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What Does Business Want? Labour Market Reforms in CMEs and Its Problems

Anke Hassel

9.1. INTRODUCTION

This chapter examines recent reform processes in collective bargaining and training in Germany in the light of the VoC approach. It addresses in particular the interest of business in the reform process. The VoC centres on the capacity of firms to coordinate their activities through either market relations or institutionally based strategic interaction. Both forms of coordination, through markets or institutions, can be equally efficient in securing a successful economic performance by firms. Once a firm is based in one of the two models, it will seek to maintain the comparative advantage which the model provides. With regard to the role of the state, accordingly, business in CMEs is assumed to 'look to the state to protect the institutions of coordination' (Wood 2001a: 251). Firms in CMEs generally have an interest in preserving the institutional capacities that enable coordination to take place, unless the government cannot credibly commit itself to preserving the system. In this case, economic actors are expected to shift towards the model of LMEs because it gives them the flexibility to deal with changing economic conditions (Hall and Soskice 2001). This chapter seeks to address the twin issues of whether, first of all, we find support for the expectation of the VoC argument that business actively supports the institutional structure in a given equilibrium and, secondly, whether recent developments in Germany have altered the preferences of firms towards existing institutions.

Industrial relations, particularly wage bargaining and training, are core institutions of CMEs. Coordinated wage bargaining provides for homogeneous wage levels to be set for given jobs and reduces labour mobility between firms, as better pay is rarely a motivation to change jobs when pay is regulated by central collective agreements. This, in turn, gives employers the reassurance to invest in training since the poaching of skilled labour is uncommon.

Moreover, centralized wage bargaining and the capacity for safe training investments prompt firms to adopt competitive strategies that favour high productivity and quality over low cost strategies (Streeck 1992; Hall and Soskice 2001; Hancké and Herrmann, this volume).

Both wage bargaining and training are embedded in an institutional framework that is partly rooted in legal regulation, and partly results from long-standing patterns of self-regulation of centralized associations on both sides of industry. Moreover, legal regulation and associational self-regulation interact in complex ways, with the structure and competencies of associations being regulated by law and courts. Private actors, individuals or firms, form and mould the associations with their membership; they can, however, not easily escape the effects of these institutions or change them, even if they choose not to belong to those associations. Even though association membership has been shrinking and the effects of institutions have declined, there is no niche within the German economy that can be classified as entirely non-coordinated or completely market based.

The institutional settlement and firms' competitive strategies are therefore complementary: institutions give incentives to firms to follow certain business strategies. The resulting practice by firms leads to investments that are dependent on the capacity that derives from the institutions. This, in turn, gives firms an interest in the maintenance of these institutions. Firms gain their competitive advantages from the institutional settings that allow and support their competitive strategies.

The case of recent reform proposals and changes in the German model, in particular in the area of industrial relations and training, both support and illustrate these arguments. It shows, first, that regulatory changes towards decentralization have been small-scale and generally within the spirit of the existing institutions and, second, that they have not been prompted or lobbied for by business interests. If regulatory reforms occurred or were discussed they emerged within the political arena from actors other than business. In the realm of industrial relations and training, public policy debates and regulatory reforms have only partly coincided with business concerns. Pressures for reform did not stem from business but from mounting public deficits and labour market and social policy inefficiencies that burdened governments. Within the reform processes, business did not pursue radical calls for deregulation.

The chapter thereby follows previous research. Labour market reforms in the 1980s were modest. The Kohl government attempted only a moderate shift in the balance of power towards employers when cutting unemployment benefits for striking workers (Wood 2001a). Firms and employers' associations during that time positioned themselves clearly in favour of

centralized bargaining. The German government was very reluctant to deregulate labour markets, despite expert commissions recommending more flexibility and lower social transfers (Wood 2001*b*: 386–93).

Rather, the chapter argues in favour of a more subtle understanding of current reform processes. Business largely does not want to abandon existing labour market institutions, preferring instead to push for changes that make institutions work in their favour. Business and producer interests are still rooted in the given institutional framework. Their preference is to transform the workings of the institutions towards providing more flexibility for firms but without dismantling them. With regard to collective bargaining, business is mainly interested in increasing the room for unilateral decision-making at the plant level, not in a general decentralization of collective bargaining. With regard to the provision of training, business prefers to continue with existing institutions rather than implementing a training levy, even though this requires business associations to press firms more actively to train.

At the same time, many of the practices of firms and associations in these policy fields have nevertheless changed and, consequently, so has the power balance between business and labour. Without being specific on reform proposals, employers' confederations have started to spend large amounts of money on reform campaigns while they put pressure on the government to keep up labour market and social policy reforms (Kindermann 2004). At the firm level, concession bargaining has spread and has led to major cost-cutting exercises that are not in line with existing collective agreements (Hassel and Rehder 2001). Generally, the ability of associations to generalize and homogenize particular interests vis-à-vis each other and vis-à-vis the political arena has greatly declined. This is not, however, necessarily a sign of an erosion of the coordinating capacity of business interests in the manufacturing sector as implied by the VoC approach. While there is a risk that social partnership—as in its political role—could crumble, and the service sector might suffer from the externalities of existing institutions (Streeck 2001; Streeck and Hassel 2004), the capacity of firms in the exporting manufacturing sector to use these institutions to pursue a high-quality strategy could still be sustained. As a consequence, an increasing dualism can be observed between the high-productivity export sector on one hand and the slow development of a service sector on the other.

For scholars of institutional complementarities and institutional change, this case presents another example of incremental institutional change where, over time, the functioning of institutions adopt a new meaning (Thelen 2004; Jackson 2005; Streeck and Thelen 2005). As in the case of co-determination (Jackson 2005), an examination of wage bargaining shows how the wider

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political and human aspirations, which were imported into the system up to the late 1980s by the trade unions, gradually faded away and were replaced by a much more narrow conception of the functioning of these institution for business competitiveness. Those who were part of programmes of the 'Humanization of Work' of the 1970s, and the debates about the implementation of these ideas in collective agreements would not recognize the collective bargaining system today any more, even though the structures have hardly changed. Beyond describing patterns of gradual transformation, this chapter also argues that, in order to understand transformation, we need to incorporate the political dynamics of the interest representation of actors and the characteristics of the political process and party competition.

The chapter proceeds as follows: I first recapitulate developments in the area of collective bargaining, particularly after reunification, and discuss recent reform proposals with regard to regulatory reform. Section 9.2 outlines developments in vocational training. Thirdly, I contrast the emerging pictures from these two cases with overall developments, particularly with regard to the egalitarian outcomes of the German model.

9.2. RECONFIGURING COLLECTIVE BARGAINING IN THE 1990s

The LMEs rely on decentralized decision-making regarding wages and working conditions, whereas CMEs tend to have centralized decision-making. However, German collective bargaining was traditionally based on internal flexibility within the framework of high external rigidity. Comprehensive rules in centralized collective agreements were complemented by negotiated flexibility at the plant level. During the 1960s, trade unions negotiated additional agreements at the plant level to capture wage drift (*betriebsnahe Tarifpolitik*). The implementation of the metal sector wage agreement in Nordbaden-Nordwürttemberg in 1973 required the management and works councils at the plant level to negotiate up to thirty supplementary plant agreements (Billerbeck, Deutschmann, and Erd 1982: 176; Schauer et al. 1984); similarly the framework agreement in 1978 (Sadowski 1985: 244).

The agreements on working time reduction in the metal sector in 1984 opened the way for previously standardized regulation of working hours in central agreements for tailor-made plant-specific working time regimes (Thelen 1991; Bispinck 1997). More than 10,000 plant-level agreements were negotiated following the 1984 collective agreement. Within centrally defined parameters, plant-level negotiations were about finding flexible solutions.

The example of the dispute over working hours highlights the traditional double logic of interest representation on the part of the employers' associations, which is employed until today (Hassel and Rehder 2001): the acceptance in principle of reduced working hours (in spite of the protest of small business) helped to restore social peace at the collective bargaining level while greater flexibility over working time increased the room for manoeuvre at the company level (Wiesenthal 1987: 173 ff.). Employers hoped to compensate for the costs of working time reduction by productivity gains through working time flexibility.

9.2.1. Competitive Pressure in the Early 1990s¹

Increasing competitive pressures seeded doubt among employers about the collective bargaining system in the early 1990s and forced adjustment processes upon them. The key pressures were the consequences of reunification, the recession in 1992–3, and the increasing internationalization of firms.

First, reunification meant the transfer of wage bargaining institutions from the west to the east. Wages were raised far beyond the productivity of eastern plants, since neither capital nor labour were interested in a low-wage area. Trade unions were afraid of the erosion of the high-wage regime in the west, whereas employers wanted to prevent the emergence of a price-competitive production area (Lehmbruch 1994). Although the reunification process was supported by a massive financial transfer from the west to the east, it could not prevent rising mass unemployment. As a consequence, public debt and labour costs exploded. Moreover, high-wage hikes in the early 1990s did not only affect the east; the west also experienced exceptionally large wage gains, with trade unions claiming their share in what they saw as the unification boom.

In 1992–3 the economy was hit by the worst recession in post-war history, which was accompanied by major job losses, especially in the manufacturing sector. The failures of the past became visible. German business had been deprived of its leadership in quality production and innovation of products. Japanese firms in particular had learned how to produce goods that were both superior and cheaper than German products. As a consequence, German firms had to learn how to improve on price competitive innovations. For instance, the implementation of 'lean production' was accompanied by job losses that could not be compensated for by the reduction of working hours and a social policy which had always been previously a social net for the negative effects of the high-wage strategy (Streeck 1997). Consequently, the costs of social security and labour rose even further.

The declining competitiveness of the German economy was exacerbated by transformations in global production processes. Companies exposed to the world market built up production sites abroad, not only to be present in the most important sales market, but also to benefit from large and high-qualified workforces which they were able to employ for lower and more flexible wages than in Germany. Many companies institutionalized international benchmarking processes that compare production sites continuously in terms of their labour costs and the flexibility of their working conditions (Mueller and Purcell 1992). The plants that come out best are chosen for new investment, whereas others are threatened by closure. Workers who are employed by the same company, but work under different regimes of industrial relations in different countries, compete for investments and job security. The car industry in particular faces this new form of decision-making on investments, as do certain parts of the chemical industry, the tobacco industry and household appliance manufacturing.

The high costs of unification, the recession in 1993, and the internationalization process prompted employers to complain about high and rigid labour costs. As a result, they tried to expand their room to manoeuvre to modify the negative effects of these developments on their firms' performance.

9.3. CONCESSION BARGAINING AS A NEW TOOL

Business, however, did not try to dismantle the centralized bargaining system in response to the competitive pressure it was facing. Rather, it turned to company-level bargaining for a solution. Since the late 1980s, a new type of plant-level bargaining has emerged which goes far beyond the traditional form of company-level bargaining. Rather than implementing or topping up the terms and conditions of central agreements, as in the 1970s, company-level pacts for employment and competitiveness (*betriebliche Bündnisse zur Beschäftigungs- und Wettbewerbssicherung*) have emerged which include a whole bundle of measures to improve competitiveness and job security. The rationale behind the emergence of these pacts is that both groups of actors—management and workforce—suffer from a lack of flexibility in the regulation of firm-specific needs. In this constellation, management and works councils both share the same interest in increased local flexibility, in pursuit of the goal of strengthening the firms' competitiveness and securing jobs.

The transfer of industrial relations institutions to the east in the course of reunification provided a further impetus towards the delegation of bargaining rights to the plant level. The impact of high-wage settlements was felt

immediately. In 1993, the coalition of the various political actors which had pushed for the transfer of western institutions to the east fell apart. The east German firms in the metal sector which could not afford to pay high wages any longer denounced the collective agreement (Bispinck 1993; Henneberger 1993). The system was only saved by the introduction of 'hardship clauses' into the collective framework. These meant that companies could apply for exemption from the collective agreement and would be granted this if they met certain conditions. For the first time in post-war history, a German firm which was legally bound by a collective agreement would be allowed to fall short of collective agreement standards in order to survive. Research commissioned by trade unions reported that 181 companies applied for hardship in east Germany between 1993 and 1996 (Bahnmüller et al. 1999).

Hardship clauses in the east were introduced in the midst of the recession. Between 1992 and 1993 more than 0.5 million jobs were lost in German manufacturing. In this context, hardship and exemption clauses spread across all the industries and spilled over to the west in no time. The issues on which exemptions were to be made were similar to those in company-level pacts: flexible and longer working hours, working time reduction with pay cuts, and cuts in pay and basic bonuses. The most generous hardship clause was introduced in the chemical sector agreement in 1995, which allowed companies in hardship a cut in basic pay of up to 10 per cent (Bispinck 1997).

While employers' associations in general aimed to find a peaceful way of introducing flexibility and cost-cutting measures into sectoral collective agreements, trade unions developed a strategy in which they opposed any general concession in principle, but accepted major concessions in individual cases. Hardship clauses therefore emphasize the singularity of the cases by introducing qualifying conditions such as 'in particularly justifiable cases' (as in the 1973 metal sector collective agreement of the powerful region of Nordwürttemberg-Nordbaden). In many cases, these clauses were an attempt to bring the regulations of collective agreements in line with reality, since company-level employment pacts were rapidly being agreed without anyone bothering about the terms and conditions of the relevant collective agreement. Especially in the car industry, company-level pacts had already become a matter of course and preceded the introduction of hardship clauses in the collective agreement.

Concession bargaining at the plant level has led to a deterioration of terms and conditions for large numbers of employees, while leaving others untouched. Today, in a third of companies in the private sector, plant-level agreements exist that provide for terms and conditions that diverge from the industrywide collective agreement. Another 15 per cent of companies simply violate the agreements (Bispinck and Schulten 2003; Seifert and Massa-Wirth

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2004). The previous high degree of homogeneity in the labour market has been reduced.

9.4. DIVIDED EMPLOYERS AND REFORM PRESSURE ON PUBLIC POLICY

Throughout the 1990s, tensions between firms emerged over several issues. One was the increasing use of plant-level negotiations for lowering costs. This was a strategy mainly available for big companies, which developed highly sophisticated work schedules for their large workforces. In particular, the big manufacturing companies using high-technology equipment were able to decouple the production process from individual working time arrangements and thereby achieve high-productivity gains (Silvia 1999). The majority of small firms continued to keep a standardized working week, while more than 80 per cent of big companies did not, but introduced flexible working time (Hermann et al. 1999).

The other cause of conflict was over the role of social policy in company restructuring. Since the early 1970s, early retirement, financed by public funds, had become the primary tool for organizing mass lay-offs. The stark increase in numbers of early retirees in the 1990s (see Ebbinghaus 2003; Trampusch 2005) put an enormous strain on social security funds. Combined with the heavy use of labour market policy and early retirement during the course of reunification, contributions to social security increased from 35.5 per cent in 1990 to 42.1 per cent in 1998, adding substantially to overall labour costs (Trampusch 2005a: 80). Again, while big firms benefited from generous early retirement provisions, small firms were usually not able to afford the necessary redundancy payments (Mares 2003: 238; Trampusch 2005b: 214).

Thirdly, political strains emerged between industry confederations and employers' associations, with the industry confederations more publicly critical of existing labour market institutions and the explosion of social expenditure and public debt. Firms, which were usually members of both industry and employers' associations together, were presented with very different positions in the political arena. In particular, BDI President Hans-Olaf Henkel steered the industry associations towards a more radical stance on social policy and the labour market from the mid-1990s onwards (*Sueddeutsche Zeitung* 23.4.1996).

One consequence of the growing rift between employers was a decline in the membership of employers' associations.² The number of firms that were member of the metal sector employers' association Gesamtmetall halved

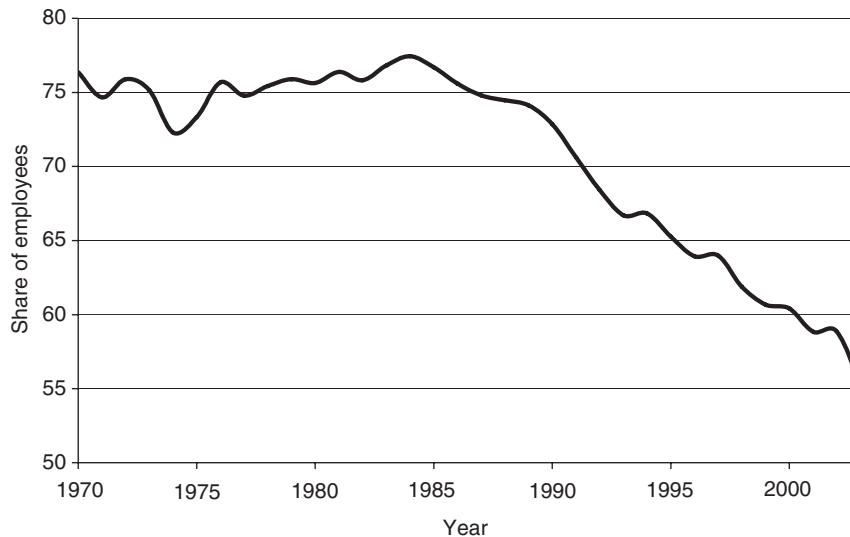


Figure 9.1. Share of employees in the metal sector covered by collective agreements

Note: Until 1991 for West Germany only.

Source: Gesamtmetall (2005), own calculations.

between the mid-1970s and the year 2000 (Gesamtmetall 2005). The share of employees who worked for companies that were members of Gesamtmetall declined from 78 per cent in the mid-1980s to 55 per cent in 2003 (Figure 9.1). Part of that decline was due to the low membership levels in eastern Germany, where only about 20 per cent of employees work for firms that are members of Gesamtmetall. Small employers in particular left the organization as they were critical of its collective bargaining policy, so the regional federations of Gesamtmetall started in the late 1990s to offer firms membership without being bound to collective agreements (OT-Mitgliedschaft). This tool proved to be not only popular, since it created an official free-rider position for small firms, but it also reduced the conflict within the associations. In early 2005, this option was officially recognized by the umbrella organization Gesamtmetall (FAZ 1.2.2005).

Also conflicts translated into collective bargaining rounds and were perceived as weakening employers' solidarity, in particular during the metal sector strike in Bavaria in 1995 (Thelen 2000). From the mid-1990s, however, a new compromise emerged within the employers' camp that gave small firms more say in the associations' policy, and this led employers to change their position on social policy. Already from the late 1980s onwards, the leadership

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of employers' associations was firmly in the hands of medium-sized firms (Trampusch 2005). From the mid-1990s, employers' associations changed their position on early retirement and ceased pushing for further subsidies for public redundancies.

Moreover, a big public campaign paid with €50 million from Gesamtmetall was used to portray the employers' camp as having radical views on policy reforms in order to pacify small firm members without being specific on public policy (Hassel and Williamson 2004). This helped to pacify the discontent of small firms with the policy of their associations.

With regard to collective bargaining, a debate on the legal foundations of concession bargaining developed, particularly after the first near breakdown of the Alliance for Jobs in 1999 (Schulten 1999). Already in 1996, the president of the BDI, Henkel, proposed changes in the law to allow for more plant-level regulation. Under the current legislation, concession bargaining was restricted by court rulings that put the responsibility for collective bargaining clearly in the hands of trade unions and employers' associations and generally limited the scope for bargaining at the plant level to issues that favoured employees (the favourability principle).

While business generally preferred a more decentralized approach, the precise form of a legal change was disputed. The BDI wanted to abolish the clause in the Works Constitution Act that prohibits works councils from dealing with matters that are usually regulated by collective agreements (§ 77 III Betriebsverfassungsgesetz). Without that clause, agreements with works councils could replace collective bargaining. The employers' associations, however, feared a stronger role for works councils and a complete breakdown of the bargaining system. They insisted that plant-level deals should be made easier, for instance by abolishing the 'favourability clause' that rules that plant-level agreements can only be for the advantage of the employee. Generally, employers argued that the main regulatory level should remain the regional collective agreement and works councils should not be able to settle agreements outside this (FAZ 27.1.1998).

The debate about the collective bargaining system gained new momentum with Agenda 2010. In a parliamentary speech, the chancellor emphasized the responsibility of the social partners for labour market flexibility and announced: 'I expect the social partners to forge in-company alliances, as is already the case in many sectors. If this does not happen, legislation will have to be passed' (Schröder 2003).

Recognizing the conflict between the unions and the government on this point, the political opposition submitted a proposal for a change in the law. The leader of the opposition, Angela Merkel, of the Christian Democrats

(CDU), persistently claimed that reform of collective bargaining had become the CDU's policy priority on labour market issues. The managing director of the federal employers' association argued vehemently in favour of legal changes in the parliamentary committees. Both announced that the legal changes in the collective bargaining law would be a major issue in the negotiations with the upper house where the government needed the approval of the opposition for other aspects of the Agenda 2010. However, the opposition's proposal was a compromise between the more radical view of the BDI and some industry associations and the concerns of the employers' association that was in itself contradictory (*CDU/CSU-Bundestagsfraktion* 2003). It introduced the possibility for works councils and managers to deviate from central agreements if a vote of two-thirds of the workforce could be achieved, without relinquishing the general rule that works councils should not deal with matters that are regulated by collective agreements.

The attitude of sectoral employers' associations to these proposals was mixed. The chemical employers feared for their cooperative relationship with their sector's union and gave cautious warnings against further political interventions. Metal sector employers publicly backed the opposition, but were also wary about plant-level ballots on collective agreements. Moreover, the legal construction of circumventing trade union approval in line with the constitutionally protected collective bargaining autonomy turned out to be very difficult (Dieterich 2003).

Among firms, surveys reported that 70 per cent of firms were in favour of dealing with wages at the plant level and 80 per cent thought that better solutions could be found if the centralized bargaining system was abolished. However, taking into account the potential conflicts that would also occur, only 23 per cent of firms were in favour of abolishing centralized bargaining, while 73 per cent were in favour of more flexibility within the old system (Köhler 2004).

By the time that the parliamentary horse-trading between the upper and the lower house had been concluded in December 2003, the collective bargaining law had not been touched. Given the legal problems and the mixed support among employers, the opposition did not insist on collective bargaining as a priority in the negotiations with the upper house. However, the pressure on trade unions to support more plant-level bargaining opportunities had increased substantially. The collective agreement in the metal sector that was settled in March 2004 allowed for further plant-level decision-making on working time. The pressure by business to increase firms' room for manoeuvre without making them more vulnerable to union action had succeeded.

9.5. RENEWING THE TRAINING REGIME

The provision of training is an important feature of the VoC approach since it provides workers with a specific type of skill (either specific or general) that is central in shaping the production strategies of firms (Culpepper 2001; Hall and Soskice 2001). The specific skill provision, combined with tight dismissal laws and a generalized wage structure, is a backbone of the incremental production regime of engineering firms in Germany.

At the same time, and in contrast to the collective bargaining regime, vocational training has a high public policy profile, since it is seen to be the most effective policy instrument for keeping youth unemployment at low levels. In Germany, the gap between adult and youth unemployment rates has traditionally been small compared with other OECD countries. Moreover, a broad range of training places on offer has also reflected the individual right, guaranteed in the constitution, for a free choice of profession. Employers were expected not just to give every school-leaver an apprenticeship, but to ensure that the number of vacancies exceeded the number of job seekers. The challenge of maintaining training numbers is therefore a problem of overcoming sub-optimal investments in training, as identified by Gary Becker from a firm's perspective (Becker 1964), which presents a difficult public policy problem. Therefore, as Culpepper has pointed out with reference to the transfer of training institutions to eastern Germany, it is the combination of public policy and institutional support from other parts of the industrial relations system (i.e. the pressure by works councils and the wage structure) that has traditionally accounted for the high number of training places (Culpepper 1996).

The balance between employers' investment in skills within the framework of a CME and the public policy role of vocational training changed fundamentally between the 1980s and the 1990s. While employers' efforts to train apprentices diminished due to a lack of demand in the 1980s, training in

Table 9.1. Unemployment rates in EU member-states for all age cohorts and young unemployed under 25, 2001

	B	DK	D	FL	F	GB	IRL	IT	NL	AT	P	S
Unemployment rates all age groups	5.4	3.5	7.5	7.4	8.1	3.9	3.2	7.6	2.4	3.6	3.5	4.1
Unemployment rates for under 25-years old	15.3	8.3	8.4	19.9	18.7	10.5	6.2	27.0	4.4	6.0	9.2	11.8

Source: OECD Employment Outlook (2002).

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the 1990s was perceived as being in crisis because not all school-leavers were catered for. Tripartite consultation rounds, the threat of introducing a training levy, and a voluntary commitment by business to increase the number of training places all put pressure on business not to neglect the issue.

9.5.1. The Evolution of Training in the 1980s and 1990s

While not perceived as worrying at the time, during the 1980s apprenticeships declined at a rapid rate. From 700,000 new apprenticeships in 1984 the numbers dwindled to 500,000 in 1990 in West Germany (Figure 9.2). The main reason for this decline was the lack of demand by school-leavers. In every single year during the 1980s, supply exceeded demand by several tens of thousands; in the early 1990s more than 100,000 apprenticeships remained unfilled.³ Numbers of school-leavers declined, while at the same time the higher education system expanded. Apprenticeships had lost their attraction for young people.

With reunification, the situation changed. Apprenticeships had also been part of the East German training regime and they were integrated into the West German system. Within two years, the number of apprentices went up

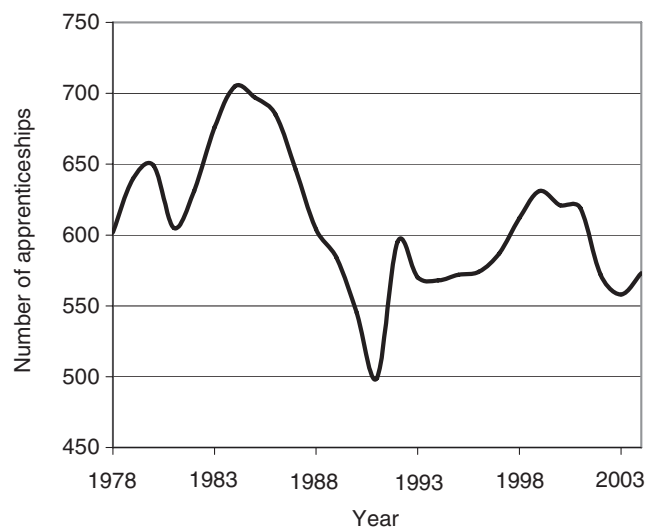


Figure 9.2. Apprenticeships, 1978–2004

Note: Until 1991 for West Germany only.

Source: Bundesinstitut für Berufliche Bildung; BIBB/AB 2.1/J.G. Ulrich; personal communication.

by 200,000. Also as in West Germany after the war when business made extra effort to train the new workforce, even against the resistance of the Allied forces (Thelen 2003), training was seen as a priority in Eastern Germany.

The build-up of training in the east, however, coincided with the recession in the early 1990s as well as with higher numbers of school-leavers there. In the very beginning, training offers in the east just about matched demand. However, from the mid-1990s onwards, demand for training places in Eastern Germany exceeded supply significantly. This process was matched in West Germany, where increasing numbers of school-leavers were unable to find apprenticeships. In stark contrast to the 100,000 surplus training places seen in the early 1990s by September 2003, there were 46,000 young people registered by unemployment agencies as still looking for an apprenticeship.⁴ The DGB estimates that in 2002 overall, 200,000 young persons under the age of 25 were still looking for training (DGB 2003). This trend is also reflected in Figure 9.3, which shows the declining share of apprentices among 15-year-old school-leavers.

The crisis of the training system which developed during the 1990s stemmed from an increasing demand for apprenticeships and this coincided with an upsurge in competitive pressures on firms which, together with the

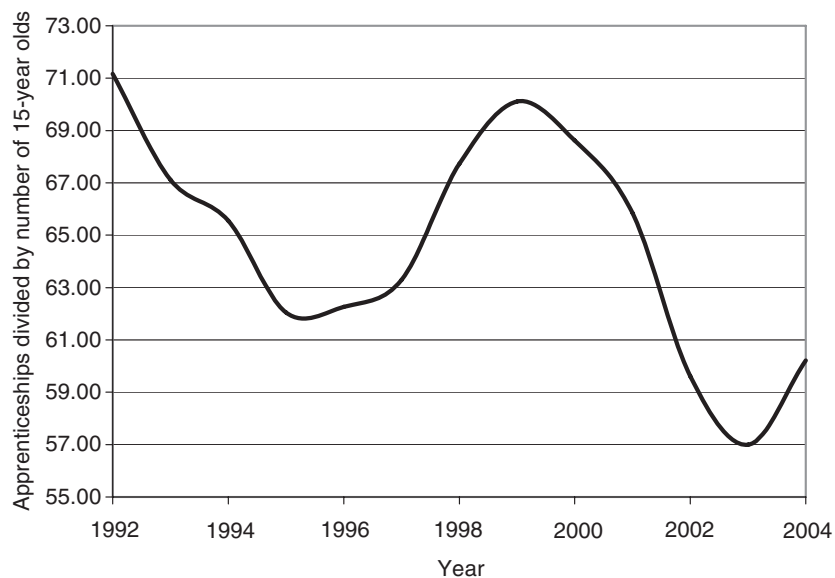


Figure 9.3. Apprenticeships as a share of 15-year olds

Source: Bundesinstitut für Berufliche Bildung and Statistisches Bundesamt; own calculations.

recession, placed a number of new constraints on firms. In the east, the problem was exacerbated by the lack of big firms that can act as the core in inter-firm networks for the encouragement of training and technology (Carlin and Soskice 1997, quoted after Culpepper 1999: 51).

On the whole, however, there is little indication that the training efforts of private firms have substantially diminished because of a lack of interest by firms in vocational training, as is often claimed in the public discourse as part of a bid to pressurize firms to boost apprenticeship numbers. Between 1996 and 2004, the number of apprenticeships in the non-artisan sector has increased from 260,000 places to 313,000 with a peak of 333,000 places in 1999. The decline of apprenticeships was more pronounced in the artisan sector which has suffered from heavy job losses since the late 1990s.

Also the share of companies offering vocational training places has remained stable over time throughout the 1990s. According to data of the company panel survey by the Institut für Arbeits- und Berufsforschung (IAB), the share of companies that train stands at 30 per cent for west Germany and 26 per cent for east Germany. Between 1996 and 2002, figures have first slightly increased and after 2000 decreased. Roughly 50 per cent of all firms do not have a licence to train.

Moreover, training figures look rather healthy, if seen in the context of the rapid structural change of the German economy and high unemployment. Vocational training takes place primarily in the manufacturing and artisan sector, with the service sector lagging behind. The employment share of manufacturing has declined from 40 per cent in 1990 to 31.3 per cent in 2003.⁵ Also the overall number of participants in the labour market has declined during the same period from 37.5 million to 36.1 million active labour market participants (Erwerbstätige). In particular big firms have reduced their workforces within Germany while increasing them abroad. In our study of the 100 biggest firms in Germany, we found that these firms had reduced their workforce by 5.8 per cent between 1986 and 1996 (MPI 2002, S. 16). Taking these structural changes of the workforce into account, the training record of private business has remained substantial, albeit still insufficient to clear the labour market of young school-leavers.

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9.5.2. Avoiding the Training Levy

Public policy initiatives have primarily been centred on the issue of deficient numbers of training places for school-leavers. The unsatisfactory training record first became an issue at the Alliance for Jobs in 1998, when business associations committed themselves voluntarily to increase their training efforts. In several rounds of discussing the state of vocational training, new

pledges were made from both sides of industry to engage more in vocational training. While the number of training places increased up to the year 2000, they fell again afterwards. Due to the mounting numbers of school-leavers unable to find training places, the tripartite summits on training continued even after the Alliance for Jobs had finally failed in 2003. The effects of the tripartite declarations were however small since they consisted of separate suggestions proffered by both sides of industry with little attempt to reach a consensus on how to handle the crisis.

On 14 March 2003, Chancellor Schröder addressed the issue of training in his parliamentary speech on the Agenda 2010 by exhorting business to keep up their training efforts. He announced that if these expectations were not met, the issue would be dealt with by introducing a training levy that would charge those firms failing to train and subsidize those which did. A training levy had been a policy tool that the youth organization of the SPD had developed in the mid-1990s while still in opposition in order to force companies to increase their training efforts.

Consequently, when the newly confirmed commitment by business to increase their efforts to train made at the summit 2003 did not lead to the expected results, the SPD parliamentary group presented a law on the training levy. The business community was vehemently opposed to such a law and threatened a drastic decline in training if companies had to pay up. The opposition rejected the law as socialist in nature, a new tax for firms and overly bureaucratic. The unions and the left of the SPD were in favour of the law, since they perceived the Agenda 2010 as socially unjust. They saw the levy as a way to force firms to accept responsibility for the labour market situation. Within the government, the law was not well received, and was seen as a concession towards the left. As a compromise to opponents within the government, the law included the promise to not implement the levy if business made a credible commitment to provide more trainin facilities.

After the law passed the lower house and before it was dealt with in the upper house, intense negotiations between the government and business and employers' associations took place. Business associations—in particular the chambers—were overtly upset about the process and were at the same time pressurized by some member organizations and the opposition party CDU not to deal with the government, in order to avoid giving it legitimacy in dealing with the issue of training. The employers' confederation, BDA, which is closely intertwined with the CDU parliamentary group, proposed major changes in apprentices' pay in return for its willingness to sign up. The BDI had initially refused to take part in the deal. The representatives of the chambers, however, sought a pragmatic solution for avoiding an extra charge on

companies. The chambers also used the training issue to regain legitimacy, which was doubted by the Green Party and parts of the SPD.

A survey among firms showed that although 68 per cent of them opposed the levy as increasing costs and not solving the problem, only 9 per cent of firms said they would reduce their training efforts when the levy was implemented. A mere 5 per cent of firms stated they would increase the number of training places (Klös 2004).⁶ The opposition among firms against the levy was therefore not strong enough to mean that firms would change their training behaviour if it was implemented.

On 13 June 2004, a training pact was signed by all four business associations (the two chambers, the employers' association BDA and the BDI) and the government in which business pledged to provide 25,000 additional training places and the same number of firm placements for school-leavers.⁷ In exchange, the government pledged to improve the education levels of school-leavers, to subsidize placements and to make training regulations more flexible. No sanctions were included if business were to fail to live up to its promises.⁸ The law on the levy has since not been dealt with in the upper house.

The tension between the political aim of making business responsible for the employment opportunities of school-leavers and the interests of business to preserve the existing skill provision mechanism has been resolved by a compromise that maintains the current system and involves a commitment by business to keep up training. Business could not reject the political responsibility of getting youngsters into training, but it has managed strategically to preserve the mechanisms of skill provision. The business community has not opted to walk out of the training system, even though it had the opportunity to do so. The chambers that are the main coordination device in training were strengthened by new legitimacy in training. The levy could have potentially undermined the vocational training system by shifting the majority of training to public schemes, if companies had reacted negatively against it and reduced their training efforts. In the shadow of the law, the business associations jointly gave renewed support to the existing training institutions. In 2004, the numbers of training places offered by business increased by 4.5 per cent (see Figure 9.2).

9.5.3. The Reform of the Regulatory Framework of Vocational Training

While training numbers have not reached worrying low levels, there is nevertheless growing concern about a serious mismatch between the capacity of

firms to provide training and the existing regulatory framework that actually makes it more difficult for firms to train. The regulatory framework is partly based on the Law on Vocational Training (Berufsbildungsgesetz) that lays down the fundamental regulations and procedures regulating job certificates and training standards. It provides for a close cooperation between trade unions and business representatives in the framework of vocational training committees of the chambers of industry and commerce (Industrie- und Handelskammern, IHK). Regulation is also based on collective agreements that regulate pay and working conditions for trainees and in some industries also guarantee further employment for trainees after their training has ended. In some cases, notably the chemical industry and some regions of the metal sector, collective agreements exist that provide financial subsidies for training. Moreover, the pay of trainees is legally fixed by requiring 'appropriate pay levels' that in practice makes collective agreements on pay for trainees mandatory for all firms.

The rising costs of training have been a concern for sometime. Whether costs of training are counterbalanced by benefits has been a controversial issue. The research institute for vocational training (BIBB) has always argued that for any individual employer the benefits of providing training outweigh the costs. However, since the early 1990s the cost-benefits analysis of training firms has been changed by the increasing amount of time apprentices spend in training centres and the above-average increases in pay for apprentices. As Figure 9.4 shows, pay increases for trainees have been above pay increases for

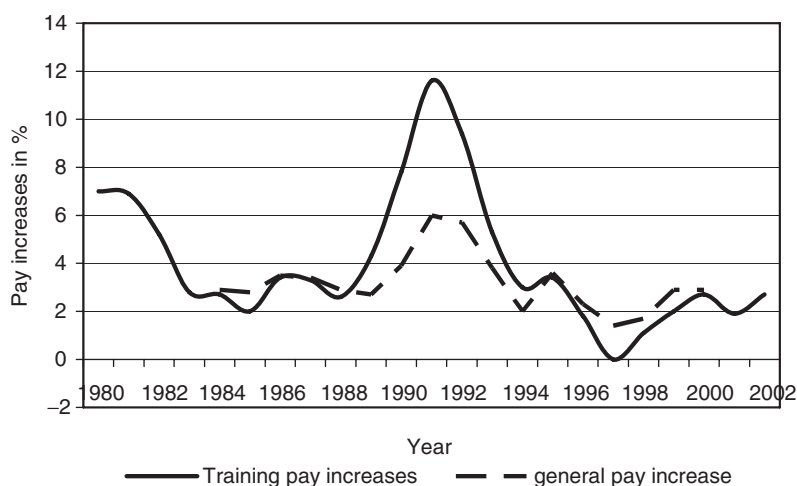


Figure 9.4. Pay increases for trainees and other employees

Source: WSI-Tarifarchiv; own calculations.

adult employees in the 1990s. Between 1984 and 2000, average annual wage increases for trainees were 3.9 per cent, whereas for adult employees it was 3.2 per cent.

Therefore, pay for trainees has become a point of discussion among employers. According to the annual educational report 1998, 45 per cent of employers would like to cut trainees' pay (Culpepper 1999). In a survey by the employers-based research institute IWD on vocational training, 73 per cent of firms agreed or partly agreed with the statement that the costs for training are too high (Nackmayr 2003). The national umbrella organization of the chambers, the DIHK, also lobbies for the abolition of the regulation of pay, while employers have frequently proposed cuts in pay. Employers argue that pay should be lowered to the benefit level that young people on publicly funded training schemes receive (DIHK 2003). Since most apprentices these days are 18 years and over, employers also demand to adjust the rights and duties of apprentices to those of adult employees.

Au: Please check whether it is Culpepper 1999 'a' or 'b'.

These proposals, among others, were submitted to a major reform of the regulatory framework of vocational training that was negotiated during 2004 and passed in January 2005. The reform is the biggest since the conception of the law in 1969. The liberal party (FDP) and the majority of the state governments in the upper house (Bundesrat) submitted changes in favour of lowering trainees' pay, which were rejected by the majority of the Bundestag.¹⁰ Apart from this, the government coalition and the CDU have largely cooperated on a wide range of issues regarding reform of the vocational training law. In particular, the adjustment process of professions to technical and structural change was speeded up by giving authorities the opportunity to override blockages in training committees. Training schedules are organized on a more modular level by giving the rising numbers of dropouts the opportunity to gain some certificates, if not a full-blown apprenticeship. The legal reform particularly encourages cooperation in training (Ausbildungsverbände) either between firms or between schools and firms. These cooperative structures have been successfully practised in eastern Germany (Culpepper 1996).

The reform of the law on vocational training occurred during a time (2004) when most of the governments' reform proposals were at an impasse and the social partners were vehemently opposing each other in the public sphere as for example in the area of collective bargaining. This reform, however, was only mildly criticized by the trade unions (among other things for a lack of quality control and the acceptance of completely school-based training), and largely conducted as a large consensus-oriented project. It reflected a degree of cooperation that had already been noted by Wolfgang Streeck et al. (1987), when commenting on the vocational training system: 'Trade unions and employers are far apart when it comes to the question of how training

should be financed and to what extent individual employers providing training should be the subject of external supervision. . . . But the public debate hides the fact that neither side doubts that each school leaver should have access to high quality vocational training and that training should be continually upgraded and modernized. While both sides find the existing system wanting in important respects, neither finds it wanting enough to be willing to let it fall into disuse or decay' (Streeck et al. 1987: 3–4; also Thelen 2003: 49).

9.6. CONCLUSION

The two cases of recent regulatory reforms in collective bargaining and training in Germany examined in this chapter offer valuable insights into the process of adaptation and negotiation of institutional reform. They show distinctly that, despite vehement public debates about the German industrial model, reform steps were taken in the traditional incremental manner that keeps existing institutions intact and adapts their functioning to a new environment (Katzenstein 1985). In both cases, actors aimed to preserve existing regulations rather than to radically change them. The reasons for small-step changes are primarily that existing institutions continue to provide rents for those actors that have a political voice (unions, big firms, and employers' associations) while more radical changes in the regulatory regime create uncertainties which they cannot control. All economic actors therefore erred on the side of changing practices within given institutions. Moreover, none of the actors have had a vision on how a radically different institutional setting would look like and work in the German environment.

In both cases, the practice of the institutions has changed. In collective bargaining, the unions' agenda of shorter working time, humanization of work, and participation has been largely wiped out. Working times for full-time employees have been rising since the mid-1990s. Even the trademark of German trade unionism, the 35-hour week, has been effectively shattered (Statistisches Bundesamt 2002). The majority of white-collar employees in the car industry have returned to a 40-hour week. Working time has become highly differentiated and subject to the competitiveness and productivity of firms.

In training, firms have largely upheld their training records and the regulatory regime of the training system. In order to maintain the system, firms have even grudgingly acknowledged the public responsibility of business to provide sufficient training places for all school-leavers. Complaints about the increasing problems of immigrant youth with low educational records—6 per cent of

children dropout of school without any certificate—has not let employers off the hook in providing sufficient training even for those youngsters. In reality, however, these school-leavers end up in further school education and not in an apprenticeship.

9.6.1. Institutional Change and the Policy Process

Categories of institutional change such as *displacement*, *layering*, *drift*, *conversion*, and *exhaustion*, as offered by Streeck and Thelen (2005: 31) point to different underlying mechanisms of change, such as defection in the case of displacement and reinterpretation of institutions in the case of conversion.¹¹ The problem is, however, that processes of change in national institutional regimes combine elements of all suggested types of change. Defection of firms from the collective bargaining system induces patterns of displacement through other mechanisms of wage regulation as well as a reinterpretation of the bargaining system per se and its exhaustion. In other words, it is not only, and maybe not necessarily, the finer distinctions of forms of transformation that make us understand patterns of change but a better understanding of the driving forces.

Here, we need to sharpen our understanding in two respects: first with regard to the actors that are part of the process of change and second regarding the political process. Actors—particularly firms—have not only different interests depending on their product and labour markets but also different capacities to overcome problems of collective action (Martin 2000). Employers' associations that are organized on industry lines tend to mediate between these different interests in order to keep their affiliates at bay. Unlike small employers in the USA, small firms in Germany are not in a position to voice new policy proposals or induce change but merely to create rifts within associations that lead to blockages in the policy process.

As a response to this problem, employers and business themselves have developed a division of labour by which business associations still advocate more liberalization and deregulation with regard to collective bargaining, but employers' associations have regained control over the issue. Radical proposals on economic and labour market policy that are more in line with small firms' concerns have been voiced in campaigns, such as the New Social Market Economy, but have not been translated into policy proposals. Discontent among small- and medium-sized firms has therefore been largely obscured by good public relations. This process has been helped by the growing weakness of the unions, and the increasing market orientation of the government after Agenda 2010 was launched in March 2003. Thereby, German business was also

able to defend existing institutions because of its ability to mute protests from small- and medium-sized firms, which in turn do not have strong independent means of interest representation.

Regarding the political process, we need to be aware of the fact that party competition and vote-seeking behaviour follow a logic that runs independently from economic interests. While policymakers take economic interests into account, they also respond to popular pressure and electoral opportunities (Swenson 2002: 37). Competition between the two major parties has pushed them to adopt opposing positions on the regulation of collective bargaining that created more problems for the conservative CDU than for the governing SPD.

The red-green government was pressurized from the left wing of the SPD and the trade unions to maintain these institutions and not to interfere with their main functions, in line with their own party manifesto. The CDU, however, has pledged a more radical proposal on collective bargaining to prepare the grounds for a possible coalition with the liberal party FDP. Given the antipathy of the employers towards regulatory decentralization, their proposal was, however, contradictory in its attempt to reconcile market rhetoric and employers' concerns. The fear of decentralization and market forces were stronger than the urge to present a cohesive reform agenda.

However, pro-reform forces also existed in the government camp, where existing collective bargaining regulation was perceived as rigid and contributing to high unemployment. In the complex negotiations between the upper and lower house on the reforms of the Agenda 2010, it was possible that collective bargaining rules could have been reformed in exchange for other reforms at the insistence of the prime ministers of some of the conservative *länder*. The possibility of such 'collateral damage', which would not have reflected the economic interests of the main part of business, should not be ruled out per se. In other words, the dynamics of the political process can induce regulatory changes that in turn trigger off unanticipated and unintended institutional change.¹²

Au: Please check is it *Länder* or *lander*?

9.6.2. A Less Social-Democratic but Still Coordinated Market Economy

Compared with earlier periods of welfare expansion when the strong protection of skilled workers was accompanied by a general expansion of welfare and an egalitarian distribution, which was accepted by employers, business' interests on social policy, training and collective bargaining today are more narrowly defined around the interests of the core employee. At the same

time, the capacity of trade unions to diffuse productivity gains through large segments of the workforce has been confined. While the coordinating capacity of institutions remains, their previous egalitarian distributional outcomes are undermined by cost-cutting measures in social policy, at the plant level and competitive pressure in unregulated parts of the economy. Moreover, the existing institutions did not protect organized labour from a drastic decline in organizational and political power.

Unions have lost considerable power—in the market and in politics. On the surface, their financial resources, legal and organizational structures, and personal political links still assure them a measure of influence on the government and big companies. However, trade unions in Germany have lost more members over the last ten years than any other country in the EU except for the Eastern European transition countries (Eiro 2004). Since the early 1990s, unions have lost more than 4 million members, a third of their membership. Membership as a share of total employment is down to 20 per cent. Union density among young employees is down to 10 per cent (Ebbinghaus 2003: 193).

The labour market that has emerged is less regulated than is commonly assumed and union influence is concentrated on big manufacturing firms and the public sector. One should recall that big manufacturing companies in LMEs also have strong union representation. The regulatory power of the unions in these countries does not, however, extend beyond these plants. It has been a feature of the German model of labour market regulation that agreements were forged that set universal rules for the vast majority of employees. This system is being eroded by company opt-outs and concession bargaining.

At the same time, there are signs that the weak performance of the labour market is related to the core institutions of the German model. Strong employment protection has led to a high degree of labour market segmentation and low degree of labour market mobility. More than a fifth of young workers under the age of 30 (not counting those on vocational training contracts) are employed on temporary contracts which forestall employment security and dismissal protection (Statistisches Bundesamt 2002). Long-term unemployment as a share of the unemployment total is exceptionally high at 51 per cent compared to 33 per cent average in OECD countries. Unemployment among the low-skilled and elderly employees is particularly high and chances for the long-term unemployed to get back into work are particularly low (Benchmarking Deutschland 2001: 80).

High taxation of wages through social insurance contributions crowds out a low-skilled, low paid segment of the labour market. In order to provide job opportunities for the low-skilled, labour market segments were exempted

from social security charges through so-called mini-jobs and midi-jobs. In September 2003, there were 6.7 million workers employed in mini-jobs (Hassel and Williamson 2004).

Despite relatively compressed wages in the manufacturing sector, 17 per cent of all German employees receive low wages. Germany comes third in the share of low-paid workers of all workers, immediately after the UK and Ireland (Eiro 2002). Moreover, the incidence of low pay is more closely related to poverty in Germany than anywhere else in Europe. Low-paid workers are most likely to live in poor households. In the UK and Ireland, low-paid workers often live in households with higher incomes.

The evidence suggest that a dualism has emerged within the German economy between a core of the manufacturing exporting-oriented sector where the combination of high productivity, high pay and high skills is still dominant and a fringe sector that comprises services and parts of the manufacturing sector in which employment is insecure—often on fixed term contracts—and pay is relatively low. Moreover, company restructuring, outsourcing, and concession bargaining have led to a complex interaction of core and fringe employment even in the core manufacturing sector. Employment security and high pay for skilled workers is undermined by an increasing share of fringe employment at the expense of core employees. At the same time, core employees are hit by a loss of pay and working conditions through concession bargaining. This process resembles the flexibility drive that has occurred in LMEs during the 1980s (Wood 1989). Centralized wage bargaining and the training regime do little to protect employees from these developments. Rather, they are used as tools by firms under the rationale of social partnership to ensure that this transformation proceeds in a peaceful manner.

These empirical findings do not refute the VoC approach. They direct our attention instead to the rather implicit assumptions of the relationship between production systems and wider distributional outcomes. In the VoC approach, LMEs and CMEs possess not only different capacities for innovation, they also tend to distribute income and employment differently (Hall and Soskice 2001: 21). In CMEs income inequality is lower comparatively, while working hours also tend to be shorter. The correlation with distributive outcomes and even economic performance is however not a central part of the firm-centred VoC perspective. What seems to become increasingly clear is that the link between distributive outcomes and coordinating institutions is not a direct one. In other words, while coordinating institutions help the German manufacturing sector to remain competitive, they do little to preserve the previously egalitarian nature of the German model.

NOTES

1. The next two sections rely heavily on Hassel and Rehder (2001).
2. We do not know much about membership in industry association but do not have any indication that membership also declined there.
3. BIBB/AB 2.1/J.B. Ulrich/Stand: 18.11.2003; personal communication. See also Culpepper (1999*a*), Table 9.1.
4. Bundesanstalt für Arbeit, Statistik IIIb4, personal communication.
5. Mikrozensus by the Statistische Bundesamt.
6. Survey of 1.018 firms on the training levy in April 2004.
7. National Training Pact. See: <http://www.bmwi.de/Redaktion/Inhalte/Downloads/nationaler-pakt-fuer-ausbildung,property=pdf.pdf>
8. Unofficially, the government also committed itself to keep the increasing criticism of the obligatory membership in chambers at bay. The Green Party was always suspicious towards the Chambers of Industry and Commerce and pushed for their abolition. At the end of the first term of the red-green government a report was commissioned on the 'efficiency' of the chambers. Also in the Social-Democratic Party there are individual MPs, who would like to remove the coercive nature of chamber membership by firms.
9. The figure refers to pay increases in collective agreements, not to actual changes in nominal wages.
10. See for the proposal by the FDP Bundestagsdrucksache 15/3325, 16 June 2004, and submission by the upper house Bundestagsdrucksache 15/4111, 3 November 2004.
11. The five types of gradual transformation and their underlying mechanisms (in brackets) are Displacement (defection), Layering (differential growth), Drift (Deliberate neglect), Conversion (Redirection, reinterpretation), and Exhaustion (Depletion) (Streeck and Thelen 2005: 31).
12. Another source for triggering off unintended institutional change is the rulings by the supreme court, in particular the supreme labour court, that dominate the interpretation collective bargaining legislation. For instance, a change in the interpretation of the monopoly of representation rights of trade unions can have far-reaching consequences for collective bargaining practices.

Au: Please check the number 1.018 for correctness.