More Uncertainties: German Unions Facing 1992

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West German unions' early endorsement of European integration set them apart from many other European unions, but it was in agreement with German business and governments. The completion of the European Internal Market in 1992 and the weakness of its "Social Dimension" are likely negatively to affect German unions' national institutional power base. Nevertheless, German unions have little choice but to continue to support integration at the European level.

NO ONE KNOWS FOR CERTAIN how the unification of the two German states will affect the structure of German industrial relations and the status of German trade unions. When the Berlin Wall fell in late 1989, another equally momentous process—the completion of the West European Internal Market—was only beginning to enter into the strategic calculations of the German Left. Now, with the more urgent internal business at hand, European integration may again recede in importance.

The issue will not go away, however. In fact, while a few more years of political uncertainty and institutional dislocations may lie ahead, most West German institutions eventually will be extended more or less intact to the territory and society of the former GDR. Once that has occurred, and probably much earlier, the European theme will forcefully return to the agenda. German unification was a dramatic event, laden with historical symbolism and rife with excitement. Even so, it will not divert attention forever from the larger and ultimately more serious circumstances of inter-

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national interdependence and the loss of effective sovereignty (Hoffmann, 1989) that even the largest modern nation-states are experiencing. Sooner rather than later, the institutions that have characterized the West German political economy since World War II will be compelled to acknowledge the realities of and the need for international integration, transnational politics, and supranational governance of regional and global markets and production systems.

And here their prospects are far less auspicious. Expansion into the institutional wasteland of East Germany requires large organizational efforts and investments, but there is no resistance to this expansion, especially not in the area of industrial relations, where it may even be possible to draw on collective memories of the common institutional history before 1933.[1] Once accomplished, unification will not undermine the stability but will simply extend the territorial jurisdiction of the West German capital-labor settlement. But this may offer little more than a breathing space, beyond which the growing frictions between national modes of regulation and an internationalized economy, and the inherent incompatibilities between German and non-German, and German and European, institutions will again become as apparent as they were about to become before the fall of the GDR. While a united Germany can well be governed on the West German pattern, a united Europe cannot. Nor, as will be seen, can a united Germany inside a united Europe continue to be governed as West Germany was before this twofold unification.

Organized Labor as a Paragovernmental Institution

German unions are an established part of their country's political and economic power structure. To the surprise of many, they weathered the crises of the 1970s and 1980s far better than their counterparts in countries like Italy and Great Britain (Visser, 1990). Twenty years ago it was common among the Left—not least inside West German unions themselves—to compare the policies of the German Union Confederation (DGB) and its affiliated industrial unions unfavorably to other European union move-

[1]For example, in early 1990, when there was not even a date for formal unification, West German unions set up works councils in East German factories, as nuclei for new workplace-based organizational structures. And in early July 1990, shortly after monetary and economic union but months before political union, a newly formed metalworkers union in the GDR, closely controlled by the West German IG Metall, negotiated a wage increase of 25 percent, with all the typical elements of West German wage bargaining in place: negotiations at the regional level, under strict central coordination; a "warning strike"; and a "pilot agreement" in the economically strongest district that was then extended to the others.

ments' more aggressive ideologies and more frequent use of mobilizational tactics. Today it is widely recognized that their less flamboyant approach helped West German unions build a foundation for union power strong enough to outlast the dislocations and structural breaks in Western political economies after the first "oil shock." West German unions maintained, and in fact increased, their membership and organizational density between 1972 and now. More importantly, as indicated in particular by the metalworkers' long 1984 strike for a 35-hour work week, German unions have been able to preserve a capacity for conflict that is surprisingly robust, given their longstanding image as a compliant, "cooperative," and strategically unambitious movement hopelessly dominated by its adversaries (Streeck, 1991a).

Institutional bases of union strength. Today there is general agreement that the continued strength of German unions in their domestic environment rests primarily on three institutional peculiarities that together form the core of what can be seen as a partly formal and partly informal industrial constitution:

1. *Legally institutionalized rights of workers and unions to participation and co-determination on the shop floor and in large enterprises.* West German industrial democracy—its so-called "works constitution"—is now the main mechanism by which unions represent their members vis-à-vis employers (Streeck, 1984a). Since works council and enterprise-level co-determination are based in law, employers cannot hope to govern workplaces and firms unilaterally. As unions have effectively taken over the co-determination system, de-unionization and the creation of a nonunion sector are not viable options for German employers. As a result, employers have had to accommodate themselves to unions in much the same way as the "reformist" and "cooperative" German unions have accommodated themselves to employers. The "constitutionally" ensured presence of workforce representatives with legally based rights to consultation and co-decision making—rights that are independent of the goodwill of the employer or the economic condition of the firm—has not only forced employers to seek consensus with their workforces but has also enabled unions and workers to forego short-term opportunism and take a long-term view of their economic interests. Moreover, with the onset of structural change and the increasing importance of "qualitative" bargaining issues in the 1970s, the workplace and enterprise-based co-determination system was available to unions as a ready-made vehicle for the controlled decentralization of collective bargaining; the legal restrictions on the parties to co-determination prevented a rush toward enterprise bargaining (as occurred, e.g., in Great Britain [Brown, 1986]).

2. *A territorially based system of interconnected sectoral agreements (Flaechentarife).* This system sets identical minimum conditions for workers in different firms within the same sector, and similar conditions for workers in different sectors. For the purposes of collective bargaining, the West German economy is divided among no more than ten industrial unions with autonomous bargaining power.[2] Although most of these negotiate separate agreements for different regions, regional settlements are centrally controlled, and interregional wage differences are relatively low (Streeck, 1984b). Moreover, industrial unions' collective bargaining strategies are informally coordinated between unions, with the metalworkers playing the role of informal "wage leader." As a result, wage differentials by industry, firm size, region, and skill categories are relatively low in comparison to other non-Scandinavian countries, and they are especially low in comparison to levels in the United States. Through delegation of "qualitative" subjects to the co-determination system, industrywide collective bargaining has acquired considerable flexibility in a period of rapid economic change. Since the legal framework of industrial relations effectively protects the "strike monopoly" of industrial unions, in principle, decentralization does not necessarily entail either a loss of central control[3] or a subsequent dramatic increase in differentials.

3. *The extension of quasi-public status to trade unions.* After 1945, West German unions reorganized themselves as *Einheitsgewerkschaften* (i.e., not officially linked to any one political party). This made it possible for them to acquire a status in the West German political economy that is in many respects comparable to that of a *paragovernmental institution.* For example, the German government can make industrial agreements generally binding, so that the union and the employers' association that have negotiated them effectively become spokespersons for nonmembers as well as for the members of their organizations. Moreover, unions are formally recognized as indispensable elements of the legally based co-determination system (the "works constitution"). Co-determination law protects the depth and breadth of coverage, as well as the organizing capacity, of industrial unions, shielding them from sectional competition

[2]There are 17 industrial unions affiliated with the DGB. Some of these, however, do not engage in collective bargaining at all (e.g., the Teachers Union and the Police Union; all their members are civil servants); and others, like the main public sector union, OeTV, the Postal Workers Union (DPG), and the Railway Union (GdED), always negotiate together (the entire public sector is essentially covered by the same encompassing agreement).

[3]For example, the German system allows unions and employer associations, within the terms of an industrywide agreement, to circumscribe the individual parties' discretion in regulating specific workplace matters.

(Streeck, 1984a). In addition to their role at the individual firm level, unions are legally involved in several policy arenas. Probably the most important of these is the vocational training system, participation in which enables unions to ensure that workers acquire qualifications that are both certifiable and transferable. This in turn helps unions preserve their cohesion as industrial-based not enterprise-based organizations.

The considerable resilience of West German unions during the economic and political turmoil of the 1970s and 1980s is explained in large part by their "constitutionalized" control over *power resources* generated and maintained in the sphere of public policy and public law. In Germany, as in all other countries, that sphere is intimately associated with the nation-state. For instance, labor legislation passed at the national level has protected the presence of unions at the workplace and inside the decision-making structure of large enterprises, making these unions less dependent on employers' willingness to deal with them. Likewise, the law regulating collective bargaining has helped unions keep large and encompassing bargaining units intact even in periods of economic distress. These national institutional arrangements, together with the legally enshrined participation of unions in a wide array of public policies, and the willingness of the state to extend negotiated settlements to nonparticipating firms, have provided West German unions with numerous forms of organizational security even in the absence of a legalized closed shop. It is this fundamentally national power base that forms the backdrop for German unions' perspectives on supranational European integration.

National Interests and Transnational Politics

Although the paragovernmental character of German unions—their role as "organs of the constitution" (*Verfassungsorgan*)—imparts a strong national perspective to their view of their international environment, this in no way prevents them from supporting European integration. Like all West German governments, they have from their inception been strongly pro-European. Here, the contrast to labor movements in other large European countries—France, Great Britain, and even Italy—is striking.[4] From

[4]Britain's Trade Union Congress (TUC) opposed that country's membership in the European Community well into the 1970s; and unions in France and Italy were long anti-integrationist due to communist strength. The DGB, by contrast, as early as the 1950s used its influence in the Social Democratic Party to convince the leadership to support European integration. It also strongly supported limiting membership in the European trade union confederation, the ETUC, to unions from European Community countries, opposing the anti-integrationist British TUC and the Danish LO, which would have preferred a less Community-focused form of European organization (Barnouin, 1986).

Monnet's "action committee" (Barnouin, 1986, p. 6) to the first directly elected European Parliament, the presence of prominent West German union leaders at the European level was as conspicuous as the absence of their counterparts from most of the rest of Europe.[5]

To understand German unions' commitment to European integration and to the 1992 project, it is not necessary to assume a historical shift in their interests from a national to a supranational basis; a merger of class interests across national borders; nor, following Haas (1958), a rational appreciation that the collective interests of German workers are more easily or more effectively pursued in Brussels than in Bonn. Explanations like these fail to account for the unique, nationally specific continuity and unambiguity of the support given by German unions to European unification. In fact, the differences as compared with other countries' approaches strongly suggest that the interests pursued by German unions at the European level continue to be fundamentally informed by what Hoffmann (1968) has aptly called a "logic of national diversity." It was above all Germany's dismal record as a nation-state that made both the Federal Republic and its labor movement place their hopes for national recovery after the war on a European union that would finally settle the "German question" in a way that would, unlike the Treaty of Versailles, prove acceptable to everyone.[6] Later, low general confidence in the merits of national boundaries in Europe was reinforced by the high and growing export share of the West German economy, especially in its core manufacturing sectors, where union interests were primarily based. With time, the enormous economic success of West German industry made the country and the rising wages of its workers more and more dependent on open world markets, effectively precluding whatever protectionist temptations a

[5]The president of the DGB and ETUC, Heinz Oskar Vetter, was a member of the first directly elected European Parliament in 1978 (Barnouin, 1986).

[6]One must not forget, furthermore, that the European Community for Coal and Steel—with which European integration began—satisfied important interests of German labor. Much like foreign governments, German unions would have perceived a return to the prewar structure of ownership and control at the Ruhr as a resurrection of a core element of the Nazi power machine that, before it attacked neighboring countries, had crushed the German labor movement. The acceptance by the Adenauer government of far-reaching co-determination rights for workers and unions in the coal and steel sector and its support for supranational governance of that sector followed the same logic and responded to similar political imperatives. Moreover, if the Ruhr had remained a German rather than a European industrial center, German capital and German conservative parties would probably have found it more difficult to accept the coal-and-steel type of co-determination. And vice versa, with the special role of the labor movement in that sector, direct and unilateral Allied rule at the Ruhr was probably less vital for foreign governments. Europeanization and co-determination seem to have reinforced each other, although little is known about this connection. Certainly Haas (1958), in his seminal book on the Community for Coal and Steel, never mentions co-determination.

union like the metalworkers may sometimes have felt in the face of declining individual subsectors or firms. Free trade in manufactured goods, in Europe and beyond, became as deeply ingrained in the interest perceptions of West German unionists as in the policies of the Federal Government's Economics Ministry or, for that matter, as in the world view of the Federation of German Industry (Streeck, 1989a).

In the neorealist paradigm of international politics, supranational institutions are treated as extended playing fields for national governments pursuing exclusively nationally defined interests (Moravcsik, 1989). The behavior in international arenas of quasi-public interest organizations like German trade unions can perhaps be accounted for by the same logic. This is not to detract from West German, and now German, unions' commitment to the European Community, since this is itself grounded in fundamental national interests. In fact, this paper will argue that although the Internal Market will confront German unions with growing difficulties and uncertainties, they will, for economic and political reasons, continue to be pro-European, and they will find themselves unable to oppose integration in other than, at most, symbolic ways. This will be true despite the fact that the 1992 process will finally and formally ratify a longstanding, de facto devaluation of national political resources—resources in which labor especially has invested heavily for more than a century—and that hopes for a reconstruction of such resources at the supranational, European Community level will be only partly redeemed. Moreover, should an institutionalized "Social Dimension" to the Internal Market develop, it would fit poorly with existing German institutions and would in the longer term require a rebuilding of the domestic institutional arrangements on which German unions' status and influence as paragovernmental organizations depend.

1992 and the Secret Charm of the Supply Side

Before unification, West Germany, with half the population of Japan and a quarter of the population of the United States, accounted for a larger share in world exports of manufactures than either of these two countries. Whatever else the Internal Market may bring to German labor, it promises secure access to West European customers, who in 1986 absorbed 49 percent of West German exports. No disagreement exists between business and labor in the Federal Republic on the need for such access. This does not mean that German unions may not at some future stage discover and publicly protest the risks involved in the Internal Market project for themselves and their members; indeed, such risks had increasingly been noted before 1992 was driven off the public agenda by the drama of German unity. Nevertheless, the economic fundamentals and the national interest in unobstructed access to export markets appear to be so strong that, when compared to the certainties of export-dependent prosperity, all the uncertainties created by 1992 give rise to no more than mixed feelings (on the 1992 project, see Bieber et al. [1988], Calingaert [1988], and Emerson et al. [1988]). This applies to all dimensions of the 1992 process, to the integration of product markets as well as capital and labor markets.

Product markets. Compared to countries like Italy and France, the core sectors of the German economy enjoy relatively little national protection. German policy regarding competition historically has been much more rigorous than that in France or Italy, and external trade barriers are absent or low. Thus, the abolition of national import quotas for Japanese automobiles, for example, is likely to pose a major problem for French and Italian producers who, unlike their German competitors, have yet to experience significant Japanese penetration of their domestic markets (Streeck, 1989a). Especially in manufacturing,[7] many German firms are already "lean and mean" enough to be confident that they will get their share of the post-1992 cake. While the opening up of public procurement markets may do some harm to a firm like Siemens, which has long enjoyed a cozy supplier relationship with the German telecommunications bureaucracy, on the whole, it should more benefit than hurt a country firmly established as the world's most successful exporter. For industrial unions not strongly attached to the interests of any individual firm, what must count in the end is the overall balance, and in the German case this is more likely to be positive than negative.

How many jobs the "short, sharp shock" of the Internal Market's supply-side effect will "initially" cost, the Cecchini report on the effects of 1992 was unable to determine—in spite of a gigantic research exercise, and in contrast to the efforts to assess the "costs of non-Europe," which resulted in amazingly precise calculations (Cecchini, 1988). German unions, like their counterparts in other European countries, do not know for sure where they will be hit, nor how hard. On the other hand, they have reason to believe that others will be hit harder, and that German firms, having been exposed for decades to the ruthless supply-side policies of the Bundesbank and the Ministry for Economic Affairs, will recover faster. For unions in the German manufacturing sector, the application of such

[7]In services, British banking and insurance concerns may have prematurely dismissed their German competitors; Deutsche Bank and Allianz, to mention only two, seem to be far from afraid of the Internal Market.

policies to others in a market to which German businesses have guaranteed access must have an almost irresistible "secret charm." The prospect of product market deregulation in their export countries will certainly not make German unions stray from their traditional free-trade convictions.

Labor markets. In a variety of ways, including their wage and training policies, the use of their co-determination rights at the shopfloor and enterprise levels, and their impact on the organization of work and the implementation of new technology, West German unions have contributed to the shift in the German economy toward a high-wage, high-skill, and high-value-added production pattern. In the process, they have become dependent on the widespread and generalized presence of that pattern. For example, the relatively low differentials in wages and conditions across regions, industries, and occupations that industrial unions need in order to preserve their internal cohesion require a broad technological and skill base that permits as many firms as possible to compete in quality rather than price-competitive markets.

Today German unions see their influence on the structure of the economy as depending largely on their ability to foreclose low-wage employment options for employers. Availability of such options might encourage employers to try to restore price competitiveness, and in the process train less, return to a more rigid organization of work, rely more on the external labor market for both numerical and functional flexibility, and become more resistant to co-determination and participation. The "dualism" in the employment system, the labor market, and ultimately in the society as a whole that would result from greater "flexibility" of wages and employment conditions might unleash a "Gresham's Law" dynamic under which substandard conditions at the margins might eat into the core of high-wage and high-skill employment, enabling more and more employers to make a profit without at the same time having to make an inevitably difficult and investment-intensive commitment to high-value-added production.[8]

[8]It is this fear that explains why, when confronted with high unemployment in the 1980s, West German unions responded with demands for an "active labor market policy" aimed at upskilling the unemployed—so as to move workers' marginal productivity upwards to the given, collectively bargained and relatively high and even wage level, instead of permitting wages to move downward to the given, low level of productivity of the unemployed. As the German unemployment figures show, this strategy was only partly successful. At the same time, while the total labor input of the West German economy declined between the mid-1970s and the late 1980s (due to unemployment, a declining labor force participation rate especially among younger people and men over 55, and reductions in average working hours), the economy's total output grew at approximately the same rate as that of the United States, where labor input vastly increased as a result of growing labor force participation and constant working hours (cf. Appelbaum and Schettkat, 1990).

The prospects for German unions being able to influence production patterns through tight regulation of labor markets depend critically on the absence of large pools of unskilled or unskillable labor. In particular, large-scale immigration from foreign countries that brings in workers with a low level of education, a foreign language that largely bars them from access to advanced training, and a high willingness to accept low-skill and low-wage employment, might present a permanent temptation for employers to revert to older, less demanding modes of utilizing industrial labor. Since bringing a large immigrant workforce up to high skill and productivity levels would likely be prohibitively expensive, unions would be faced with growing pressures to allow for a greater spread in wages and conditions, so as to open up lower-quality and lower-wage employment opportunities for such workers. In fact, in such a situation, insistence on high general standards of employment, although initially motivated by egalitarian concerns, could easily be construed—and already frequently is—as sexist or xenophobic; employers, meanwhile, are afforded a costless opportunity to present themselves as advocates of equal opportunity and full employment for women and migrant workers from foreign countries. Traditional German union strategies for industrial upgrading, aimed at making high labor and social standards compatible with free trade in product markets, could thus come to be seen as advocating protectionism in labor markets and sabotaging full employment, equality, and the complete realization of European citizenship.

The integrated European labor market envisioned by the 1992 project could potentially create exactly this situation. After 1992, Europeans will have the right to live wherever they want in the 12 member countries of the Community, regardless of whether or not they have work or are seeking it. This raises the possibility that Northern European countries, and in particular Germany, may again experience a condition of unlimited supply of unskilled labor, with unions coming under pressure to allow "market clearing" through more "flexibility." The report of the Commission's internal working group on the Social Dimension rules out large-scale South-North migration resulting from the Internal Market, noting correctly that unlike the situation in the "Fordist" 1960s, very few unskilled jobs are presently available in Northern Europe. The report explains this in terms of the technological and economic changes of the intervening two decades, which are said to have decreased the demand for unskilled manual labor and increased the proportion of "knowledge workers" in advanced economies (Commission of the European Communities, 1988). But whether these changes were not *also* brought about by institutional factors, such as strong unions making low-skill production unprofitable; by industrial democracy and worker participation arrangements; and/or by government social or industrial policy, is a question that remains unexamined and unanswered. To the extent that such factors were important, employers in Northern Europe and workers in potentially labor-exporting countries may together discover that full utilization of the new rights to international mobility may eventually force a deregulation of Northern European labor markets that may then give rise to the kind of employment opportunities that might eventually justify large-scale international mobility of unskilled labor.

This scenario may never occur; and for some time at least, the most significant danger of "social dumping" in West Germany may come from the former GDR or from Eastern Europe. But even if German unions had reasons to fear inward migration from the European Community undermining their influence on industrial development, they would find it nearly impossible to act on that fear. Demanding limitations on the free movement of labor inside the Community would violate the underlying quid pro quo of the Internal Market, under which German access to foreign product markets is linked, de facto if not formally, to foreign access to German labor markets. Given the strong interest of German unions in the former, they seem to have little choice but to accept the latter. Moreover, almost any demand for restrictions on immigration would divorce the union movement from the liberal centrism of German politics, and such a demand would certainly give rise to a serious cleavage between the unions and the left-liberal milieu, normally a source of indispensable political support.

Capital markets. There are two opposite and mutually exclusive expectations with regard to the effect of increased capital mobility under the completed Internal Market. One is that the end of capital controls and other impediments to cross-border investment may result in further agglomeration of industrial activities in the already prosperous North of Europe, increasing the difference in living standards between center and periphery. The other is that investors will use the opportunities offered by capital market liberalization to escape from the high wage regimes of the North and move southward where wages are lower and unions weaker—much as American industry in the 1970s and 1980s moved from the unionized "rust belt" to the "right to work" environment of the "sun belt." The result would be growth in the South and corresponding decline in the North.

No one knows with certainty which of these two possible effects will prevail, nor what additional effects on investment will accompany the opening of Eastern Europe. Fears and expectations, and the resulting policy responses, are polarized sharply along national lines. Southern governments, business groups, and trade unions hope that the competitive advantage of low wages will override the attraction of the high skills and the developed infrastructure of the North. To protect or increase that advantage, they have successfully demanded, as a condition of their accession to the Single European Act and of their cooperation in the Internal Market program, that Northern countries help them strengthen their infrastructures in anticipation of 1992. This is the purpose of the Community's regional policy program under which the rich countries of Northern Europe have agreed to transfer to Southern member states funds roughly equivalent to the postwar Marshall Plan to be used for public investment in physical infrastructure and manpower training (Emerson, 1988).

Northern countries, on the other hand, hope to benefit from an agglomeration effect generated by their developed infrastructure, offering productivity advantages that exceed, or at least neutralize, the cost disadvantages of a high wage level.[9] As insurance, they are interested in narrowing wage differentials between center and periphery as much as possible. While this could be accomplished by lowering wages in the North—which would be the preferred approach of employers—raising labor costs in the South is clearly more palatable to most governments and, certainly, to unions. The European policy corresponding to this is embodied in the Social Dimension of the Internal Market, which in an important sense is an equivalent to the Community's regional aid program. The latter is aimed at allaying the fears of and buying out the resistance to market liberalization on the part of the periphery; the former, by promising to raise labor standards in the South, hopes to do the same with respect to the center. It is interesting to note that in European Community jargon, the two programs are commonly lumped together as serving to protect Europe's "social cohesion" (Emerson, 1988). Whether or not regional assistance and social policies can be properly balanced and finetuned, so that infrastructural investment in the South does not result in job loss in the North, and declining wage differentials under the Social Dimension do not enhance agglomeration in spite of improvements in Southern infrastructure, remains an entirely open question.

German unions have not failed to draw attention to the possible dangers

[9]While outward migration of low-productivity, low-skill, and low-wage jobs would as such appear compatible with the interests of Northern labor, the extent to which the attractions of the European sun belt may dry up investment in high-productivity, high-skill, and high-wage production in the North is unpredictable. Moreover, at a time of highly uncertain product markets, it is unclear to what extent low-wage production may be able to invade or curtail markets that are presently served by high-wage and high-skill industries.

of "social dumping."[10] Their rhetoric, however, has been and continues to be remarkably moderate. Although most of German manufacturing has long ceased to be price-competitive, and although West Germany has for decades had no controls on capital outflows, the country has continued to receive a fair share of European productive investment. The opening of capital markets does not come as a shock to the German economy as it does to the economies of other Community members, and German unions have long learned to live with the possibility that their employers will move production abroad. Recently the DGB has placed great emphasis on the advantages of *Standort Deutschland* (Boeckler-Stiftung, 1988; Volkmann, 1989), where admittedly high labor costs are claimed to be more than compensated by high skills, high productivity, a developed public infrastructure, and cooperative relations between capital and labor. While this rhetoric is employed in part to counter employer demands for givebacks in preparation for 1992, it also expresses a genuine confidence that the German social and industrial system does not have much to fear from low-wage competition.

Nevertheless, as successful unions in a high-wage economy, the DGB and its affiliates realize that some form of institutional insurance against wage competition from abroad might be necessary. Their longstanding European commitment reflects that insight. From early on, West German unions have played a leading role in organizing the ETUC and its sectoral affiliates (Barnouin, 1986). This involvement arises partly from the sheer organizational capacity of these unions; however, the unions' European involvement also reflects the fact that as part of a rich country, they have a particularly high stake in a strong European social policy, even though they and their members will benefit only indirectly from it. For German unions, as for the well-to-do everywhere, European social policy is a means of protecting their prosperity through redistributive concessions that make the continued operation of the Internal Market also acceptable to those who are less advantaged by it.

German union officials may have moved into leading positions in European union confederations because of an intense identification with the common interests of European labor—but they may also have done so simply out of nationally specific, German concerns. Using the European political circuit as an extended arena for the pursuit of the interests of their overwhelmingly German members, they quickly became familiar with the paradoxes and balancing acts that make up European policy. Having a

[10]See, e.g., the interview with Ernst Breit, president of DGB, in *Die Mitbestimmung* (1989).

strong self-interest in containing anti-European sentiment among workers in other (and especially in peripheral) countries, they have found themselves siding with other unions' demands for international transfers from the richer to the poorer member nations. At the same time, striving to protect their own domestic labor markets, they are hoping for high Community-wide labor standards. They do so even knowing that the direct beneficiaries of a strong European social policy will rapidly lose interest as a rising European floor in labor costs begins to exceed these poorer countries' low productivity and thereby reduce their competitiveness in the market for industrial investment.

Supranational Politics and Paragovernmental Policy Innovation

There are many ways in which supranational institutions can be used to strategic advantage by national actors (governments or paragovernmental organizations) or by factions inside national political establishments. One is that they may offer support for policy innovations that, though blocked in national systems, can be passed if they are (re-)imported from supranational circuits. An often-cited example is the reform of Italian public administration which, although widely perceived as essential for the modernization of the country, always proved too much of a task for the precarious, client-based coalitions that ruled postwar Italy. As a result, Italian governments sometimes (apparently) have relied on rulings of the European Court of Justice to force their own bureaucracies to implement national policy. In the wake of the Single European Act and the Internal Market, the Italian government has embarked on an unprecedented campaign for general administrative reform, mobilizing domestic support with the claim that without such reform Italy will be unable to compete in the united Europe.

Unlike the political systems of its member nations, "Europe's would-be polity" (Lindberg and Scheingold, 1970) began to form in the late phase of industrial development. This has created both constraints and opportunities for the definition of its domain and jurisdiction. When the European Community came into existence, many of the classic political issues of industrial societies (e.g., social insurance, macro-economic stabilization) were already firmly lodged under the roof of the nation-state, with a host of powerful interests vested in their continued treatment at that level. This made it difficult for newly emerging supranational institutions to extricate these issues from their national entanglements, even where there would have been good "functional" reasons to do so. Similarly, established nation-states seem to find it difficult to accommodate certain "post-industrial" concerns. Emerging much after the nation-state's formative period, these concerns either find no political space in the state's institutional framework or they conflict with its substantive interests or its operational logic. Issues of this kind seem to offer an important opportunity to supranational institutions to enlarge their role and thereby gain legitimacy, not least because they neither have to be expropriated from (nor are strongly claimed by) the existing nation-states. At the same time, as such issues begin to assume prominence in supranational settings, political entrepreneurs in national systems may use this to draw attention to them, or may even enlist the support of supranational forces to place them on the national agenda.

What is true for states seems to be no less true for parastate institutions like trade unions. There are at least two areas, feminist issues and environmental concerns, where the emerging European polity seems to be affecting the policies of German unions by backing factions that are pursuing a modernization of unions' programmatic agenda to make it more compatible with the concerns of an increasingly white-collar, middle-class workforce and a refurbishing of unions' presumably old-fashioned, blue-collar image.

Feminism. Unions everywhere find it hard to deal with distributive conflicts among their members; they clearly prefer conflicts with employers. Being organized on an industrywide basis, German unions incorporate at least two dimensions of internal distributive cleavage: the divisions between unskilled and skilled and between blue- and white-collar workers. With regard to both, they have tried to defuse centrifugal pressures by a policy of slowly reducing or, at a minimum, freezing differentials in wages and conditions.

The increasing employment of women as long-term members of the workforce has added a further cleavage to German unions' internal politics that is much more difficult for them to address. Unlike older group conflicts, the demand here is for the elimination rather than merely the reduction of differentials. Moreover, unlike unskilled or blue-collar workers, women as a group are typically less numerous in the union and the workplace, and less well organized, than those whose higher pay and better conditions they wish to attain. In addition, since women constitute one-half of the population, they have considerable political and legal support. Thus, they can rely on legislation or court rulings variously as an alternative to their potential union voice or as a means of strengthening that voice. For these and other reasons, unions find it difficult to incorporate women's interests, even though they are usually quite aware that they need to do so if they are to secure their future organizational legitimacy and survival.

A majority of the social policy initiatives of the European Community in the 1970s and 1980s were concerned with equal pay and equal employment opportunity for women.[11] Precisely because national industrial relations systems found the subject difficult to address, the Commission discovered it as an ideal tool for getting a foothold in European social policy-making. Its activities spilled back into national systems in that, among their other effects, the Community directives on equal treatment for women increased the influence and legitimacy of women's advocates in national union movements. As Community directives were turned into national law and began to affect collective agreements, unions had to take a stand on them, even if they otherwise would not have placed such issues high on their agenda. In fact, they often began to insert themselves into the process as guardians of the full implementation of Community regulations, thereby securing for themselves a political space that they had before been unable to enter.

Environmentalism. The nations of Europe are differently positioned vis-à-vis the politics of environmental protection. For reasons of physical and social geography—specifically, prevailing westerly winds and dense industrial agglomerations—concern over the environment is stronger in Germany than in most other European countries. Coincidentally, German manufacturing firms, with their experience in foreign markets, their dominance in most investment goods industries, their strong engineering capacity, and the long-term orientation of their managements, are well positioned to benefit economically from strong, common environmental standards in Europe. Rigorous environmental protection would force industries everywhere to modernize their existing capital stock. The more demanding the regulations, the more likely that German firms would be the preferred suppliers of modernized equipment. Moreover, this likelihood holds despite the fact that German firms, much like their counterparts elsewhere, strongly oppose environmental regulation at the national level.[12]

[11]Of the eight Community directives related to work and employment in this period, five involved the equal treatment of women (Commission of the European Communities, 1988).

[12]By now, German unions should have learned that even that kind of regulation may enhance their competitive advantage. An example is the introduction, against the vociferous opposition of the entire German automobile industry, of higher exhaust standards in the mid-1980s. The resulting need for the industry to fit catalytic converters to the small, high-performance engines that are characteristic of German automobiles increased companies' technological expertise and gave them several years' advantage over their European and Japanese competition with respect to converter technology (Streeck, 1989a).

Along with industry, German unions, especially in the metal manufacturing sector, would benefit from higher environmental standards. Moreover, if they could find a way to identify themselves publicly with environmental policies, they might become more attractive to white-collar workers; shed the smoke-stack image that is said to hurt them among potential new members; extend their traditional concerns over health and safety at work into the brave new world of leisure and recreation; close the growing gap with the Social Democrats and the shrinking gap with the Greens (and, perhaps, narrow the gap between the two); and define a successor theme to that of shorter working hours. This is exactly what the largest German union, that of the metalworkers (IG Metall), seems to be attempting now (Steinkuehler, 1989a, 1989b).[13]

From the beginning of its tenure, the present European Communities Commission has tried to exploit the cross-border externalities of industrial pollution for strengthening supranational institutions and extending their jurisdiction (cf. Task Force on the Environment and the Internal Market [1989]; for a more general treatment, see Rehbinder and Stewart [1985]). For the leadership of a union like IG Metall, environmental activism at the Community level offers at least two major benefits. The more the Commission succeeds in drawing attention to the issue, the easier it becomes to convince resisting union factions that environmentalism will not go away, and that the union has to respond positively to it. Moreover, to the extent that the leadership can point to European initiatives for environmental regulation, or direct demands for such to European rather than national institutions, members will more easily be convinced that environmental protection will not result in their jobs being moved out of the country.[14]

In addition to gender issues and environmental policies, there are many other opportunities for union leaders shuttling between European and national policy circuits to supply themselves from the former with themes and ammunition for the latter. An example of which I am aware from personal observation is a German union official who, in addition to his role in his national union, served as secretary of a European working group of the transnational federation to which his union is affiliated. In that group,

[13]In an article summarizing the union's new programmatic orientation, its president, Franz Steinkuehler, put "environmental protection" at the top of his list of social reforms, ahead of "social justice." The article points out that in the long run, the only secure jobs are those that do not damage the environment (Steinkuehler, 1989a).

[14]In fact, high European standards for environmental protection could reduce the cost advantage of manufacturers in less developed member states, thus protecting jobs in the North (with their already comparatively stringent domestic environmental policies) against capital migration. In this respect, environmental policy may offer Northern unions the same benefits as would a strong Social Dimension. (Peter Lange pointed out this relationship to me.)

he was able to pass a resolution on new forms of work organization that took a more positive position than had the German union. At home, he used that resolution to change his union's position. Similarly, the DGB's support for a European central bank can be explained in part by the expectation that Europeanization of monetary policy would make it easier for German unions to deal with the ferocious Bundesbank. This, of course, is not unlike the newly discovered enthusiasm of the British TUC for European integration—which is undoubtedly driven primarily by a domestic need to find allies, even French-speaking "Brussels bureaucrats," against a governing party bent on further chipping away at what remains of the British labor movement after 11 years of Thatcherism (Teague, 1989).

Integration and the Devaluation of National Political Resources

While the formation of a new, supranational political arena may in some respects increase the strategic capacity of actors at the national level, it may at the same time, and in a longer perspective, *devalue* the national institutional and political resources on which such actors also critically depend. Unlike the scenario presented in mainstream regional integration theory, where national institutions are dismantled *for* integration, the likely effects of the 1992 process suggest that national institutions may also be undermined *by* integration. Moreover, in contradiction to the usually implied assumption that those national institutions and regulations that are rendered obsolete through integration will be rebuilt and replaced at the supranational level, 1992 shows that this need not necessarily be the case. To the extent that such renovation and replacement does not occur, *integration may coincide with deregulation* (Hoffmann, 1989; Streeck, 1989b).

The renewed momentum of European integration since the mid-1980s seems to be the result of an alignment between two broad interest groups: large European firms struggling to overcome economic stagnation ("Eurosclerosis") and state elites seeking to regain at least part of the political sovereignty they had gradually lost at the national level as a result of changes in the international system (Sandholtz and Zysman, 1989). For business, the crucial experience seems to have been the perceived positive effects of deregulation in the 1970s and 1980s on their American competitors; for political-administrative elites, the turning point apparently was the French events between 1981 and 1983, when a determined national effort at reflation failed due to capital flight, the declining value of the national currency, and the crippling external effects of both the tightfistedness of the Bundesbank and the high profitability of financial investment in U.S. Treasury bonds.

The compromise between the two interests that shaped 1992 created a political settlement in which labor had little, if any, influence. At some point in the early 1980s, European business seems to have resolved that using its clout in national political arenas to get protection from foreign competition, through subsidies, nontariff trade barriers dressed up as technical standards, and privileged access to public procurement contracts, had become counterproductive given the increased size of production runs and investments required for world market competitiveness. Abandoning the economic nationalism that had made European integration grind to a halt in the 1970s, business throughout Europe became willing in the 1980s to join forces with political elites. These elites, in turn, faced with their economies' poor performance and no hope of coordinating cooperative economic policy on a worldwide basis, found themselves pressed to seek a regionally based, supranational reconstitution of eroded national economic sovereignty. The concession governments seem to have made in return was that the future European political economy would be significantly less subject to institutional regulation—national or supranational—than would have been the case if integration had continued along its traditional, "mixed economy" lines (lines that were taken for granted by authors from Haas [1958] to Pelkmans [1985]). In the 1992 compromise, the project of European integration thus became intertwined with a project of deregulation. Assurance that supranational sovereignty would be used primarily for the *external reassertion* of, and not for *internal intervention* in, the European economy was provided by the adoption of a novel method of defining and governing the Internal Market known as "mutual recognition." Inspired by various rulings of the European Court of Justice, this political innovation is credited with having made the greatest contribution to the new impetus toward European integration.

On the surface, mutual recognition means no more than a binding obligation for each member country of the European Community to admit into its domestic market any product that may legally circulate in any one other member country. Broadly applied, however, it constitutes a novel approach to economic and social deregulation through what has in the past been called *negative integration*. In its traditional meaning, negative integration refers to the removal of trade barriers between countries—as distinguished from, for example, the introduction of a common industrial policy. In the form of mutual recognition, however, negative integration amounts to a de-institutionalization of the political economy through a formal devaluation of national political resources without their reconstitution at the supranational level. Mutual recognition, in other words, accomplishes integration through a simultaneous withdrawal of participating nation-states from their former responsibilities in the "mixed economy," and a revision of the relationship between markets and institutions in favor of the former, eliminating the need for supranational institutions which, under older modes of integration, would have taken the place of national ones.

At the national level, mutual recognition preempts the efficacy of regulatory bodies and rules[15] and, ultimately, the sovereignty of democratic institutions. In areas governed by mutual recognition, any rule passed by a national parliament, for protectionist reasons or not, and any collective agreement negotiated by a union, is observed if any other country adopts a rule that is less demanding or costly for producers to follow. Regulations passed in one jurisdiction can thus be practically voided by actors outside that jurisdiction that are democratically unaccountable to its constituency. Mutual recognition thus gives rise to *regime competition*—especially in the 1992 case, where it coincides with a general removal of capital controls. Firms subject to regulations they find objectionable may then "vote with their feet" by moving to another national jurisdiction with a more favorable regime, and they may do so *without losing access to their original market*. Anticipation of this possibility is likely to put a chill on all kinds of regulatory initiatives at the national level. A Gresham's Law effect becomes conceivable, whereby regimes with weak regulations crowd out regimes that impose more-difficult-to-meet standards.

For unions organized on a national basis, economic integration through mutual recognition amounts to an extension of the boundaries of the market beyond those of their organizational jurisdiction. As John R. Commons has already observed, unions can hope to modify market outcomes only if their organizational domain is coextensive with the market. Unions that organize only one part of a market are subject to economic competition from market participants beyond their reach. Unless they conform to the dictates of the "market," the rules unions impose on actors in their domain may be rendered "unrealistic" by regime interdependence and interregime competition.

German unions have long coped reasonably effectively with relatively open borders, but 1992 and mutual recognition represent a qualitative leap in European market integration. Moreover, because of the way in which this integration is achieved, many of the political resources vested in the nation-state, upon which German unions have traditionally relied, are rendered useless. Even if 1992 does not cause a "sun belt effect" or lead to large-scale South-North migration, the potential uselessness under mutual

[15]"Regulation" is used here in a generic sense to cover any form of obligatory rule making and rule enforcement, as applied to agents in otherwise free markets.

recognition of unions' power positions in national political circuits is likely to become a growing concern—especially in Germany, where unions have always been strongly "political" and where, having staved off a neoliberal turnaround in the 1980s, they have a great deal to lose. Mutual recognition raises the possibility that deregulation might occur in spite of unions' successful defense of domestic rules and institutions.[16] The potential effects on German unions and on social policy of unmitigated interdependence, of regime competition, and of the new opportunities for *regime shopping*, can be illustrated by the following arbitrarily selected examples.

1. Co-determination is perhaps German unions' most important gain from political bargaining. Among other things, it gives workers and unions advance warning regarding management's restructuring initiatives. Under the Works Constitution Act of 1972, enterprises must provide information and allow for participation in decision making even when, for example, decisions about local plant closings are made at corporate headquarters. However, being German law, it does not apply to foreign parent companies based outside German jurisdiction. In the 1970s, the European Community attempted to establish uniform obligations for information and consultation for all multinational companies operating in the Community; this proposal was defeated by strong employer resistance led by large U.S. multinationals (Barnouin, 1986). Currently, anticipation of the Internal Market has given rise to an unprecedented wave of cross-border mergers among European firms. Since information and participation rights are more advanced in Germany than elsewhere in the Community, concern over being cut out of major economic decisions by foreign-based multinational companies is particularly strong among German unions. Having successfully established co-determination as part of the postwar national consensus, and having defended it against all attacks by conservative parties and employers, they may now see internationalization of ownership undo their accomplishments, without requiring the repeal—or even the revision—of a single law.

2. The Internal Market will allow full mobility across national boundaries. One of the many questions this has raised is whether a construction firm from a low-wage country that uses its domestic workforce on a construction site in a high-wage country like Germany has to pay its workers

[16]Strictly speaking, mutual recognition applies only to products and, to some extent, to professional and vocational certificates. It also, however, epitomizes a general "style" of integration policy that is intimately linked to the resurgence of integration since the Single European Act and the Internal Market, namely, a tendency not to "harmonize" at the central level and instead to expose national regulatory regimes to competition in the unified market. The often-voiced promise is that the "best" regime will prevail without central intervention.

according to its own or the host country's standards. While German unions hope for what they call the principle of territoriality—meaning that firms have to abide by the regime of the territory where they operate—this could be construed as a barrier to cross-boundary trade. Similar problems may arise with respect to the subletting of temporary workers across national boundaries. If a liberal view prevails on this subject, an advanced social policy regime like the one in place in the German construction industry would render those that are subject to its provisions at such a competitive disadvantage that they would be unlikely to survive for long.[17]

3. In the 1950s and 1960s, West German trade unions were able to impose highly inflexible work-time schedules on most parts of the German manufacturing and service sector. German workers are willing to accept high intensity of work during hours, but they expect their unions and works councils to defend vigorously their preference for predictable, regular, and, increasingly, short work-time schedules, as well as to maintain and protect a strict separation between work and leisure. For employers, recent growth in capital intensity has placed a premium on the continuous use of equipment—including during the night and, more importantly, on weekends. The implementation of 1992 will likely increase rather than curtail the capacity of employers to move production to countries with work-time regimes that, due to cultural factors or to trade union weakness, are less rigid than those in Germany. Multinational firms already seem increasingly inclined to use the threat of production relocation to pressure German unions and works councils not to deploy their legal and political resources to defend existing work-time arrangements, and to refuse them more than minor trade-offs in exchange for concessions.[18] Joint European work-time regulations along German lines are, of course, not an alternative. Rather, the prospects are for difficult and drawn-out negotiations in

[17]Under the system created by the German Law on Collective Agreements, all German construction firms have to pay a kind of payroll tax, of no less than 25 percent, to a joint fund administered by the union and the employers' associations. The fund is used to finance vocational training and several fringe benefits, such as holiday pay, that workers in casual employment normally would not get. Its purpose is to make the social situation of construction workers as similar as possible to that of workers in stationary manufacturing industries.

[18]For example, General Motors (Opel) can easily threaten to shift work and new investment from Ruesselsheim or Bochum to its plants in Belgium or Spain to evade German work-time regulations. Works councils have resisted this kind of pressure, with varying degrees of success. An anonymous reviewer has drawn my attention to a case at Ford Cologne where "the works council quickly brought management to its knees by eliminating all overtime work and threatening additional measures and a PR/political battle. Management rescinded the decision within a few days." On the other hand, in conversations I have had with works council leaders, I have repeatedly heard the more and more frequent concessions these leaders felt they had to make on work-time "flexibility" explained with reference to management threats to relocate work.

German firms and for often painful adjustments in preferences, a combination that will erode both bargaining power and political legitimacy.

4. German unemployment benefits are not very high. There is, however, a type of benefit, *Arbeitslosenhilfe,* that begins when regular unemployment insurance runs out (after two years); although it is lower than the regular unemployment benefit, *Arbeitslosenhilfe* may be paid continuously until a person retires, provided he or she remains "available for employment in the German labor market." Under present law, foreign workers who receive *Arbeitslosenhilfe* may return to their country of origin for three months while continuing to collect the benefit. If they do not then come back to Germany, it is assumed that they are no longer available for employment in Germany, and their benefit is terminated. This provision will not survive the completion of the Internal Market. After the introduction of full mobility of labor, the German unemployment insurance system can no longer make payment of benefits conditional on a person having a particular place of residence or seeking work in a particular part of Europe. Since German *Arbeitslosenhilfe,* while low, is still higher than the average wage in many parts of Southern Europe, in principle it would be possible for a Portuguese worker (for example) to become unemployed in Germany, and then to retire to Portugal on his or her *Arbeitslosenhilfe.* The German system is likely to be changed to take this possibility into account. Since Germans and other Europeans will have to be treated equally, it is doubtful that the result of the changes will be more generous benefits than exist today. Thus, market integration after 1992 and regime interdependence resulting from increased cross-national mobility may force unions to accept a reduction in welfare state provisions which they would not have had to accept on the strength of their domestic political resources.[19]

Seen from a national perspective, 1992 amounts to the formal ratification of a steadily creeping devaluation of the vast political resources that have come to be organized in and around the nation-state. The decline in effective sovereignty has long been eroding the value of investments in national political power that had been cultivated, especially by labor, for more than a century. The introduction of the 1992 principle of mutual recognition may be understood in terms of an analogy to the impact of a collapsed currency—a painful but inevitable adjustment to reality, with

[19]For a more detailed account, see *Der Spiegel,* January 2, 1989, pp. 30–32. As pointed out by one of the reviewers, the last example differs from the first three in that it deals with "regime shopping" among workers rather than among capitalists. However, the consequences for unions under advanced social welfare regimes of outward migration of capital to countries with lower standards and of inward migration of labor from those countries may well be the same.

significant distributional side effects in that holders of currency are more severely hit than owners of real assets. In present-day European nation-states, with their successive layers of political, industrial, and social rights built up through the domestic struggles of the nineteenth and twentieth centuries, it is clearly labor that is in the former, and capital that is in the latter, position.

German unions' early commitment to a strategy of political unionism has resulted in a complex interconnection between unions and the legal and power structure of the nation-state. Nevertheless, the unions will not make the mistake of fighting against 1992 in the name of national sovereignty. Germany was one of the European countries where the decline of the modern state's Keynesian capacity was most dramatically felt when, during the implementation of the reflationary "locomotive" program of the Bonn summit, the second oil shock coincided with a dramatic, monetarist turnaround in American economic policy. Perhaps better than others, German trade unionists, having come of age in what Katzenstein (1987) has appropriately called a "semi-sovereign state," are aware that the sovereignty of individual European nation-states is limited not by their own volition but by international interdependence. As it does for European political elites, the recovery of external sovereignty for Europe as a whole through a "pooling" of national sovereignties (Keohane and Hoffmann, 1989) has significant attractions for German unions, even if this pooling implies sacrificing some aspects of domestic sovereignty. European competitiveness vis-à-vis Japan and the United States—countries that have eliminated their labor movements as important domestic forces—is not a trivial matter for unions that have a high stake in preserving a European model of society. Despite seeing the value of their traditional power base progressively decline, German unions could not come to its defense.

The German System of Industrial Relations and the "Social Dimension" of Europe

As European integration steadily preempts the formal and de facto national power base of German unions, they are left with the vague hope for an eventual reconstitution of institutional control over internationalized markets at the supranational level. This prospect is closely linked to the Social Dimension of the Internal Market, as propagated by the Commission. It is difficult to see, however, how the Commission could deliver on its promise in the foreseeable future.

A strong Social Dimension would imply no less than a fundamental revision of the constitutional bargain that laid the basis for the renewed movement toward integration in the 1980s. In particular, it would require supplanting mutual recognition with a return to harmonization as a method of integration. The enhanced role for supranational institutions that this would require would clash with the strong influence that the nation-states have reserved for themselves in the political system of the Community. At the same time, it would also violate the quid pro quo of the Internal Market, under which business cooperation with unification was conditional on progress toward a more laissez-faire type of economic order. The relationship between residual national sovereignty on the one hand and the supranational *Ordnungspolitik* of the European Community on the other is epitomized in the Single European Act's provision under which Community regulations concerning the rights of workers require unanimous consent of the Council.[20]

Politically, a more than symbolic Social Dimension appears impossible without organized labor wielding strong influence at the European level—a feat it has never accomplished in the history of the Community. Union demands for a "Social Europe," which were especially strong in the 1970s, when both West Germany and Great Britain were governed by Social-Democratic parties, have come to nothing. Typical in this respect is the lackluster performance of the Community's Economic and Social Committee (Lodge and Hermann, 1980; Nugent, 1989), which was supposed to provide an institutionalized forum for labor to negotiate with business and the supranational European state over Community policies. German unions, which have long held leading positions in European trade union confederations, know only too well that the limited impact of the Committee was not just due to European employers refusing to respond to union initiatives in order to keep the jurisdiction of European institutions as narrow as possible. Another, equally crippling difficulty was the great heterogeneity of interests inside the European union confederation itself, which had to develop common policies in the face of regional differences in living standards that far exceed those in the United States (for in-depth analyses, see Barnouin [1986] and Piehl [1974]). In

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[20]Of course, unions could always hope for a renegotiation of that bargain in the 1990s when there may be a Social-Democratic government in Germany and a Labour government in Britain. How likely that is is a different matter. Even assuming profound domestic changes in the two countries, however, what we know about formative events in the formation of political entities makes later revision appear an extremely difficult proposition. For an assessment of the limited capacities of European-level interest politics, see Streeck and Schmitter (forthcoming).

spite of persistent attempts by the European Commission to help unions get organized at the Community level (efforts that were as much motivated by self-interest as by a sense of political balance and distributional symmetry), European labor has remained nationally divided, with union interests and policies being shaped much more by a logic of diversity than by one of communality. How strong and effective that logic is, is illustrated by the incompatible hopes of Northern and Southern European unions regarding the impact of the Internal Market on investment, and the resulting differences of interest with respect to common European labor standards.

Even if the European Social Dimension were to become more than Commission rhetoric, it might create as many problems for German unions as it would solve. This is because the institutional structure of any possible Social Dimension would be quite different from, and largely incompatible with, the existing structure of German industrial relations. Ironically, this incompatibility applies in particular to the three pillars of German union strength (i.e., co-determination, collective bargaining, and paragovernmental status) that have traditionally been the source of the unions' resilience in the face of rapid political and economic change. The impact of the Social Dimension on each of these power resources is examined below.

Impact on co-determination. Since the failure of the Fifth Directive on European company law in the Social-Democratic 1970s, it is clear that the German system of co-determination will not become the norm for firms incorporating as European companies. In line with the new reliance on inter-regime competition as a way of resolving decision deadlocks, present drafts for a sequel directive seem to envisage a menu of three alternative models of participation from which European firms (i.e., their owners and managers) will be permitted to choose. It appears that the models will differ considerably in the extent to which they permit labor to interfere with managerial prerogative, and only one of the three choices is equivalent to German co-determination. Under such conditions of choice, regime competition is likely to result in the adoption of the weakest form of participation. In response to pressure from both German unions and the German government, the draft directive, citing the principle of "territoriality," stipulates that companies doing business in a given country must adhere to that country's legislation. But this provision, of course, would not apply to the companies' European headquarters. Moreover, if a menu-style directive on worker participation fails to pass, it appears that European-incorporated companies will have the freedom to select the national company law of their choice.[21]

This may mean that in the future German unions will need to concentrate on defending "co-determination in one country" against the interdependencies created by the internationalization of the European economy. That undertaking will be far from easy. With a menu directive and mutual recognition of company law, labor's position in more advanced national participation systems may be progressively weakened by management threats to switch to less demanding systems if unions and works councils become "unreasonable." This will not bring German co-determination to an immediate end, since there is no reason to expect that large numbers of German companies will incorporate in another country or in European law in order to take advantage of a less rigid scheme. However, that 1992 affords employers this *possibility*, without jeopardizing their legal standing and market access in Germany, is likely to significantly increase the bargaining power of management inside the institutions of co-determination and will certainly freeze any initiative by German unions to extend the reach and substance of co-determination.[22]

Impact on collective bargaining. A German-style system of centrally coordinated, sectoral-territorial collective bargaining at the European level is not possible. Collective bargaining in Europe will remain decentralized far into the future. This is not just because of the absence of European employers' associations—although the historical record in European nation-states strongly suggests that centralization of trade unions and collective bargaining requires the assistance of centralized associations of employers.[23] The growth of a European industrial relations system, if it occurs at all, will be both impeded and conditioned by the already existing—and extremely diverse—national systems. It also appears that enterprise-level bargaining,

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[21]The result could be a "Delawarization" of European company law (Aretz, 1989), with Luxemburg likely to play the role in Europe that is played by the State of Delaware in the United States. All major U.S. companies are incorporated in Delaware because that state's company law is highly favorable to managements (as distinct from shareholders).

[22]When the West German Constitutional Court in 1979 rejected the complaint of the national employer associations against the Co-determination Act of 1976, it explicitly stated that the *Grundgesetz* (basic law) did not preclude the legislature from further extending co-determination if it saw fit. This significant union victory now looks hollow, given the inevitable interdependencies between institutional regimes in an integrated Internal Market.

[23]Such assistance seems to be conditional on labor markets growing coterminous with an industry's territorial base, and labor mobility approaching or exceeding the mobility of capital and production processes (Swenson, 1989). Neither of these conditions now obtains in the European Internal Market, nor is either likely to be the case in the near future.

despite its great disadvantages for unions like the German ones that are committed to wage leveling, is much easier to extend beyond national boundaries, if required by economic internationalization. This is because, unlike supranational sectoral bargaining, unions seeking a supranational enterprise agreement always have (at least in principle) a counterpart with whom they can try to talk—the management at headquarters. Moreover, enterprise industrial relations can be phased in gradually, firm by firm; and, unlike a sectoral approach, enterprise industrial relations may have the support not only of the workforce but also of management. Indeed, there are indications that more and more large European firms, in trying to build loyal, multinational workforces through European-wide human resource strategies, and in trying to achieve the image of the modern, cosmopolitan employer, are beginning to introduce supranational, enterprise-based systems of joint consultation and voluntary participation (Campbell, 1989). The way from here to joint regulation through some form of enterprise-level collective bargaining is certainly shorter than that to a European extension of the German system.

The likely European pattern of industrial relations will not only be different from the German one, it may also be structurally incompatible with it; and in the long run, the European model may undermine the German one. There are at least three reasons for this.

1. Enterprise bargaining in a European multinational would tend to take its German subsidiaries out of German sectoral and territorial bargaining units. Since European multinationals are likely to be among the more potent employers, this may result in an increase in the spread of wages and working conditions in Germany. Moreover, since the German *Flaechentarif* then will effectively determine wages and conditions only in the smaller and less prosperous firms, industrywide strikes will be more difficult to call since workers in international firms with a high ability to pay will be less interested in the outcome of such strikes. Even if the transfer of joint regulation to European enterprise-level bargaining proceeds gradually, it is likely to erode the organizational solidarity essential for sectoral-territorial bargaining.

2. Any growth of enterprise-based industrial relations at the European level will strengthen the internal union (i.e., the representatives of workers employed with a given employer) over the external, sectoral, or national union. In the German case, this may further add to the power and autonomy of works councilors, upsetting the delicate balance between (unionized) works councils and industrial unions on which the German system depends. As internal workforce representatives increasingly form or elect multinational representative bodies to consult or bargain with a firm's Euro-

pean headquarters, national unions may become outside observers. This may not be a big problem in countries where unions have long accepted the enterprise as the principal site of industrial relations. For German unions, however, this development would mean the loss of very important levers of control over workplace autonomy and thus poses a formidable threat to their continued functioning as industrial unions.

3. Enterprise-based industrial relations at the European level, as the system may emerge in coming years, will be based on a degree of voluntarism that is quite unknown to German trade unions. Being committed to the idea of a written, legally institutionalized "constitution" governing the workplace, German unions have always viewed with great suspicion unilateral concessions by employers and forms of representation not secured by legal norms. The voluntary consultation, participation, and negotiation arrangements characteristic of large European firms, as they begin to extend into Germany, will confront the unions with a host of wholly new organizational problems. It is very likely that other union movements, more used to operating with weak legal support and under stronger constraints to accommodate individual employers and independent workforce representatives, will find the emerging European system more congenial.

Whatever shape the European industrial relations system eventually assumes, it will not (in the way of national-level neocorporatism) bestow quasi-public and paragovernmental status on trade unions. The European state, or quasi-state, or nonstate, will lack the power to make collective agreements generally binding. While it will offer unions an endless number of consultations with Commission officials, hearings before Parliament, and participation in expert committees, these overtures will be strictly within the framework of political pluralism. There is no question of the Commission becoming a source of representational monopoly, comparable to the way in which German labor law helped stabilize the *Einheitsgewerkschaft*. Decisions at the European level will not be delegated to centralized, monopolistic organizations of capital and labor; in most cases, they will be enacted by decree, in a statist rather than a corporatist mode, after extensive consultation with experts and far from the industrial arena and the milieu of collective bargaining. Or they will, even more likely, produce "soft" standards—codes of good practice and voluntary guidelines—whose adoption will depend on the goodwill of the respective firms, their visibility, the successful mobilization of "public opinion," consumer pressure, etc.

The emerging European polity will not, like the nation-states of the Social-Democratic era, be organized primarily around the capital-labor cleavage, giving the two large producer groups privileged access to the state and control over an important part of the public domain. In post-1992 Europe, organized labor will be reduced to the status of one pressure group among many others, struggling with national and subnational governments, environmentalists, Catalans, consumers, doctors, feminists, farmers, and others for access and attention. Here, as in other respects, the European Community may foreshadow developments that are already under way in its member states. In fact, the growth of a "post-industrial" polity at the supranational level may accelerate trends at the national level toward greater pluralism, institutional fragmentation, deregulation, and voluntarism. From a union perspective, this may look conspicuously similar to neoliberalism with a human face.

Conclusion

As paragovernmental organizations firmly established in their national state, German unions share the German national interest in European integration. While they may publicly protest the risks and uncertainties wrought by the Internal Market on them and their members, the likely payoffs for German workers from European unity—as workers and as Germans—are such that they rule out serious union resistance to 1992. Opposition, where it emerges at all, will be mainly symbolic; it will stop short of seriously impeding the progress of market integration; and it will not dilute unions' fundamental commitment to European unification.

The institutional politics of integration, however, are more complex than its economics. German unions' support for transnational action and supranational institutions does not reflect a trans- or supranationalization of the interests the unions represent. Like national governments, paragovernmental organizations use supranational politics as an additional arena for the pursuit of interests that continue to be fundamentally informed by national specificity and diversity, and they accept supranationalism and transnational cooperation if and insofar as they add to their capacities *as national actors*. To this extent, the behavior of unions in supranational settings can be modeled comfortably in a neorealist framework.

Although the European political circuit offers certain strategic opportunities to German unions, under the constitutional bargain that made the 1992 process possible, the economic benefits of market integration can be had only at the expense of a substantial de-institutionalization of the European economy, *including its constituent members' national economies*. In particular, the principle of mutual recognition, broadly applied, not only bypasses the creation of regulatory mechanisms at the European level, it also (and simultaneously) preempts national interventionist policy regimes. In this sense, the European integration process of the 1980s and 1990s amounts to a devaluation of political resources based and vested in the nation-state. Being particularly apt at political bargaining and having successfully prevented the neoliberal dismantling of its domestic mixed economy, German unions *as institutions* stand to lose greatly from the implementation of a mutual recognition in the Internal Market.

While German unions support European integration out of nationally based interests, the repercussions of the integration process on their national power position force them to place their hopes on a supranational reregulation of the European economy. Federalism, however, among European states as well as among European organized labor, runs up against both the continuing diversity of national interests and the powerful resistance of European business to a rebuilding of the mixed economy at the European level. Moreover, as far as German unions are concerned, any future institutional regime for European industrial relations will be structurally incompatible in several respects with important elements of the domestic German system, in particular those on which the strong position of German unions as paragovernmental organizations depends. In addition to the functional attrition of domestic German institutions, their lack of transportability to the European level and their incompatibility with it will in all likelihood subject these institutions to a slow but effective structural erosion. In coming years, German unions may need to expend more and more of their efforts on an ultimately futile defense of co-determination, sectoral collective bargaining, and the public status of trade unions in one country, against the creeping intrusion of a more voluntary and "flexible" industrial relations regime that is weaker than what German unions could command if left alone. The problem is that the economic benefits of integration are so critical to German workers that their unions will have no choice but to suffer the institutional consequences.

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