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The German Model of Labor Relations at Sixty: Ready for Retirement?

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- What compromises did German unions make that have allowed them to be effective for the past sixty years?
- How can Germany integrate the service industry into its model for labor relations?

When the Federal Republic of Germany was founded in May 1949, a major cornerstone of its cooperative and stable system of labor relations was already in place. Over a month earlier, the Collective Agreements Act had come into effect, and to this day, virtually unchanged, it has been the foundation upon which trade unions and employers' associations have autonomously set the standards for wages and working conditions in contracts negotiated at the sectoral level (*Flächentarifvertrag*).

Co-determination, the legally mandated system of negotiations between management and employee representatives at the workplace and on supervisory boards, is the other institutional cornerstone of labor relations in Germany. And it too has its roots in the occupation period preceding the official founding of the Federal Republic. Much more controversial than the constitutionally protected *Tarifautonomie* (autonomy of collective bargaining), co-determination (*Mitbestimmung*) in its various legal forms is nevertheless widely recognized and respected for its contribution to the economic success story of post-World War II Germany. Together, the system of collective bargaining at the sectoral level and legally mandated negotiations between management and employee representatives in companies, are the dual elements of the German Model of labor relations which have made a substantial contribution to stability and economic well-being in the heart of Europe.

Sixty years ago, however, this course of development was neither evident nor pre-determined, although many decisions which combined to shape labor relations and the direction of the labor movement in West Germany had already been taken under Allied military government and in the preparatory phase of establishing a (semi-) sovereign state.

In all parts of Germany, union activists who had returned from exile or emerged from hiding after the capitulation of the Nazis worked to build new union organizations in place of those Hitler had destroyed. They had drawn their lessons from the demise of capitalism at the end of Weimar and from industry's support for the Nazis, and their conclusion had been that capitalism should not be resurrected. In its place they envisioned an anti-capitalist "new order" (*Neuordnung*). Their goal was to unite the unions politically and overcome organizational fragmentation and competition at the workplace. In their view, the new labor movement was destined to play a decisive role in reviving and democratizing the economy by strengthening the voice of labor in company decision-making, by placing basic sectors of the economy under public control, and by nationalizing key industries such as banking, mining, and chemicals. But labor's goal of a *Neuordnung* was thwarted. The western Allies throttled the union activists in their drive to quickly erect a centralized labor organization. Such would have been a powerful voice of change—but not necessarily a very democratic one. The past, in the shape of the Nazi German Labor Front (DAF), loomed large and was buttressed by the deterring example of the party-controlled authoritarian labor organization, the Free German Trade Union Federation, in the Soviet Zone. And within the reviving local, regional, and sectoral unions a growing number of pragmatic unionists were more interested in using union power for immediate bread-and-butter issues than in an uphill struggle for an unknown future.

Seen from the perspective of labor relations, the founding of the Federal Republic gave the economic course exemplified by the Marshall Plan and the *Soziale Marktwirtschaft* a political framework, within which conflicts of interest between employers and employees could be collectively articulated and negotiated, at the workplace, throughout the sector, and, occasionally in conjunction with the government, at the national level. It is indeed exceptional that the Basic Law, the German constitution, includes an article which guarantees the freedom of coalition.

The strength of the unions gave them the power to make far-reaching demands, and yet, as is attested by the growth of wealth and prosperity in the first forty years of the Federal Republic, unions and employers had the vision to compromise. Milestones in this development include the recognition of representation parity on supervisory boards of iron and steel companies and in mining (1952); a sixteen-week strike which opened the way for the passing of the Continued Wage Payment Act (1957); the “concertated action” initiated in 1967 to bring the government, the employers, the unions, and the Bundesbank together to find balanced solutions to economic problems; a negotiated agreement for a unified pay system for workers and office employees in the chemical industry (1988); and the struggle over the 35 hour work week in the metalworking industry which reached its pinnacle, and resolution, in 1985. Those achievements remain, but the socio-political and economic context in which they came about has changed dramatically.

Germany was at the center of the reconfiguration process which engulfed Europe after the fall of the Berlin Wall, and the impact of the ensuing changes has been profound. While the marketization processes of the post-1970s economic globalization were already well underway by the end of the 1980s, labor relations as an element of the German Model's institutional “complementarity” (some would say “corporatist”) had remained a rather protected bastion, the model's vulnerabilities masked by an apparent institutional stability. But it could not remain untouched by the political and social upheaval unleashed by the concurrent processes of unification and eastern European transformation, and indeed, there was also globalization, the erection of the European Single Market with the introduction of the euro, and, of no less importance, continuing high levels of unemployment with which to cope. The reconfiguration of German capitalism had its cutting edge in the East, where the transformation process from a command to a market economy undercut the traditional processes and role models of the established labor relations system instead of assimilating to [I would say: *adapting to*] them. But throughout Germany, flexibility became a major bargaining issue, putting the unions on the defensive in trying to protect hard-fought standards, while recognizing some of its positive impacts on the labor market. The opening of previously closed borders brought a new round of labor migration to Germany, which, aided by service-friendly EU market regulations, paved the way for contractors in construction and in services to undercut previously protective wage and labor standards. Migration pressures also put the political and social fabric to a test, and the 1990s, marked by continuing high levels of unemployment, were not without ugly backlashes against foreigners.

Today, the institutional contours of the German system of labor relations are still visible and despite signs of erosion, in many respects quite functional. Sectoral contracts are regularly negotiated, works councils are key partners in decision-making in leading firms, and their legal basis has been extended and strengthened. Amidst the volatility of the current financial and economic crisis, co-determination is having a stabilizing and integrating influence. But the growing service sector has defied regulation and standard setting via collective bargaining, and the trade unions are demanding government action to establish a legal minimum wage. A general minimum wage law is unlikely to be enacted in the near future, but the possible extension of current regulations of the minimum wage in the construction industry to other low wage sectors would certainly stabilize the system.

The big question mark, however, is in regard to the key actors in collective bargaining, the trade unions and the employers. Critics point to the extensive losses in union membership as well as the nearly matching declines suffered by employers' associations. Viewed historically, it will be up to labor to rejuvenate the system to meet the evolving challenges of globalized capitalism. In a limited way, German unions have begun to embrace new approaches to organizational revitalization and membership recruitment. Such a newly-found membership focus is not without its pitfalls, both in regard to overall organizational prerogatives and to the embedded duality of trade unions and works councils in the system. Moreover, globalizing networks of production and supply pose even greater challenges to the regulating capacities of a collective bargaining system within national boundaries, an issue especially pertinent in the context of the European Union. But employers are resistant to cross-border sectoral bargaining and trade unions, despite increasing efforts, have suffered numerous setbacks and had only limited success in extending the bargaining paradigm. At these two levels, the workplace and across borders, lie the key challenges. How unions and employers engage at both levels will be decisive for the future of the German system of labor relations.

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