

The 'german model' of industrial relations in the past 20 years essay sample



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The German industrial relations system has been called the “ social partnership model” because of the cooperative style and the strong consensus orientation. However during the 1980s and 1990s the centrally co- coordinated neo-corporatist German model of IR is in a state of Flux. The German model of IR has become well known for the strength of its inclusive unions, the extensive coverage of its sectoral collective bargaining system, and the dual structure of broad employee rights exercised through work’s councils and supervisory boards.

The system of industry wide bargaining has come under increasing pressure since 1990, in part because of the challenges posed by German unification. Throughout the 1970s and 1980s, it was frequently regarded as a model case for upmarket restructuring and consensual, long term high trust relationships between capital and labour. The tightly integrated institutional infrastructure characterised by a high degree of regulations and encompassing institutions which imposed a uniform set of institutional constraints on companies.

At the same time it provided an incentive structure that forced and enabled companies to compete on a high skills/high productivity/ high value added basis. H. Tusemann & A. Heise (2000). Up until the early 1990s, the German model of industrial relations impressed many observers by its sturdiness, its potential to provide social cohesion, business competitiveness, a low record of industrial disputes and a high level of training. The German model was based on a complex and differentiated structure of institutions which were mutually supportive and functionally beneficial for all actors of the economy (Hassel and Schulten, 1998).

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However, in the 1990's the German model of labour relations, and especially the sectoral system of collective bargaining has come under a great deal of pressure. Together with heightened international competition, global shifts in production, the problems of German unification and high unemployment the general consensus regarding the advantages of the current system has weakened. Employers demand for more decentralisation and more differentiation in the sectoral agreements, in order to provide a greater scope for company level flexibility and company specific solutions, have led to erosion tendencies in the German model.

Today, at the end of the 1990s, in spite of the virtues of the German model the pressures on the system to change are overwhelming. Employers increasingly resign from the employers' confederation or undercut- often illegally- terms and conditions provided by collective agreements. Trade unions strength is declining rapidly. In West Germany as elsewhere in the 1970's, could be regarded as a decade of the unions. Now it seems that, in turn, the 1980s became the decade of the employers. With the coming of the conservative liberal government, the trade unions have lost their partner in the political arena.

With the rise of unemployment their bargaining strength has been weakened. However, their status as a party to collective bargaining has up to now been unchallenged due to the high degree of centralisation and their monopoly like legal privileges in collective bargaining and in calling strikes. The coverage of collective agreements is shrinking and the heterogeneity of labour market conditions is increasing. Vocational training is in a crisis due to the reluctance of companies to take on trainees.

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It seems that an economically highly successful model which enabled a functional integration of social justice and economic competitiveness is coming to the verge of imminent fundamental change. There is now increasing doubt whether the virtuous relationship of workplace co-operation and high quality production can persist. Many observers argue that institutional inflexibility has been at least in part responsible, and attempts by governments and employers to initiate significant changes in industrial relation practices in turn provoked a much more tense and more volatile climate than in previous decades.

The collective bargaining system, which regulates a vast and complex range of issues affecting pay and working conditions is dominated by centrally coordinated multi-employer bargaining, conducted primarily at sectoral/industry level, but is - in certain industries - also quite frequent at national or company level. Following the German unification in 1990, the pattern of industry bargaining was extended to the territories of the old German Democratic Republic (East Germany), which had joined the Federal Republic.

Collective agreements were negotiated in the two years or so following unification which provided for gradual convergence on pay over a five or six year period. In new lander however, with the collapse of manufacturing, this put a lot of strain on these agreements. In June 1993, IG Metall, Germany's largest industrial trade union, halted strikes in the eastern metalworking industry after failing to secure a reduction in the working week. The strike highlighted the trend towards more companies brokering their own deals with their workers and breaking away from sectoral/industry collective bargaining.

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Commentators believe that the fall out from the failed strike could reinforce important changes in the traditional German wage bargaining system, as more workers accept more flexible working time or lower wages in exchange for job guarantees in individual firms. There are however, employers and employers organisations who still support sectoral/industry wide collective agreements, but that is only if they set a more employment friendly minimum standards and leave enough leeway for flexibility.

Works councils are mandatory and establish the express wish of the workforce, they enjoy a set of defined statutory participation rights in management decisions, ranging from information rights, consultation rights to co-determination rights. Yet, as a quid pro quo they are not permitted to resort to industrial action in case of disagreement, but have to refer to the system of labour courts.

Negotiations over issues of co-determination lead to the conclusion of work agreements, which have the force of law. Thus provided there exists no legal or collectively agreed provisions, management cannot take unilateral decisions on matters such as pay structures and the distribution of working time. Work councils are not allowed to negotiate over matters that are already regulated by collective bargaining, such as pay rates, unless there is an explicit opening clause in the collective accord.

Plant level co-determination enables the management of companies to integrate employees interests and demands into their cooperative governance style, since the relationship between works council and management was cooperative by law and by nature (Streeck 1984). In

practice however, it is possible for works councils to extend their effective influence decisions beyond the legally prescribed areas. Because of their leverage in management decisions, they have been able to negotiate enhancements to collectively agreed pay supplements and have persuaded employers to pay above collectively agreed pay rates.

Once collective agreements have been concluded they have the force of law, which means that their provisions cannot undercut and there is a strict peace obligation during their currency. Additionally, the agreements can be declared as generally binding to all companies in an industry by the ministry of labour, irrespective of whether they are members of employers associations or not. Until the end of the 1980s, the German model of industrial relations was largely regarded as a model case for stable long term high trust alliances between capital and labour.

The pattern of trust and long term perspectives in the management/ works council relationship encouraged harmonious and co-operative workplace relations, with works councils operating as joint problem solving bodies. In contrast to a more decentralised bargaining system, the centrally co-ordinated German model has produced less wage flexibility at the micro level. Still, there exists some degree of wage structure flexibility in terms of wage differentiation between regions and bargaining sectors.

There is traditionally no differentiation between individual companies within a bargaining sector since the sectoral/industry agreements apply to companies of different sizes, cost structures, technology, capital intensity and global exposure. The employers have pushed, and the unions have after

some reluctance accepted the argument that there needs to be more flexibility built into the collective bargaining agreement, in terms of regional differences, in terms of firm-specific differences due to technological considerations and in terms of profitability.

On the level of collective bargaining, there have been efforts by trade unions and employers to 'open up agreements'. 'Opening clauses' in central collective agreements empower plant level actors to negotiate about issues which are generally dealt with by the central collective agreement (Hassel and Schulten, 1998). Some, but not all employers have come to view the existing system of industry level bargaining as a major threat to competitiveness and a barrier to job creation, arguing that it sets a minimum level and is too inflexible.

This view is rooted in a number of processes which have put pressure on individual companies, and at the same time have created more scope for them to escape the constraints of industry bargaining. The rigidities created by the German labour market regulations and institutions successfully supported a strategy of upmarket restructuring and upskilling across a large part of German industry as a response to the changing demand structures, international competition and technological change since the mid 1970s.

The German regulatory and institutional setting constrained companies from effectively adjusting towards price competitive markets by excluding a low wage cost adjustment route. At the same time it forced and enabled companies in the manufacturing sector in general, and the large export industries in particular, to shift to non-price competitive markets. (H.

Tuselmann, A. Heise, 2000) The nature of the collective bargaining system kept the wage spread lower than the labour market might have determined.

Collective agreements set a de facto minimum floor, preventing downward pressure on pay rates, thus taking wages and conditions out of competition. In effect, this acted as a barrier to low wage adjustment, thereby forcing companies to orientate themselves towards non-price competitive markets and to adopt a strategy of upskilling to sustain high and relatively even wage levels. In turn this required large scale and recurrent investment in training and retraining as a way to match the labour productivity with the largely externally high fixed cost of labour.

The changing organisation of production and work has led to the emergence of qualitative bargaining issues, such as training, technological change and working time flexibility. This has been reflected in a number of framework agreements since the mid 1980s, which set in motion a decentralisation trend, since such sectoral accords require adaptation and implementation at company/ establishment level. Employers made flexibility of working time an item of negotiation on the agenda of collective bargaining.

A flexible adjustment to a changing level of orders and changing sales prospects as required by the market is, according to the employers, incompatible with rigid working hours. (H. Tuselmann, A. Heise, 2000) The pressure from employees for framework agreements led to 'opening clauses' to allow WCs to negotiate conditions at lower standard than in collective agreements. First example of this was in 1984 engineering sector

agreement to allow further negotiation at company level on working time flexibility.

The first opening clause in sectoral accords on working time was introduced in the 1984 engineering settlement, when the IG Metall achieved a breakthrough in the gradual reduction of working time towards the 35 hour week in a trade off for agreeing on working time flexibility. On the level of individual companies and plants, there have been attempts to free companies from the regulatory framework through arrangements in which management and works councils come to an agreement outside the official collective bargaining agenda.

These companies may still belong to the employers confederation, but nevertheless choose to opt out of collective agreements and either openly or secretly make agreements with their workforce or work councils for doing so. Deviation of individual companies from regulation by collective agreements has been observed in both west and east Germany. In the west for example, companies tend to require longer working hours from their employees for the same pay since cuts in pay are not easily acceptable.

As can be seen the German model of IR and especially the sectoral bargaining system have come under substantial pressure. Since the early 1990s, its ability to accommodate change has been increasingly contested. The culmination of accumulated environmental pressures and new challenges, such as heightened international competition, global shifts in production, on going technological change, increasing unemployment and

the problems of German unification have led to erosion tendencies in the system.

There have also been a number of companies which openly and deliberately forged agreements with their workforce in which employees have been asked to accept concessions in exchange for guaranteed security over a number of years. There have been cases in predominantly medium sized companies such as the radiator manufacturer Viessmann and the game producer Ravensburger, in which management asked the workforce more or less openly to violate the existing collective agreement.

In these cases each employee had to sign a new individual contract in which he or she had to accept that parts of the existing collective agreement were void. With increased international competition also affecting less price sensitive markets, German manufacturing companies are no longer able to fully insulate themselves from price competition. Yet, firms in Western Germany have to bear the highest labour costs in the industrialised world.

The immediate post unification boom tightened labour market conditions in the western region, which pushed up wage settlements above the level of labour productivity growth in the early 1990s. In turn, this led to the deterioration of the competitive position of German firms in world markets. The combination of skills based technological change and the increased tendency of German manufacturers to relocate value added operations to lower wage countries, reduced the demand for low skilled labour, giving rise to the growth of structural unemployment.

Moreover, the high costs of creating dismissals associated with strong employment protection regulations may have generally undermined the incentives to hire new employees. We can therefore say that the German bargaining system may at last in part be responsible for the unemployment crisis. The developments have led to centrifugal erosion tendencies in the sectoral bargaining system and heightened employers demands to make the system more flexible to allow for more differentiated solutions in accordance with the specific needs of companies.

In Western Germany trade unions and employers associations are already losing members, which starts to challenge the traditional structure of the organisational foundations of collective bargaining and hampers the achievement of unified strategies (Ferner, 1998). Several companies have already left employers associations to negotiate individual agreements with unions. Furthermore there is an increasing incidence of disorganised decentralisation in form wildcat co-operation between works councils and management, whereby the terms of collective agreements are ignored.

This in turn exerts considerable pressure onto the sectoral bargaining parties to arrest this trend in form of more organised decentralisation (Mueller1996). Despite much rhetoric, both union and employers associations agree on the need to make sectoral bargaining system more flexible by allowing greater leeway for company/establishment specific arrangements between management and works councils. Yet there is disagreement on how far the decentralisation process should go and where to draw a line in order to stop it from threatening the existence of the current system.

A fine line has to be trodden, enabling the sectoral agreements to contain a sufficient scope for flexibility to allow companies room for manoeuvre, without endangering their basis. So the idea is to find a subtle balance between broadening the scope for flexibility without either undermining the underlying incentive structure for the widespread pursuit of high skills/high productivity approaches in German companies, or giving up the advantages of the consensus based industrial relations system. (H. Tuselmann, A. Heise, 2000) A too broad framework for flexibility may lead to individual firms behaving opportunistically with possible widespread knock on effects throughout the industry. A too narrow scope may further fuel wild cat co-operation and disorganised decentralisation. Pressures for reform relate to issues of working time and wage formation.

In terms working time flexibility it should be possible to significantly broaden the scope within the parameters of the existing system as long as sectoral accords continue to set the minima within which management and works councils can negotiate company specific solutions. In contrast to working time flexibility, decentralisation in relation to pay would need to be closely defined and include safeguards to avoid opportunistic behaviour of individual firms and widespread low wage cost adjustment strategies, thereby undermining the incentives to compete on a high skills/ high productivity/high value added basis.

Also because of the large proportion of high skills/ high productivity workers in the workforce of many German companies, employers may have a vested interest in having a large part of pay determined outside the company. (H. Tuselmann, A. Heise, 2000). Finally, I can see that since the 1990s with <https://assignbuster.com/the-german-model-of-industrial-relations-in-the-past-20-years-essay-sample/>

German Unification and others factors which have led from this has significantly weakened the German model of industrial relations.

The erosion tendencies have brought about considerable pressure for more decentralisation solutions and the range of company level flexibility. After much pressure from employers and unions collective agreements now include open clauses so that it empowers plant level actors to negotiate about issues which are generally dealt with by the central collective agreement, and also allows them to reflect the specific needs of individual companies deviating away from the collectively agreed provisions.

This flexibility, especially with working time has allowed German companies to operate at lower costs and the ability to respond to fluctuations in demand and at the same time retaining skilled labour. So today, there seems to be a broad consensus that the traditional " German model" of industrial relations must be renewed to be successful under the new conditions of German unification and economic globalisation of the modern world.