the companies and a second part which only includes non-binding advice.

More recently in November 1997 Gesamtmetall came forward with a new document called "Declaration of Frankfurt to reform branch-level collective agreements" which contains concrete proposals on at least four main topics (Gesamtmetall 1997):

1. the introduction of a general "*company clause*" which should allow companies with particular economic problems to diverge from collectively agreed standards for a limited period of time in exchange for safeguarding jobs. According to Gesamtmetall this could mean, for example, a limited extension of working time without wage compensation. The use of the "company clause" should be determined by the management and the employees and if necessary with binding support of the collective bargaining parties. In the event of disagreement among the bargaining parties a new instrument for a quick arbitration should be created.
2. further flexibilisation of working time through the introduction of a *working-time corridor* between 30 and 40 hours per week. The actual working time should be determined at company level between management, works council and the individual employees.
3. the introduction of *performance related pay* by relating the payments of special bonuses such as : holiday bonuses, Christmas bonuses or capital-forming payments to the economic performance of the single company.
4. the introduction of *new ways of conflict solving*. In the view of Gesamtmetall strikes are out of date and out of place in an area of an internationally linked economy. Therefore strikes should be avoided by new forms of "peaceful" conflict solving as they have already been agreed in other European countries

To sum up, the employers' associations proposals would lead to a major transformation of central collective bargaining following the path of "regulated decentralisation" which in the view of Gesamtmetall seem to be the only way to safeguard the main features of the existing bargaining system.

4.2 The position of the trade union IG Metall

In 1997 IG Metall relaunched a broad campaign on "defending and reforming" central collective bargaining. In a document called "collective bargaining autonomy and branch-level collective agreements" the union gives its own analysis on the current pressures of the bargaining system and elaborate its proposals for further reforms and modernisation (IG Metall 1997a).

As a starting point of analysis IG Metall sees branch-level collective bargaining under political attack by an increasing number of neoliberal politicians and employers. These forces are trying to destroy the branch-level collective bargaining system with the clear perspective of weakening the political position of the union. IG Metall sees clear tendencies towards an erosion of the binding character of branch-level collective agreements at company level where the employees were often forced or even blackmailed

with the threat of redundancies to accept working conditions which were below the collectively agreed standards. In the meantime, the latter has become a major day-to-day experience of many works councils and local union representatives. Therefore, among IG Metall's membership there is a strong scepticism on further decentralisation of collective bargaining because this might mean a change for the worse in terms of working conditions as well as bargaining power at company level (Bergmann et. al. 1998). Consequently as a first step IG Metall called for the need for a political defence of branch-level collective agreements in particular by a strengthening of trade union counter power at company level.

However, IG Metall did not limit itself to the defence position but also presented its own concepts for a reform of branch-level collective agreements. Thereby the union distinguishes between reforms on the content of collective agreements and reforms on the structure of bargaining procedures and levels. Regarding the *content of collective agreements* IG Metall analyses that many provisions in existing collective agreements are still based on the principle of tayloristic work organisation. The most prominent example of this is the existence of different wage agreements for white and blue collar workers. In 1991 IG Metall presented a comprehensive concept called "reforming collective agreements 2000" (*Tarifreform 2000*) in which the union developed several proposals for new provision in collective agreements to make them correspond with a modern form of work organisation, for example new provisions on group or team working or new grading systems (Lang/Meine 1991). Since then there has been various talks between IG Metall and Gesamtmetall on these issues but, so far, these talks have shown no substantial results (Bahn Müller 1998). Nevertheless, IG Metall insists that there is a growing need to reform these more qualitative aspects of existing collective agreements.

Regarding the *structure of bargaining procedures and levels* IG Metall is still in an internal ongoing discussion process. Even if it is the principle position of IG Metall to keep branch-level collective bargaining as the binding norm for all major bargaining topics, the union also recognises, to a certain extent, a need for more company regulation. The latter is widely accepted as a consideration of qualitative aspects of collective agreements but more disputed when it comes to quantitative aspects such as the level of wages or the duration of working time. In its recent document on branch-level collective agreements IG Metall presented two possible paths for greater involvement of the company-level in collective bargaining (IG Metall 1997a):

1. the introduction of *equal modules in branch-level collective agreements* (*Tarifbausteine*). The collective bargaining parties at branch-level concluded a certain number of different modules, with each of them providing a mixture of certain provisions (for example payments and working time). Afterwards it could be decided

at company level which module fits in best with the specific need of the company and its employees.

2. the conclusion of *additional company agreements (betriebliche Zusatztarifverträge)*: In addition to existing branch-level collective agreements the management and a new established company related collective bargaining commission to conclude additional company agreements on issues which either have not been regulated at branch-level or could put certain provisions of the branch-level in a concrete form.

IG Metall has not yet decided which of the two alternative paths of structural reform they prefer. In any case in the unions view the level of regulation through collective agreements should increase rather than decrease. Following that line IG Metall has sharply rejected the recent proposals made by Gesamtmetall in its "declaration of Frankfurt". In particular, IG Metall refused the introduction of a general opening or company clause which might open the door to an even more accelerated erosion of branch-level collective bargaining. Hardship-clauses, as they have been agreed in the east German metal industry, were seen not as a progressive element to reform collective agreements but as an instrument for companies which are in danger of bankruptcy.

In addition to that IG Metall also rejected the introduction of a working time corridor between 30 and 40 hours per week, because the employers might use it for a working time extension and therewith undermine the current 35 hours week. IG Metall is also quite sceptical about the employers proposal to relate the yearly special bonuses to the economic performance of the company. According to the union performance related pay also needs new systems of controlling the company's results. Finally, IG Metall sharply rejects all forms of limiting the union's ability to take industrial action. The right to strike is seen as a basic democratic right which the union considers to be inviolable.

To sum up, the recent proposals of the collective bargaining parties Gesamtmetall and IG Metall show a rather ambiguous picture. On the one hand both parties declare their wish to continue with the basic principles of branch-level collective bargaining as well as their readiness to reform the system. This reflects the fact that branch-level collective bargaining is in their own organisational interest. On the other hand at the moment the proposals of IG Metall and Gesamtmetall seem to be incompatible. While IG Metall basically wants to increase the level of regulation of collective agreements, Gesamtmetall wants to decrease it by shifting bargaining competence to the company level. This reflects the change of power relations between capital and labour at the company level where under the conditions of mass unemployment and growing international mobility employers increasingly have the opportunity to push their workforce to company-specific employment systems. However, for the present IG Metall and Ge-

samtmittel agreed on joint talks for a reform of the existing central bargaining system which will start in the beginning of 1998.

5 The Future of collective bargaining in Germany: Three scenarios

The German model of capitalism as it has been developed in the post-war period is based on a fine balance of corresponding relationships between a particular economic growth model and a specific system of industrial relations and labour market institutions. This balance has already been questioned since the mid-1970s with the structural crisis of fordist capitalism, but has further lead to a relatively successful adaptation of the 'model Germany' during the 1980s. The German unification as well as a growing internationalisation of capital together with the political implications of the neo-liberal globalisation ideology however puts the model under pressure to which it might not be able to adjust, but might have to alter the previously successful institutions fundamentally. Using the example of collective bargaining in the metal industry as a major pillar of the German model, we have argued in this paper how the traditional mechanism of industrial adjustment moved increasingly towards opting out of the system thereby challenging the central collective bargaining system.

Since the beginning of the 1990s German collective bargaining has entered a period of change and has already become more differentiated and decentralised. For the future, we can envisage three possible scenarios of how collective bargaining might develop. Each scenario would have different implications for the German model:

In the *first scenario*, the negotiations between Gesamtmetall and IG Metall are successful and both sides of the bargaining table agree to a major reform of collective agreements. The negotiations will lead to a framework agreement which provides various opting out and hardship clauses with which companies can lower their wage bill following the path of regulated decentralisation. Decision making rights will be delegated to the works council with the union having veto rights. The new framework agreement aims at a resurrection of the traditional concerted and corporatist steering of wage policy. Gesamtmetall will have to put its full organisational weight into these negotiations. The success of this concerted effort in order to bind companies to central agreements will also depend to a large degree on the government support they might get as well as on the strength of trade unions to develop their organisational power to avoid informal opting-out of individual companies. This scenario corresponds best with the interests of the collective actors, because it could maintain their prominent role as organisations and, at the same time, relieve them of responsibility by delegating decision power to the com-

pany level. To sum up, the path of "regulated decentralisation" will lead to a new stability of a more flexible central collective bargaining system.

The *second* is a medium *scenario*, in which the collective bargaining role of Gesamtmetall will be taken over by the relevant business associations which then decide to conduct collective bargaining at the level of their membership domain. Rather than having one major metal employers' confederation, the employers' interests will then be represented by the automobile association (VDA), the machine tool association (VDM), the electronics association and so forth. These business associations are willing to negotiate collective agreements on their terms and at a much lower level of complexity than before. This will lead to higher wage dispersion between the sectors and also to a low cost niche in metal manufacturing.

In the *third scenario*, the collective bargaining parties are not able to agree on any major reform of the bargaining system. Collective bargaining in the metal industry will stick to its traditional form and leads to one or two more bargaining rounds in which the union will fight for the conservation of its past gains and Gesamtmetall tries to lower labour costs across the board. The bargaining rounds will remain difficult and might lead to industrial action. The lack of reforms will lead to further density losses on both sides and after a while a separate sector will emerge in which some companies have company agreements with the union, some companies have agreements with their works councils and some companies are completely outside the system. This will lead to a low cost niche in the German economy with increasing wage differences which eventually undermines the model of diversified quality production. In summary, the third scenario leads to non-regulated decentralisation of collective bargaining with incalculable consequences for the social and political stability of German industrial relations.

Taken into account the different concepts of Gesamtmetall and IG Metall, as they have been analysed above, the first scenario does not seem to be very likely. Both parties will maybe find some compromises in reforming certain bargaining procedures towards an even greater influence of company bargaining. However, since there is no agreement on major reforms on the content of collective bargaining the misbehaviour and dissatisfaction with the existing bargaining system is very likely to continue. Finally, in the long run the concept of "regulated decentralisation" is questionable because it can not really neutralise the shift in power relations from the collective organisations to the company level. Recent experiences in the German metal industry showed that measures of regulated decentralisation are not avoiding forms of non-regulated decentralisation, but there were both forms of decentralisation at the same time. Sometimes proposals for "regulated decentralisation" are just following the pattern of already existing "opting out practice" and try to bring it back into the legal framework of collective agreements. To

sum up, it seems to be very doubtful if "regulated decentralisation" as such could help to stabilise central collective bargaining.

Similar problems are connected with the second scenario: Considering the rapid structural changes in the economy which break down traditional sectoral demarcations it becomes more and more difficult to find homogenous sub-branches. Furthermore, from an employers perspective central collective agreements at the sub-branch level do not tackle the problem that there are growing differences of economic performance even within the single sub-sectors. However, what might be happen in the near future is that there will be new collective agreements for new established branches within traditional metal industry companies such a telecommunication or industry related services.

From a rather sceptical perspective the third scenario of a further erosion of central collective bargaining seems to be the most likely one. As a consequence the structural power balance between capital and labour, which has been a major pillar of the German model, will definitively be destroyed and German capitalism will follow more and more the path to an even stronger neo-liberal mode of regulation. The above analyses structural changes in German capitalism are obviously pushing in that direction.

However, there is no economic determinism that says that, for example, a globalised economy automatically leads to universal convergence on one single type of Anglo-Saxon style of capitalism. Even though there are clear tendencies of change the traditional institutional rigidities of German capitalism are still embedding social and economic relations. In particular, trade unions such as IG Metall persist as powerful organisations which are to influence the further developments of German industrial relations. Therefore, the future of central collective bargaining still remains a question of political hegemony.

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Annex:

Table 1 Collective agreements in the west German metal industry since 1990

Year	Demands		Bargaining	Results
	IG Metall	Gesamtmetall		
1990	wage increase: 8-9 %; working time reduction to 35 hours per week	more working time flexibility including individual working time up to 40 hours per week; daily working time up to 10 hours and regular Saturday working	118 bargaining rounds in 14 regions; warning strikes including 956.496 workers	wage increase of 6% from 1st June 1990 onwards flat rate of DM 215 in April/May 1990 working time reduction from 01.04.1993 36 hours per week 01.10.1995 35 hours per week
1991	wage increase: 10 % better increase for lower wage groups		68 bargaining rounds in 14 regions; warning strikes including 1.017.165 workers	wage increase: + 6,7 % Flat rate of DM 290 in April/May 1991 regional variations of wage increases in low paid categories
1992	wage increase: 9,5 %		65 bargaining rounds in 14 regions; warning strikes including 1.563.531 workers	wage increase: from 01.04.1992: + 5,4 % from 01.04.1993: + 3,0 % agreement for 21 months increase of bonus in 1992 and 1993 by 5%
1994	wage increase: 5,5-6 % including employment security measures	repudiation of agreements cut in holiday pay worsening of holiday provisions wage freeze for one year	50 bargaining rounds in 13 regions warning strikes including 1.904.053 workers strike ballot in Lower Saxony 92.2% yes. Second ballot 63,6% yes votes	agreement on employment security wage increase: from 01.06.1994: + 2 % Reduction of bonus by 10% Reduction of working time and pay in exchange with employment guarantee possible
1995	wage increase: 6 % Insisting on the introduction of the 35 hours week on the 1st of October 1995	Continuation of employment security agreement. Cost reduction through more working time flexibility lower wages for long term unemployed and more opening clauses	31 bargaining rounds in 12 regions; warning strikes including 1.157.913 workers; strike ballot in Bavaria with 88.36% yes, Strike from 24.02.-10.03.1995 involving 21.895 workers; second ballot 73.5% yes votes	wage increase: January to April lump sum of 152,50 DM 01.05.1995 to 31.10.1995: + 3,4 % 01.11 1995 to 31.12.1995: + 3,6 % 35-hour week from 01.10.1995 Continuation of agreement on saving funds for employees until 31.12. 1999
1996	safeguarding 100% continued payment of remuneration in the case of illness; 2 % wage increase to compensate inflation; 3% wage increase used to safe and create jobs; agreement on partial retirement	using the new legal provision to pay only 80% continued payment of remuneration in the case of illness; reduction of yearly bonuses	protest actions against a possible reduction of continued payment of remuneration in the case of illness	flat-rate payment of DM 200 wage increase: from 01.04.1997: 1.5% from 01.04.1998: 2.5% a 100% continued payment of remuneration in the case of illness; as compensation a 5% reduction of yearly bonuses

Source: EMF (1996), own composition

Table 2 Collective bargaining in the east German metal industry since 1990

Year	Demands		Bargaining	Results
	IG Metall	Gesammetall		
1990	acceptance of western collective bargaining structures employment security and training 40 hours week 20 holidays per year wage increase of DM 500		16 bargaining rounds in 5 regions, warning strikes involving 380.000 workers	acceptance of bargaining structure from 01.04.1991 temporary redundancy protection and training when restructuring, 40 hours week 20 holidays per year 01.07.1990 wage increase of DM 250 from July 1990 onwards of DM 300 from October 1990 onwards
1991	increase of wages to 65% of the western wage levels; transfer of all other western terms and conditions to the east		30 bargaining rounds in 5 regions	step by step agreement for the adjustment of eastern wages to western levels (regional variations) from 01.04.1991 62 % from 01.04.1992 71 % from 01.04.1993 82 % from 01.04.1994 100% step by step plan for bonuses, holidays, holiday pay, working time working time from 01.04.1993 = 39 Hours from 01.10.1996 = 36 Hours
1993		repudiation of the step-by-step agreement; reduction of agreed wage increases (term 1 year); opening-clauses for company regulation	bargaining failed in all regions, arbitration failed, strike ballots in: Mecklenburg-Vorpommern = 89,9% yes; Saxony = 84,9% yes strikes from 04.-19.05.1993 involving 13.117 workers in Mecklenburg-Vorpommern and 14.145 in Saxony warning strikes involving 888.767 workers second ballot in Mecklenburg-Vorpommern = 60,6 % yes; Saxony = 77,66% yes	new plan from 01.06.1993 75 % 01.09.1993 78 % 01.12.1993 80 % 01.07.1994 87 % 01.07.1995 94 % 01.07.1996 100 % of the western agreement, hardship clauses
1996				wage increase: from 01.04.1997: 1.5% from 01.04.1998: 2.5% extension of the hardship-clause arrangement

Source: EMF (1996), own composition

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