

The Erosion Continues: Reply

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How stable is the German system of industrial relations? The answer to this question depends on two factors. First, it depends on what we assume to be the important indicators for measuring institutional stability. And second, it depends on what we choose as the benchmark between stability and change. The main concern of Thomas Klikauer's critique of my 'erosion thesis' seems to be the question of how to interpret the existing material. Is the glass half empty or half full? Are the changes in coverage of institutions signs for a fundamental long-term decline, or are these merely fluctuations that depend on the business cycle and are likely to pick up when unemployment vanishes? How can we accommodate contradicting accounts on the stability of German industrial relations institutions?

In this reply, I will make three points. First, I would like to emphasize that the choice of indicators is crucial in order to distinguish between important and less important evidence. Second, I will argue that, during the last four years since the empirical material for the erosion paper was gathered, there has been more evidence pointing towards erosion than towards stability. And third, I will make a point about the role of politics in the evolution of German industrial relations.

1. Judging the indicators

When judging institutional stability or change, we are in need of a framework that enables us to identify important indicators *vis-à-vis* irrelevant ones. In the 1999 paper I chose the distinction between workplace representation and collective bargaining as the main features characterizing German industrial relations. It was argued that these two pillars, embedded in a legal framework and in encompassing trade unions, showed a clear division of responsibility, tasks and representation capacity. The choice of framework was based on the assumption that it was exactly the interaction between workplace-level representation and collective bargaining that had enabled German companies to achieve a high level of social equality, industrial peace

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and economic performance. Companies were forced by collective agreements to pay high wages, and therefore had to aim at high productivity levels in order to stay in the market (Streeck 1997). The beneficial interaction between the industrial relations institutions and economic performance is therefore the most promising starting point from which to judge the institutional development of German industrial relations.

Following from that assumption, the stability of collective bargaining and co-determination institutions and their interaction were at the centre of the analysis of the institutional change of German industrial relations. It was shown that the coverage of both institutions had shrunk, while the previously beneficial division of labour between these institutions had changed by an increasing decentralization of collective bargaining and a spread of concession bargaining in German companies.

For the same analytical reason, the level of analysis was focused on the general nature of core industrial relations institutions, thereby necessarily neglecting regional differentiation. If one assumes that the core of German industrial relations and its positive effects on economic performance is to be found in big German manufacturing companies that are then extended via encompassing institutions to other sectors and smaller companies, the analysis will by definition start there. Up to the present, East German companies have been at the receiving end of Western institutions and they are keen to adjust those institutions to a low productivity–high unemployment economy. East Germany makes an interesting research field for a study of the effects of implanting new institutions into a society under transformation; but it tells us very little about the general functioning of such institutions in the core sectors and regions of the overall German economy.

Thomas Klikauer seems to suggest that we should look at the outcome of industrial relations institutions in order to judge their stability. If the German wage bargaining system allows for the catching up of wage differentials, of both men and women, between East and West, then surely the underlying institutions must be more stable. If managers widely consult works councils, this can be used as evidence for stability of the institution.

However, the conclusion that, when an institution continues to produce the expected outcome, its functioning and existence is likely to be stable is premature, for two reasons. First, changes in outcome might be considerably delayed after changes of the institutions have taken place. While collective bargaining has become a weaker regulative instrument on the German labour market, homogeneous wage formation might continue to occur for a number of years, simply because plant-level actors' expectations are still directed towards a single pay settlement. For instance, pattern bargaining has not declined throughout the 1990s: on the contrary, the cohesion of wage settlements across sectors and regions has remained largely stable (Bispinck 2001). It is even likely that the compression of wages will increase, since companies paying above the collectively agreed rate have started to cut bonuses while smaller companies are still tied to the collective

agreements. Only when the non-union sector has become sufficiently large is real decentralization of pay bargaining likely to take place.

Second, even well functioning institutions can decline if their existence is not based on the performance of the institutions — just as badly performing institutions can survive for a long time if the underlying incentive structure of sunk costs and increasing returns for individual actors supports such institutions. Contributions on institutional change based on transaction cost economics (North 1990) and theories of path dependency (Pierson 2000) have long made these points. With regard to the performance of works councils and its contribution to the stability of German industrial relations institutions, a clear picture has emerged in the Report and related publications of the Co-determination Commission (Kommission Mitbestimmung 1998). There is no significant empirical evidence for either negative or positive effects of co-determination institutions on the performance of companies (Junkes and Sadowski 1999). At the same time, survey data show that even subsidiaries of Anglo-American multinational companies do not see co-determination institutions as having a detrimental negative effect on investment decisions (Vitols 2001). However, there is no evidence that management is encouraging the setup of works councils in places where they do not exist — the bitter struggle to install a works council at McDonalds is a case in point. Rather, the opposite can be found: studies on the spread of works councils in the new economy have shown that management tends to initiate a range of other human resource activities in order to avoid the election of works councils. A study by the Deutsche Börse AG on the Nemax 50 companies has shown that only 8 of the Nemax 50 companies had a works council in 1999 (Potthoff and Kipker 1999). In another survey of 225 companies that are listed on the Neue Markt, 61 per cent had no works council, while 26 per cent did have a works council and another 11 per cent had alternative forms of representation (Pol-di.net e.V. 2001). Moreover, new legislation on the extension of workplace representation which was passed in summer 2001 was met with fierce opposition by employers' and industry associations. The positive attitudes by management towards co-determination reflect the ability of management to adjust to an institution that is, however, not appreciated in its own right.

2. More signs of erosion

In this section I push the argument of erosion further by providing more evidence for the decline of German industrial relations institutions. I will argue that in almost every respect German industrial relations institutions are in the process of decline, and that there is no evidence for a change in these trends. The only meaningful exception to the trend, apart from the political consensus mentioned below, is co-determination at the supervisory board level. Here we have an increase in the numbers of companies that are covered by co-determination. This trend is due to the increase in company

restructuring throughout the 1980s and 1990s, which resulted in a larger number of companies qualifying for supervisory board co-determination (Hassel and Kluge 1999).

According to survey data, the coverage of collective agreements has shrunk further in recent years. Between 1995 and 1998 the coverage rate of West German plants shrank from 53.4 to 47.7 per cent. In East Germany the share of plants covered by a collective agreement fell from 27.6 to 25.8 per cent between 1996 and 1998. When looking at the share of employees in the private sector that are covered by collective agreements, a similar development is to be found: the percentage shrank from 72.2 to 67.8 per cent between 1995 and 1998 in western Germany, and from 56.2 to 50.5 per cent in eastern Germany (Kohaut and Schnabel 1999).

Similarly, the development of membership in employers' associations has declined. In 1998 only 17 per cent of metal sector companies in East Germany and 32 per cent of companies in West Germany were still a member of Gesamtmetall. These companies employed about 62.2 per cent of all employees in the metal sector. This development shows that big companies tend to remain members of the employers' associations while small companies tend to resign (Table 1).

With regard to the development of plant-level bargaining, we can see from Table 2 that the share of company agreements has risen further. In 2000 about 39 per cent of all collective agreements were company agreements, compared with 25 per cent in 1989. This indicates a further move towards company-based collective bargaining and away from regional-level bargaining.

TABLE 1
Density of Membership of the Metal Sector Employers' Organization, Gesamtmetall

	<i>Companies</i>		<i>Employees</i>	
	<i>No.</i>	<i>Density (%)</i>	<i>No.</i>	<i>Density (%)</i>
1993 East and West	8,863	42.8	2,663,123	63.1
West	7,752	44.0	2,458,665	63.3
East	1,111	35.7	204,458	60.0
1998 East and West	6,810	31.8	2,167,206	62.2
West	6,307	34.1	2,078,935	64.8
East	503	17.1	88,271	32.2

Source: Gesamtmetall, *Statistisches Bundesamt*; own calculations.

TABLE 2
Collective Agreements in Germany, 1989–1997
(Company Agreements as a Share of Total Agreements)

	<i>West Germany</i>	<i>East Germany</i>	<i>Total</i>
1997	40,066 (33%)	7,268 (46%)	47,334 (35%)
2000	46,277 (37%)	8,663 (49%)	54,940 (39%)

Source: Federal Ministry for Labour and Social Affairs, 2001

Unfortunately, there are hardly any data on the results of the election of works councils in 1998 that are comparable to existing data. The only two studies on the works council elections of 1998 do not address the issue of coverage (Niederhoff 1998; Rudolph and Wassermann 1998). The trade union confederation DGB has unfortunately decided no longer to make this information publicly available. There is some information from the metal sector trade union IG Metall (Table 3). Here, we can see that the share of employees covered by a works council in the domain of IG Metall further declined by another 5 percentage points between 1994 and 1998. Between 1984 and 1998, the coverage of employees in the metal sector by works councils therefore declined by 15 percentage points. This is a substantial decline of the extent of workplace representation which used to be taken for granted.

Thomas Klikauer presents shop stewards (*Vertrauensleute*) as the missing stable backbone of German industrial relations. Even if one agreed with him about the importance of shop stewards — which is disputable — the evidence tells a different story. The figure presented by Klikauer referred to the number of shop stewards and works councillors combined in the metal sector. Even that figure had declined by 20 per cent between 1982 and 1997. The number of elected shop stewards alone decreased by 30 per cent in the same period (Table 4). At the same time, and in contrast to what he claims, overall employment in the metal sector did not significantly change (it stood at 6.86 million in 1998 compared with 6.98 million in 1980). While the number of plants in the metal sector was increasing during the last decade, the number of plants in which shop stewards are represented was declining. According to the trade union itself, shop stewards were to be found in less than a quarter of plants with a works council in 1997 (IG Metall 1999: 74). In more than 20 per cent of trade union locals in eastern Germany there are no shop stewards at all. A decline in the number of shop stewards by 30 per cent in a 15-year period in the most important manufacturing sector in Germany indicates a massive erosion rather than stability.

Moreover, unionization rates of works council members are going downhill rapidly. For instance, as Klikauer himself shows, the share of

TABLE 3
Results of Works Council Elections in the Domain of IG Metall, 1981–1998

	1981	1984	1987	1990	1994	1998
Number of plants	10,168	9,877	10,181	10,021	11,510	12,031
Number of employees ('000)	3,756	3,428	3,618	3,712	3,489	3,261
Share of total employment in the domain of IG Metall (%)	77	78	74	72	68	63

Note: 1998 includes textile industry because the metal sector union merged with the textile sector union.

Source: IG Metall, *Statistisches Bundesamt*; own calculations.

TABLE 4
Shop Stewards in the Metal Industry, 1981–1998

	1982	1988	1994	1997
Number of elected shop stewards	90,037	84,858	65,595	59,907
Number of works council members	54,651	52,931	56,693	56,693
Total	150,329	145,656	127,414	121,306

Source: Pege (2000).

works council members who are not members of a trade union increased from 26.5 to 33.3 per cent between 1994 and 1998 alone; in 1975 this figure stood at 17.5 per cent. This indicates a rapid loss of confidence of works council members in trade unions — a fact that is also supported by recent data on union membership, which are as disconcerting for the stability of German industrial relations as the other trends.

After the massive influx of new trade union members from the East bringing the total to almost 12 million members in 1991, German trade unions lost about a third of their members during the 1990s (Table 5). This is obviously related to the relatively higher levels of union membership in eastern Germany prior to unification and to the massive job losses suffered in the East during that period — but not entirely. While membership in the East was halved during the first six years after unification, about a quarter of trade union members were lost in the West (Ebbinghaus 2002; Müller-Jentsch and Ittermann 2000). The IG Metall branch in the Opel plant in Germany, which Klikauer mentions, might have lost only 0.3 per cent of its members in one year; the IG Metall as a whole however lost almost 25 per cent of its members within a period of ten years (from 3.6 million in 1990 to 2.7 million in 2000).

If we look at union density rates, the picture becomes more depressing. Net union density has declined between 1980 and 1999 from 27 to 18.6 per cent. Fewer than one in five German employees belonged to a trade union in the late 1990s. The breakdown of density rates in different groups shows the fundamental problem of German trade unions as well as of German industrial relations institutions in general (Table 6): union density among

TABLE 5
Trade Union Membership 1970–2000 ('000)

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

Source: Ebbinghaus (2002).

TABLE 6
 Union Density by Status, Age and Gender, 1970–1999 (DGB unions only)

	<i>West</i>			<i>East and West</i>	
	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>1991</i>	<i>1999</i>
Net union density	25.4	27.3	24.2	28.1	*18.6**
Blue-collar	40.7	47.3	48.4	48.1	39.0
White-collar	17.9	20.0	18.1	18.6	14.3
Women	13.6	17.5	18.8	27.1	18.0**
Young (under 25)	20.4	21.1	20.5	22.6	*10.3

Notes: * = estimates; ** 1998. ‘Net union density’: members in employment divided by all employees.

Source: Ebbinghaus (2002).

young workers has now dropped to 10 per cent, the density rate for white-collar workers fell to 14 per cent. German trade unions are still rooted in the declining group of blue-collar workers and have failed to extend into new areas of employment.

Overall, the reassessment of trends after my paper was published in 1999 would lead me to a confirmation rather than a weakening of my argument. The major pillar of the German industrial relations system — co-determination, collective agreements and encompassing interest associations — is facing the same problems: decreasing coverage and confinement to a traditional segment of the labour market (Hassel 1999: 502).

3. The role of political support in German industrial relations

The single most important stabilizing factor in the German industrial relations system is the continuing political support for it. As Klikauer points out (p. 302), the basic legal structure of the system has been a stable body of rules that are still valid. During the conservative government of 1982–98 there were only few attempts to weaken industrial relations institutions. The main legal foundations that, for example, grant big trade unions quasi-monopoly representation, ban works councils from bargaining over wages effectively and force companies to accept works councils and comply with collective agreements are still in place. The new government has extended co-determination rights at the workplace in a new piece of legislation in 2001 and has reversed a number of legislative changes of the old government that were to the disadvantage of the unions.

Moreover, several rounds of tripartite consultation with trade unions and employers’ associations have taken place since unification and two formal attempts have been made to forge an alliance for jobs with the social partners to fight unemployment (Hassel 2001). The political consensus that carried the difficult process of unification was based on the assumption that West German institutions as a whole were to be transferred to the East. The

penetration of trade unionists in political parties is still high with trade union presidents being members of parliament and a formal organization of a 'workers' wing' existing within the conservative party.

The political consensus to maintain a highly regulated and centralized system of industrial relations is still going strong and is definitely helping the system to survive. In my view, this is why the process of institutional erosion is still relatively slow. If it were not for such political support, the erosion of the German system of industrial relations would be even more rapid and more pronounced than we are now observing.

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