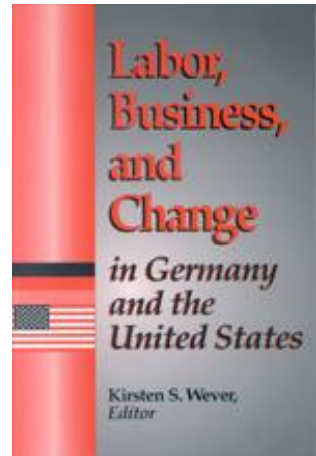

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Perils of the High and Low Roads: Employment Relations in the United States and Germany

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Perils of the High and Low Roads

Employment Relations in the United States and Germany

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The German economy today finds itself in a crisis of the “high road”; by contrast, the U.S. economy is experiencing a parallel crisis of the “low road.” Although neither of these crises is depression-sized or system-threatening, each is domestically perceived as a serious set of problems that policymakers have yet to solve. Solutions to each set of problems will be guided by understandings of and decisions about the viability of, first, alternative institutional frameworks and, second, different forms of production in the contemporary world economy.

The German high-road crisis is characterized by high unemployment, continuing painful and uneven development in eastern Germany (including east–west conflict within Germany), and new strains between unions and employers and between different employer groups in a formerly stable social partnership. Important actors in both the public and private sector are calling for greatly expanded deregulation and a dismantling of the old social partnership, although employers remain divided on these issues. This crisis has been intensified by international and European competition, internal economic and organizational rigidities, overregulation, high taxes, and certain employers’ enchantment with the siren songs of deregulation and the low road to economic growth.

The U.S. crisis is characterized by growing income inequality, a shrinking safety net, and the decline of worker representation. Like the German crisis, it is caused in part by intensified global competition. Unlike in Germany, problems in the United States have also been exacerbated by deregulation, short-term horizons (e.g., quarterly reports to shareholders), and the decline of the labor movement.

Both Germany and the United States, however, have substantial political, economic, and social resources to use in solving their problems. The contemporary crises do not appear for either of these countries to foreshadow a major collapse like that of the Great Depression. We are confident that actors in Germany and the United States can and will pursue reforms, including policy innovations and negotiation. In so doing, we suggest that these societies—the two strongest western economies—have a great deal to learn from each other and from their common experience in the global economy. They do not need, and are unlikely to get, convergence. Yet, each could benefit significantly by adopting elements and aspects of the other's institutions, practices, and policies.

In this chapter, the focus is on employment relations, which we believe are central to the broader economic and social problems in each society. We consider the following two interrelated questions. First, exactly how do the internal and external pressures on employment relations emerge in each country? Second, in what tangible forms do these pressures appear “on the ground,” where labor and business (and, more indirectly, other political, social, and economic actors) interact to perpetuate, alter, or scrap certain modes of production, including service delivery, work organization, and negotiation?

At the national level of comparison, the strengths and weaknesses of the German and U.S. models of employment relations are reversed. On the one hand, labor and business in Germany are good at negotiating adjustments to external and internal pressures at the regional, industry, and national levels through extensive and highly articulated institutions of employment relations. On the other hand, with some notable exceptions, the U.S. legal and political system is relatively ill-equipped to coordinate employers and unions in reaching consensual and encompassing strategies for dealing with the economic and associated social pressures of competitiveness.

At the micro- and meso-levels of analysis, comparative strengths and weaknesses are reversed as well. On one hand, U.S. companies and unions have developed deep and far-reaching innovations in organizational structures and processes for labor participation in management and industrial relations more generally (Applebaum and Batt 1994; Rubinstein 1996). Many of these innovations have been dubbed international "best practice" and are even the envy of German employers (Gesamtmittel 1989). On the other hand, at the organizational level, German employers are hampered in developing such innovations by two key factors: first, the functional rigidity and specialization (including management and skill hierarchies) built into most medium-sized and large companies (Finegold and Keltner, in this volume, p. 55) and second, the highly mediated and legally focused function of many (but not all) works councils in codetermination at the workplace (Wever 1995b).

The general challenges facing the two countries parallel this mirrored comparison. Germany's main challenges in the coming years reflect the costs of having taken the high road to competitiveness by preserving high wages and skills, high levels of social security, and relative peace among labor and employer groups while emphasizing diversified quality production (Sorge and Streeck 1988), especially in its powerful export sectors. But the current high unemployment shows that the economic costs of this socially palatable, but in some ways decreasingly competitive, national strategy for growth and social peace have grown substantially, and they are compounded by the continuing high costs of unification. Thus, many German observers, in fact, speak of a crisis of the German model (Streeck 1997a,b).

The chief problems facing the United States, by contrast, arise from the prevalence of companies adopting the low road to competitiveness, with its focus on the reduction of labor costs (whether by downsizing, deunionizing, moving facilities to domestic or foreign nonunion areas, or outsourcing production to nonunion operations). In the advanced capitalist countries, along with low wages come low skill levels, which in turn are increasingly associated with low quality and low productivity. The social inequities that inevitably accompany such a strategy (poverty, wide income disparities) have to date seemed acceptable, at least to the individual companies choosing to take the low road. These growing social problems have, however, become

increasingly salient in national and state-level political debates and in the lives of millions of U.S. workers and families.

In the remainder of this chapter, we will briefly compare the basic institutions and practices of employment relations in the two countries, illustrating how in each case these are tightly embedded in broader political economic structures, such as financial systems, the organization (or disorganization) of the employer community, labor law, and the nature of government intervention in employment relations. This is followed by a comparison of the past strengths and emerging weaknesses of the high- and low-road approaches and a discussion of how the problems associated with each path are exacerbated by and reflected in the structures and strategies of employment and industrial relations. We then illustrate this argument in concrete empirical terms by considering how unions, works councils, companies, employer associations, and governments at various levels are in fact dealing with their respective challenges. Here, we clarify the extent to which variation in actor strategies can be found even within the two countries. Finally, we conclude with a discussion of the implications of our findings and an argument for what German and U.S. business, labor, and government actors and policymakers can learn from each other as they try to sort out the unfamiliar problems they face.

EMPLOYMENT RELATIONS COMPARED

Germany

The key strength of German employment relations is their inclusiveness, which manifests itself in a bias toward negotiating change between multiple interested stakeholders (Turner 1998; Soskice 1990; Thelen 1991; Wever and Allen 1993; Keim and Unger 1986). Government and the labor and employer communities can all be credited with upholding critical aspects of the negotiated postwar German model of organized modern capitalism.¹ The government provides a strong and stable institutional infrastructure: framework conditions (*Rahmenbedingungen*) within which business and labor have found incentives to engage in a collaborative relationship from the micro- to the macro-

level (Allen 1989). The business community takes full advantage of the stability offered by a partnership-oriented labor movement and the supportive framework offered by the social market economy, prominently including a highly skilled workforce. Sure and steady management practices harness worker and manager skills that are based on functional specialties and that favor concrete technical skills over general managerial qualifications (Berg 1993). The unions actively try to influence technological change by promoting high levels of productivity and skill development (Turner 1991). German unions, for their part, have been prepared to modify their wage demands when the overall economic good seems to call for such a position. They have allowed the works councils (which are formally independent, enterprise-based, and legally mandated) to negotiate the terms of changes in human resource policies to fit the needs of specific companies (Wever 1994). This dynamic remained essentially in place in unified Germany in the 1990s (Turner 1998).

More specifically, employment relations in Germany involve several interconnected levels of negotiation. Collective bargaining contracts are bargained at the level of the region and industry (e.g., between the North Rhine–Westphalian branches of the chemicals industry union, *Industriegewerkschaft Chemie* [IG Chemie], and the industry's employer association). In most sectors, patterns are established in certain regions roughly coinciding with the German states (*Länder*), which are then adopted in other regions. In some cases, individual company agreements set patterns as well: for instance, Volkswagen negotiates directly with the metalworkers union IG Metall. These bargains cover employers in a range of companies. As such, the agreements are perforce highly general, laying out wage, hour, and working condition minima.

These minima are the legal contractual bases used as starting points for further negotiations at individual companies, typically between a personnel or human resource department and the works council. However, even within companies, different interpretations and permutations of the collective bargaining agreement may be negotiated: the company works council may reach one set of broad agreements, while works councils at various production or service delivery locations may have more refined agreements as well. In many cases, the individual works councils may agree on wages that exceed the min-

ima established by the collective bargaining agreements. In short, the works councils effectively translate loose-framework collective bargaining agreements into company- or workplace-specific practices of labor–management relations.

Formally independent of the unions, the councils represent about two-thirds to three-quarters of German workers and are most prevalent in larger companies. These work councils are in constant contact with representatives of personnel or human resources departments, jointly implement the collective bargaining agreement, and participate closely in most basic personnel decisions. The councils have veto power over hiring, firing, transfers, and overtime decisions, among others, and must be consulted regarding most other personnel-related matters. German managers credit the existence of the councils—that is, management’s ability to negotiate directly with a company- or workplace-specific body of worker representation—for much of the country’s vaunted postwar labor peace (Wever 1995b).

On the subject of labor peace, it is important to note that different unions approach negotiations with employer associations differently (Markovits 1986). In general, the unions representing metalworkers, public employees and employees in the media sector have been regarded as fairly forceful and confrontational. However, these unions—particularly the huge IG Metall—have made the most progress in addressing workers’ interests, for instance, on the issue of a shortened work week. IG Metall has also been the most strategically adept and forward thinking of the German unions, in part because of its tremendous resources. The union normally associated with the most cooperative tact is IG Chemie, representing workers in the chemicals industry.² Because of the unions’ close relationships with the works councils, a given union’s approach to management usually, but not always, reflects that of the works councils within that union’s industry. Thus, for example, works councils in the chemicals sector tend to be fairly quiescent and seldom take the initiative to make organizational change within the firm. By contrast, councils in the metalworking industry are frequently involved in, and sometimes the initiators of, significant work reorganization.

The overall labor–management relationship in Germany is a constructive and cooperative one. In addition to the reasons suggested in the previous paragraph, this cooperation can be attributed to the fact

that significant dispute resolution procedures take place outside the workplace. Disputes are adjudicated by a separate system of labor courts, peopled by representatives of labor, business, and government, which is widely regarded as fair and effective.

Suddenly, however, beginning with the breathtaking events that started with the symbolic fall of the Berlin Wall in 1989 and resulted in German unification less than a year later, a great deal of uncertainty, a host of unfamiliar challenges, a vast economic burden, and an entirely new political landscape have been inserted into German employment relations, and politics more generally. Germans must now deal simultaneously with the new terms of economic and political competition that have been introduced by unification; the supplanting of traditional forms of production organization; the high cost of German labor; the weak international position of the German high-technology sector; and the pressures for Germany to conform to the less “social” market standards of other European Union (EU) countries and of the rest of the world (Streeck 1997b; Streeck and Vitols 1994). The German employer community—increasingly focused on labor costs—has asserted growing unease about the continued viability of further investments. Germans refer to this problem in shorthand as the *Standort Deutschland* (Germany as a production site) debate.

In short, the stability, labor peace, “export miracle,” and other characteristics of the postwar German political economy have been undermined by the pressures of foreign competition, the high cost of unification, and the need to cut social spending to meet EU standards for Economic and Monetary Union. Under these circumstances, in the eyes of employers and of the current Schröder government, the negotiated high-road (high wages, high skill development, high social standards) strategy has become too costly. One important manifestation of German employers’ dissatisfaction with the status quo is their falling rate of membership in sectoral employer associations, which negotiate collective bargains with industry unions. Nonmembership in an employer association means a company is not bound to the terms of the industry bargain, allowing the company to lower its labor costs. Because the centralized foundation of German employment relations has long been considered a key to its postwar socioeconomic success, the weakening of these institutions is clearly cause for concern to labor (Silvia 1997).

Two other significant challenges threaten traditional German employment relations. First, institutional, organizational, and strategic rigidities limit the substance of what can be negotiated among the major actors, especially in comparison to “best practice” cases in the United States. German managers have been deeply but, in comparative terms, narrowly trained for functionally specialized deployment (Lane 1989; Maurice, Sellier, and Silvestre 1986). Thus, German management faces peculiar problems in developing the cross-functionality and flexible new forms of organization that are necessary to compete in the contemporary international marketplace (see also Finegold and Keltner in this volume, p. 55).

The second challenge in adopting less rigid forms of work and production organization lies in the structure and functions of the works councils as laid out by the Works Constitution Act of 1952 (as amended). The councils exist as a buffer between workers and personnel or human resource management departments. They seldom conduct substantive negotiations with operations managers or workplace-level supervisors; needless to say, in most cases, neither do frontline workers. Most of the councils’ functions concern managing human resources, not enhancing labor participation in decision making at the point of production.

The United States

The key strength of U.S. employment relations is the relative weakness of institutional constraints on the parties involved. This freedom makes possible world-class innovations in work and production organization, training initiatives, service delivery mechanisms, teamwork, and cross-functional collaboration, as well as a capacity for organizational innovation of all kinds.

As in Germany, the government has created an institutional framework to govern employment relations. That framework consists of two main pieces: first, the National Labor Relations Act (commonly known as the Wagner Act), the Railway Labor Act, and parallel public sector legislation, which govern union–management relations and union structure in the unionized sector of the economy; and second, the proliferation of laws governing individual employee rights (regarding, for instance, Equal Employment Opportunity [EEO] and affirmative

action). These rights are cumbersome for the employer because they can end in lawsuits and significant financial penalties and because they can be filed by either individual employees or groups of employees. Nevertheless, most medium-sized and large companies are benignly inclined toward EEO and affirmative action. In contrast, U.S. employers have historically objected ardently to collective employee and union rights as codified in the Wagner Act and other legislation.

Today, the rules of union organizing, union recognition, collective bargaining, contract administration (grievance procedures), strikes, and lockouts—which were established by the New Deal framework (centering on the Wagner Act)—are hotly contested by many employers (Babson 1995). Many, perhaps most, U.S. firms are run by managers who believe that unionization necessarily entails significant increases in labor costs without any balancing improvements in company competitiveness such as the higher levels of productivity and quality that have been shown in Germany (Milkman 1997). Moreover, like much of the public at large, many managers associate U.S. unions with contentious and combative labor relations, long and bitter strikes, and a hostile work climate. Unions' legislative efforts to make it illegal for companies to hire permanent replacement workers in case of a strike have been bitterly and successfully fought by the employer community and their conservative (Democratic as well as Republican) allies in Congress. Indeed, even the extremely mild labor law reform that was introduced in 1978 under the Democratic Administration of Jimmy Carter, to ease the rules connected with organizing new workers, failed to pass into law.

Outside the legislative arena, companies have used multiple legal and illegal means to prevent their employees from unionizing. Many companies with some union operations have shifted production toward nonunion operations, often in more conservative regions of the country, where states' right-to-work laws constrain union rights. Union decertification campaigns have grown in number and have been increasingly successful since the early 1980s. Partly as a result, union density (the percentage of the workforce that is unionized) has dropped from almost 25 percent in the late 1970s to less than 14 percent currently. This drop has occurred despite continuing relative union gains in the public sector. Private sector unionism has dropped to less than 10 percent.

The U.S. union movement has been under constant and effective attack by these forces for more than two decades, which is one important reason why unions are often unwilling to engage in cooperative endeavors with employers. The overall weakness of organized labor in the United States is not the only impediment to joint labor–management innovations. Another important factor is the law itself. The Wagner Act lays out in detailed terms precisely how unions can organize, what issues they may bargain over, and what sorts of structures must attach to any joint labor–management efforts. Thus, for example, many impressive examples of union initiatives in organizing and labor–management innovations, strictly speaking, may violate U.S. labor law.³

Unlike in Germany, collective bargaining in the United States is conducted for the most part at the company level (often supplemented by plant-level agreements). Variation across union contracts is great, and contracts are in general lengthy, highly specific, and arduous to negotiate. Although some of the more powerful unions in some ways resemble German-style industry unions, there are many examples of conflict among unions over the right to represent particular groups of workers.⁴ Given the diversity of U.S. negotiation strategies, the existence of over a hundred different unions (craft and industrial unions as well as some hybrids), and the lack of coordination among employers in standardizing employment relations (bargaining minima or maxima), the United States cannot benefit from the channels of communication and bargaining alternatives that are available to German unions, works councils, and employers.

Having no “second channel” of worker representation (such as the works council), unions in the United States typically have no influence over the kinds of human resource management decisions that require the input of works councils in Germany and most other advanced industrial countries. In most cases, therefore, the adage that “management acts, the union reacts” continues to hold true. In addition to strategic considerations based on widespread management hostility toward unions, this lack of a second channel is another way in which U.S. unions are discouraged from taking an active role in labor–management or organizational innovations. Moreover, lacking a separate forum for dispute resolution (such as the German Labor Courts), the tensions accompanying labor disputes are played out in the same arena

in which contracts are negotiated and administered. This combination introduces a potentially hostile mood and distributive considerations into the very forum in which joint labor–management endeavors could hypothetically be developed. Given this combative institutional and cultural landscape, it is no wonder that strike rates are much higher in the United States than in Germany.

Under these circumstances, it is noteworthy—if not astonishing—that in some cases that are discussed in the following section, unions, workers, and managers have jointly developed highly refined methods for changing the nature of labor–management relations and the organization of work and production. In part, their ability to buck the trend rests on the fact that while the government’s intervention in labor relations is detailed and intensive on paper, it is relatively minimal in fact. Examples of labor–management participation and cooperation leading to significant organizational and relational innovations have seldom been challenged legally.

Successful U.S. cases of the transformation of traditional labor–management relations (Kochan, Katz, and McKersie 1986) can partly be attributed to the lack of organizational and strategic rigidities that in Germany limit the substance of what can be negotiated. Even the German-based operations of many U.S.-owned companies appear to be characterized by the kinds of cross-functional, flexible new forms of employment relations and work and production organization that are necessary to competitiveness in the contemporary international marketplace but so difficult to engender in the German context (Wever 1995a).

Finally, U.S. innovations are in some ways aided by the lack of German-style works councils: where joint innovations are negotiated and implemented, unions and workers typically negotiate intensively and regularly with operations managers and production supervisors, rather than being limited to formal relations with the personnel or human resources function. Rather than acting as a buffer between workers and management in these cases, unions act as facilitators in ongoing negotiations with management about how work is best accomplished.

In short, the employment relations systems and environments of the United States and Germany are strikingly different, each with its peculiar strengths and weaknesses. The strengths of the U.S. system,

at the level of organizational innovation, are mirrored in reverse by the weaknesses of the German system, while German strengths in institutional supports for extensive dialogue and negotiations between labor and management are the reverse image of the great tensions between the parties in U.S. labor relations.

A COMPARISON

How can these problems in U.S. and German employment relations systems be categorized, and what are the implications of the comparison? After several decades of pursuing the unilateral managerial (United States) and negotiated (German) paths, each country now faces a path-specific set of problems.

The German high road entails what Streeck (1992) has dubbed a “virtuous circle,” in which the production of high labor-value-added, high-quality goods, requiring a skilled and cooperative core workforce, promotes exports. These qualities in turn have reinforced the “diversified quality production mode,” relying on broad, long-term consensus among the social partners. This is the sort of consensus that has historically led German unions to forfeit wage gains in times of recession, in the knowledge that they would be recouped in boom times.

The U.S. low road, by contrast, entails efforts to substitute technology for labor, to cut labor costs where possible, with the inevitable resistance and—given employers’ power in the United States—eventual weakening of organized labor. Another low-road strategy is to move operations to geographical locations (foreign or domestic) where labor costs are lower by virtue of the weakness of or lack of unions or low prevailing wages. Relatively high labor costs and the need to produce high labor-value-added goods and services persist in many industries (e.g., high-tech services, some areas of high-tech manufacturing, and most business services). But in the United States, even in industries in which a high road is possible (e.g., in telecommunications, where service quality is critical to productivity and profits), we see firms not only pursuing the high road (e.g., BellSouth, at least until 1994) but also building a lower labor cost, nonunion model without

labor participation in management and with less concern for skill development (Batt and Darbishire, in this volume, p. 17).

Germany

In Germany, as suggested in the previous section, institutions and the traditions they have spawned are necessarily associated with slow, thorough, widely negotiated, and usually more or less consensual change. The notoriously slow pace of organizational decision making is lamented by German managers, as are Germany's high labor costs. The problem is that to speed change would require the relaxation of regulations, which in turn would require significant adjustments to the current institutional framework of employment relations. Such adjustments would lead (indeed, have led) to noticeable increases in social unrest. Public sector strikes in the 1990s in Germany surrounding the government's efforts to cut the social wage attest to this. For employers, simply to move in the direction of the low road, even with the tacit support of powerful forces in the federal government, would be to court levels of social strife (e.g., conflicts, strikes, slowdowns, or sick-outs) which might require the sacrifice of both labor peace and the high level of overall skills.

Germany's endangered position on the high road both influences and is influenced by German employment relations. The effect on labor relations is perhaps more obvious. Employers and their associations have been calling for lower labor costs for at least 20 years. To the extent that employers choose not to join or to drop out of employer associations, it is usually because they wish to avoid the terms and conditions of sectoral contracts.

But the structure of employment relations also contributes to the problem. To the extent that unions are unwilling to allow more substantive issues to be negotiated at the local level between individual companies and works councils, employers will continue to find at least some public and political support for their efforts to lessen the influence of the collective representatives of employees.

It should be noted that IG Metall and IG Chemie, as well as several other unions, are on the record as being willing to renegotiate the structure of collective bargaining and the relationship between industry-wide and company-specific issues and dynamics. Indeed, IG Metall

publicized proposals on this topic as early as 1990 (IG Metall 1990). Nevertheless, the positions of the unions and the employer associations remain distant from each other, especially in the pattern-setting metal industries. In part, this is because the unions are, not surprisingly, loath to give up too much centralized control over the terms and conditions of employment. The rift between labor and management can also be attributed in part to some employers' near-total embrace of the United States' more unilateral approach to labor-management relations, which reduces labor's participatory powers far more than the unions, most works councils, or German society as a whole accept.

Many employers try to create worker participation and worker-management cooperation programs that bypass the councils and the unions, with mixed success. Again, this tactic resembles the more unilateral managerial approach associated with employment relations in the United States. In this regard, given the need for strong labor representatives in order to preserve the noted benefits of the German system, such methods exemplify how the structure of employment relations not only contributes to, but also clearly reflects, Germany's high-road problem.

The United States

In the United States too, the employment relations system—along with other features of the institutional landscape, such as employer organization (Casper, in this volume, p. 93)—helps create the problem as well as being directly affected by it. The contentious nature of union-management relations in most of the unionized sectors makes it reasonable for many employers to try to weaken unions or seek non-union settings in which to produce their goods and services. The so-called “union wage premium”—the wage benefit enjoyed by union workers as compared with workers in similar jobs who are not unionized (currently between 25 and 30 percent of wages)—is also part of the problem from the standpoint of employers.⁵ Union work rules historically have hampered employers in their efforts to deploy workers efficiently. For instance, craft workers maintain narrow jurisdictional lines, meaning that a plumber on site may be prohibited by the labor contract from changing a light bulb if electricians are otherwise occu-

ped or not available. This is another reason why many employers dread unions.

The U.S. employment relations system also lacks institutional structures that offer employees pride in their negotiation skills and in implementing workplace transformation initiatives. Ever since the rise of the industrial unions in the 1930s, the emphasis of many unions has been more on the organization of existing workforces, skilled and unskilled. The skills of those workers and the improvement of their skills have seemed less important to the unions than simply consolidating the labor movement sufficiently to gain significant bargaining power vis-à-vis individual employers. To the extent that skill development has played an important role, programs have been fostered and often delivered primarily by craft unions, which have strong interests in preserving their jurisdictional lines (in competition with other unions) and maintaining control over the content of skills (e.g., hampering efforts to broaden skills in line with more flexible work practices). There is much to applaud in the revitalization of the labor movement that followed the 1995 election of a dynamic labor leader, John Sweeney, to the presidency of the American Federation of Labor–Congress of Industrial Organizations (AFL-CIO). Sweeney has reorganized the federation and hired an intelligent, young, and dynamic new top staff. Nevertheless, the main priorities of the new AFL-CIO are similar to those of the industrial unions in the 1930s, which focused more on organizing new members than on improving and protecting skills. Moreover, union density declined again in the year 2000, and organizing efforts are waning in many unions.

Employment relations also takes its toll on the U.S. institutional landscape. Most obviously, employers' sustained attack on the labor movement (including decertifications and the legal and widespread practice of firing pro-union employees) has created a climate in which any union cooperation with management is by itself a remarkable accomplishment. Moreover, because a union can be decertified or a plant's operations moved to a nonunion setting or even abroad, most joint labor–management programs exist *de facto* at the sufferance of management. There are in fact numerous cases in which employers have suddenly and/or arbitrarily terminated apparently successful and far-reaching participatory experiments.⁶

Another important way in which the U.S. institutional framework contributes to the low-road problem stems from the pressures created by its financial system. Most U.S. companies view stockholders as their primary stakeholders. Stockholders and lenders require quarterly statements of profits and losses. Many managers' salaries are tied to financial performance on a quarterly basis. This system creates a host of incentives to develop short-term business strategies. However, investments in human capital, to say nothing of investments in efforts to transform the labor-management relationship, offer only long-term returns. Moreover, since they are in many regards qualitative, these "returns" are hard to measure. In many cases, it cannot be shown quantitatively that productivity or quality improvements follow from these kinds of investments. Many managers could argue, in fact, that such improvements would have occurred even in the absence of training or labor-management participation programs.

What, then, would indicate that significant inroads into solving the low-road crisis were being made? We argue that at the very least, significant changes to current U.S. labor law would be needed. In addition, changes to the financial system and to other features of the institutional landscape (such as antitrust laws, which limit extensive employer coordination of the sort that is possible in Germany) could improve the situation.

The high- and low-road crises of Germany and the United States can be understood in terms of the mirrored reversals that we explained earlier: the U.S. context is better suited to promoting organizational innovation and change (albeit usually without the involvement of collective worker representation), while the German context better coordinates the main actors, such that change is negotiated and consensual (albeit slow).

ALTERNATIVE STRATEGIES FOR REFORM

In this section, we examine the main priorities and current action plans of the parties on the ground in both countries, focusing on how they might be helping to solve the problems we have covered in this chapter.

Germany: Renegotiating the Negotiated System

In contrast to that in the United States, employment in Germany is characterized by high and relatively egalitarian average wages and partnership relations in firms and workplaces that largely reflect a high-road philosophy (Streeck 1997b). The question of how to create alternative strategies for reform from those available to labor and management is central to the future of the Germany's well-structured, integrated, and interdependent socioeconomic system. The debate over which strategies to use raises the question of whether all or at least some basic elements of the system should be reformed or whether single, company-oriented proposals should be advanced. Discussions among the various sectors of the economy and within unions and employer organizations have produced conflicting opinions on how to best solve these problems.

The two key problems concern the instrument of comprehensive sectoral collective agreements and the role of works councils and co-determination. Sectoral collective agreements set wage minima and define the spectrum of company-level bargaining over work organization. Critics regard this system as too inflexible and cumbersome to function effectively. Indeed, the highly structured character of the German system and the overall strength of the unions and the employer associations have been maintained despite membership losses on both sides and numerous steps toward decentralization. Many negotiated agreements are moving toward more decentralization, including, for instance, recommendations by the sectoral bargaining agents for company-level negotiations on a variety of topics (Bahnmüller and Bispinck 1995, p. 157). The breadth of topics that can be negotiated at the company level has grown, especially in regard to the flexibility of working hours. For example, in 1994, the employer association Gesamtmetall and IG Metall signed a contract allowing management and works councils to negotiate agreements that reduce working hours even though these hours may deviate from the general provisions of the sectoral contract.

It is still common practice for employer associations and trade unions to reach pragmatic compromises that exemplify the negotiated workings of the system. Nevertheless, the employer associations have been uneasy with the centralized system and have offered proposals for

revamping it. Probably the most widespread of these is the demand for including “opening clauses” (*Öffnungsklauseln*) in sectoral agreements. These clauses explicitly empower management to bargain with their works councils over the replacement, modification, or extension of sectoral contract provisions (Gesamtmetall 1996). Some form of “opening clause” is now included in many contracts. The chemical industry employer association was among the first to negotiate opening clauses with IG Chemie in reaction to “intensified international pressure on costs” (BAVC 1996).

Over the past few years, all members of the union federation (Deutscher Gewerkschaftsbund [DGB]) have proposed revisions to the coordinated bargaining system. Although many unions are still wary of employer reform ambitions, the door to reaching a negotiated reform remains open. Sectoral and regional contracts negotiated by IG Metall and Gesamtmetall for 1997–1998, for instance, call the sectoral collective agreement “a sound instrument, open to the future, for regulating industrial relations . . . offering . . . sufficient room for tailored solutions to specific company problems” (Hüsson 1997, p. 5). Most union leaders recognize the need to make revisions that reflect the enormous structural changes in the economy. Membership drops in the employer associations support this view because unions depend on employer associations as representative bargaining partners.

The position of the DGB unions is reflected in a policy statement passed at an extraordinary congress of the DGB in November 1996. Seeing the need to “recognize the differentiated interests of employees” and contribute to “shaping the different realities of individual branches and enterprises,” the unions called for the introduction of “packaged options” into the sectoral contract (Deutscher Gewerkschaftsbund 1996, p. 14). For example, in the chemical industry, the social partners have made a point of promoting company-level agreements that are embedded in the structures of sectoral collective bargaining (Terbrack 1997, p. 7). Agreements reached in 1996–1997 in the metalworking and electrical industries provide standard options for regulating the relationship between bonus pay and absenteeism (Arbeitsstelle Nationale und Internationale Gewerkschaftspolitik 1997).

The unions remain basically opposed to relinquishing their negotiating rights to company or workplace agents. Not only do they shy away from potentially chaotic conditions, which could be the result of

blanket deregulation, but they also fear for their own organizational stability. Although the German unions have fared well in comparison with many unions in other industrialized countries, they too have been plagued by organizational problems and membership flight (Fichter 1997). Employer associations suffer from many of the same problems. Mid-sized and small enterprises especially have become highly critical of the wage negotiation policies of their associations, calling for more resistance to union demands. In many instances, dissatisfaction has grown to the point that withdrawing from employer associations has become an increasingly popular strategic alternative, and newly established enterprises are refraining from joining at all. This conflict of interests is particularly evident in the large *Gesamtmittel*,⁷ but is of no less concern to a number of other associations, for example, those in the pharmaceutical industry (Schnabel 1995, p. 59).

The burden on local management and works councils to find company-specific solutions to the complex issues of jobless growth and employment insecurity has grown. Works councils are under pressure to assent to extensive cuts, which sometimes break from binding sectoral contracts (as is often tacitly acknowledged by employer associations) to avoid membership losses. Below the level of contract stipulations we find, as Streeck (1996, p. 91) noted, "coalitions between employers, who want to lower their wage and possibly their training costs, and employees, who prefer lower pay to no pay at all."

Efforts by the unions to stem this tide and combat rising unemployment have been unsuccessful. In January 1994, IG Chemie signed a two-year contract allowing firms to hire new workers at 95 percent of the contract rate for the first year of employment. However, if a person is hired who has been unemployed for 6 months or for at least 12 months within a 24-month period prior to being hired, then pay would be at 90 percent of contract wages for the first year. Such employees would have only "temporary" status. Similar plans exist in eastern Germany, where special government regulations forced the unions into such agreements. IG Chemie decided on its own to pursue this path in western Germany, hoping to create employment. However, recent surveys suggest this has not happened. The union is now negotiating with the employer association over the introduction of lower pay rates in selected segments of the chemical industry such as plastics and synthetic fibers.

In late 1995, Klaus Zwickel, head of IG Metall, presented a three-year plan called an "Alliance for Jobs" (*Bündnis für Arbeit*), in which the union offered to forgo real wage increases if employers would agree to create 300,000 new jobs. This was an attempt to build on the Volkswagen model, a highly respected 1994 agreement that saved some 30,000 jobs by reducing the average number of weekly hours to 27.5 (Hartz 1994; Volkswagen AG and IG Metall 1994). The Kohl government tried to get substantive tripartite negotiations started on the basis of Zwickel's proposal. The employer associations ultimately demurred on the grounds that the prerogative for job creation lay with individual employers. Instead, they proposed company-level job alliances. These, however, turned into something quite different from what IG Metall intended (Zeuner 1996): rather than giving up pay increases to create new jobs, works councils found themselves negotiating pay cuts (within the limits of sectoral contracts) to secure existing employment and prevent further dismissals (Rosdächer and Stehle 1996, p. 325). A full-scale national Alliance for Jobs would have to wait for the election of a Red-Green government in 1998. Although already an important forum, tripartite Alliance negotiations remain difficult and often quite adversarial.

Codetermination and works councils have contributed to establishing a climate of negotiation and compromise that has long had a positive effect on the stability and adjustment capacity of the German economy (Bacon, Blyton, and Morris 1996). In the past decade, however, the scope and complexity of issues bargained at the enterprise level have increased tremendously. Even those who champion the instruments of workplace negotiations wonder how these negotiations can deal with the problems of job loss, outsourcing, and the increasing mobility of capital and labor (Dieterich 1997, p. 3). Creating new patterns of work organization and introducing concepts of group and individual responsibility raises new issues that the existing channels of employer, worker, and union representation must learn to handle (Müller-Jentsch and Sperling 1995, p. 42; see also Baethge and Wolf 1995, p. 243).

Employment relations in eastern Germany since 1990 can be understood largely as a battle on the part of German unions and large employers to defend the high road for unified Germany. Unions and employer associations from the west moved into the collapsing east

beginning in 1990 to establish comprehensive collective bargaining. When employers backed down on their wage parity commitment in 1993, eastern workers, led by IG Metall, waged an extraordinarily successful strike to defend rising wages along the high road (Turner 1998).

Management-led innovations in the east have also furthered high-road potential for unified Germany. Western managers, for example, soon discovered that modern forms of shop-floor and office teamwork could be introduced on the basis of socialist brigade legacies more easily and with less resistance than in the established west. Eastern plants, such as VW in Mosel and Opel in Eisenach, have become pattern setters, not only for modernization in the east but also for work reorganization in the west.

Finally, the European Union (EU) contains a variety of systems of employment relations. Analysts argue about whether the weakness of Europe-wide social regulations may lead to the eventual dismantling of the existing structures of codetermination and works councils (cf. Streeck 1997b; Turner 1998).

The United States: Isolated High-Road Struggles in a Low-Road Context

Employment relations in the United States are characterized above all by numerous approaches and relationships, both traditional and innovative. The traditional approach, as influenced by the concept of “scientific management,” viewed employees to a large extent as replaceable parts that could perform as directed. As an outcome, the assembly line revolutionized production in the United States, and factory-developed approaches to personnel management spread widely throughout the economy in both the private and public sectors. In reaction, in the 1930s, industrial unions grew and engaged in damage control, establishing rules and workplace rights and improving wages and benefits. Although there were exceptions as well as considerable variation, employee relations in the twentieth century to a large extent continue to be largely adversarial.

In spite of many famous cases of innovation and countless quality and employee involvement programs, the U.S. workplace remains significantly hierarchical and authoritarian (Babson 1995; Milkman 1997). Adversarialism is more muted in nonunion workplaces,

although the decline of the labor movement has opened up a representation gap by removing the possibility of a meaningful, independent voice in the workplace for many employees (Freeman and Rogers 1995).

Nonetheless, both successful and failed innovation has been widespread since the 1970s as changing world markets have highlighted the value of active employee participation. In notable cases, unionized workplaces have been transformed from conditions of “armed truce” to showplaces of employee participation and labor–management collaboration. The auto industry, for example (the traditional model in adversarial labor–management relations), has set new standards of excellence and provided new patterns for emulation. In 1984, an old, highly adversarial General Motors (GM) plant in California reopened as NUMMI (New United Motor Manufacturing Incorporated, a GM–Toyota joint venture), demonstrating a reformed management approach oriented toward shop-floor teamwork and active union participation in decision-making processes. These changes showed the potential for transforming the U.S. workplace, with its experienced workforce, into a more productive and less conflictual environment (Brown and Reich 1989; Turner 1991). NUMMI provided Toyota’s now-famous “lean production” model, which quickly succeeded in proving the value of a new team structure with enhanced training and input from employees. The dark side of lean production also became clear at NUMMI, as employees complained about intense production pressure and only very narrow participation opportunities—such as brainstorming how to bring a 60-second work cycle down to 58 seconds (Turner 1991; Babson 1995).

The highly successful Saturn experiment in Tennessee took United Autoworkers–General Motors (UAW–GM) collaboration several steps further (Rubinstein 1996). Like NUMMI, this case is widely known and intensively studied, and certain lessons stand out in sharp relief. First, profound change is possible within the loose framework of employment relations in the United States. Second, close company–union collaboration from the very start can foster quality-enhancing information flows, consensual decision making, and active participation and commitment all around. Third, extensive labor participation can lead directly to pathbreaking innovation in production organization, from design through sales and service. However, the failure of the

Saturn model to spread to other settings reflects continuing organizational inertia at both GM and UAW and continuing ambivalence about making high-road investments in a low-road economy (Wever, Batt, and Rubinstein 1996).

Beyond the auto industry, there are numerous other successful cases of labor–management partnership at unionized workplaces. These include AT&T, NYNEX, BellSouth, Xerox, Corning, United Airlines, and others. Two recent examples in very different industries offer tantalizing models for future agreements elsewhere. Levi-Strauss and UNITE (the apparel and textile workers union) agreed in the early 1990s to a broad framework agreement that incorporated union officials into decision-making processes throughout the organization. It pledged the company not to oppose union organizing campaigns at nonunion Levi-Strauss plants. Kaiser Permanente (a large, HMO-oriented healthcare and hospital organization), after extensive negotiations with its 14 unions, agreed in 1997 to a similar deal. This agreement included a provision applying to Kaiser’s 30,000 nonunion employees (out of a total workforce of 80,000). The company agreed to recognize a new union as soon as 51 percent of eligible employees at a given Kaiser workplace signed cards indicating their desire to unionize. This breakthrough (known as card-check recognition) eliminated the need for the bitter election campaigns that are usually necessary to create a union in a nonunion workplace and that, win or lose, so often leave an enduring legacy of hostility and adversarial relations. Each of these cases can be understood in part as an attempt by companies and unions to shift from a low-road to a high-road orientation.

Numerous innovations in employment relations also exist at non-union workplaces, many of which serve explicitly or implicitly to keep unions out. In the auto industry, so-called Japanese transplants (Toyota in Kentucky, Nissan in Tennessee, and Honda in Ohio) run high-productivity, lean-production operations similar to NUMMI but without union representation. Motorola and Hewlett-Packard are widely cited examples of nonunion high-road approaches that emphasize good working conditions, decent pay and benefits (relative to comparable pay in a given geographical area), mechanisms for limited employee voice, and a strong focus on skill development and employee training.

More common in nonunion workplaces is the low road. This reflects an enduring tradition, dating back to the beginnings of industri-

alization, of authoritarian management that is focused on controlling workers and holding down wages. These, of course, are the very circumstances in which unions emerged as workers' champions in the 1930s, but the long decline of the U.S. labor movement has permitted the continuation and expansion of this hierarchical and/or paternalistic trend. Examples range from apparel sweatshops in New York City to poultry processing plants across the South and Japanese-owned manufacturing plants, with the auto assembly plants standing out as rare exceptions to the low-road approach (Milkman 1995). Even as firms modernize their production organizations both domestically and through cross-national networks, low-road problems of labor sweating and income inequality continue to persist and in many cases intensify (Harrison 1994).

Low-road production persists in the United States largely because there are so few obstacles or disincentives to low-road practices (such as low wages and benefits, intensified pressure on the workforce, and minimal skills development). Positive incentives for high-road investment, such as adequate government support and regional labor-management partnerships for vocational training, are rare. These are the incentives one finds in Germany and in pathbreaking U.S. cases such as the Wisconsin Regional Training Partnership (Parker 1997).

The current revival of the U.S. labor movement could encourage more labor-management partnerships and is the most hopeful sign of a possible solution to the U.S. low-road crisis. New labor leaders and activists at the AFL-CIO, as well as at some of its member unions, are pouring increased resources into organizing campaigns and developing innovative strategies to reach low-wage workers. In the meantime, some unions are encouraging labor-management partnerships at individual companies and in regional skills programs as part of a proposed broad union-employer "social compact" (Greenhouse 1996). Although this current revival is in its infancy and may or may not succeed in the long run, the prospects appear more hopeful than at any time over the past 20 years (Turner, Katz, and Hurd 2001). The experience of numerous high-road countries in northern Europe demonstrates that, in the interest of economy-wide domestic or export-oriented high-road production, it is essential to close off low-road options. One obvious way to do this is through comprehensive collective bargaining coverage.

In sum, the United States can boast important high-road innovations and partnerships at particular companies and in certain areas. Yet such innovations continue to occur within a low-road context. Because employers in the United States are relatively unconstrained and face broad choices in strategic planning, they can make high-road choices while simultaneously continuing on the path of least resistance toward new or continuing low-road production strategies. Serious income polarization and a generally weak skills base (Reich 1991; Harrison 1994) suggest that the low road occupies an all-too-large, if not a predominant, position in the U.S. economy. Incentives necessary to promote the high road include expanded government participation and legislation; employer and labor support, including joint efforts to promote skills training; and more labor-management partnerships like those at Saturn, Levi-Strauss, and Kaiser-Permanente, as well as the continued expansion of union organizing efforts.

CONCLUSION: IMPLICATIONS FOR MUTUAL LEARNING

What can the United States and Germany learn from each other regarding necessary reforms to contemporary employment relations in each country? Because their institutional contexts are so different, we do not believe that employment relations in these two countries will converge. But we do believe that the key actors, including policymakers in each country, have much to learn from the experiences of the other.

It is clear that German employers, as well as unions, feel increasingly intense pressure to decentralize the coordinated sectoral and regional bargaining system that has been credited with much of their post-war economic miracle. Perhaps the most important lesson for German unions, works councils, and employers and employer associations is the old saying, "Don't throw the baby out with the bath water." The baby represents what still works well in the German system, including the institutional mechanisms that can help negotiate successful methods for addressing new and unfamiliar economic pressures

(international pressures as well as those stemming from unification and membership in the EU).

Most Germans are aware of the most extreme dangers of U.S.-style “cowboy capitalism” such as the low-road problems we have explored in this chapter. If significant deregulation and decentralization are initiated, the unions and employer associations would be enfeebled and might end up with more U.S.-style problems, including significant social problems (from poverty and crime to the rise of neo-Naziism). One would hope that the unions remain strong enough and retain enough overall social legitimacy that they could prevent such developments from going too far. Germany cannot afford to take a path which might result in social turmoil or in undermining the negotiating climate which characterizes the German political economy; either would be an economically costly outcome.

A second important lesson for Germany is that truly flexible workplace innovation can be compatible with high-road institutional structures. As noted above, the low-road context, within which stunning organizational innovations occur even in unionized settings, is far from supportive of high-road innovations. It is, in fact, an impediment. The low-road context of U.S. industry has isolated the Saturn innovations and now threatens to undermine completely BellSouth’s labor–management innovations (see Batt and Darbishire, in this volume, p. 17). In fact, if a larger portion of the U.S. economy were characterized by high-road practices (union coverage, high wages, skills development, and proactive labor–management partnership), locally developed innovations would likely be easier to implement and transfer to other settings.

However, this is not to say that there are no features of the German system of employment relations that might impede such innovations. On the contrary, as noted earlier, possible impediments to innovation can be found in the formal nature of relations between works councils and personnel or human resource departments, in the relatively rare occurrence of direct worker participation in decision making at the point of production (see also Wever 1995b), and in the functionally specialized and rigid aspects of organizational structures and management strategies (see Finegold and Keltner, in this volume, p. 55). In other words, to emulate U.S.-style innovations, Germans would need to

retain and restructure appropriate institutional supports without clinging to institutional constraints associated with the German model.

U.S. policymakers and practitioners can learn from Germany's experience that the benefits of an economy-wide high-road approach cannot be achieved in a totally independent, company-by-company employment relations setting. To move toward a higher road in the United States, employers must create forums for collective information sharing, standard setting, and possibly even resource pooling. The Wisconsin Regional Training Partnership, mentioned earlier, represents a rare example of regional efforts in this direction (Parker 1997; Parker and Rogers 2001). Similar, less developed efforts in this direction are under way in the states of California, New Jersey, and Washington. These regional development projects illustrate that institutions can be created to support mutually beneficial outcomes without entailing unacceptable institutional constraints on individual employers or unions.

This lesson is reinforced by the fact that Germany's efforts at imitating low-road practices—in the rare cases where this has been possible—are not working. For instance, employer-based agreements in the chemicals sector for trading off job creation against wage or hour concessions have often resulted in wage concessions in exchange for mere employment security, not job creation.

Finally, it can hardly be a coincidence that growing domestic, social, and economic problems in the United States coincide with the erosion of the national skills base. As unions have lost power, wages and benefits have stagnated, and skills have followed closely behind. Absent the capacity of governments, companies, or employees to pay for skills development, educational and training institutions have not been able to slow the low-road descent. Low-road jobs have swelled the ranks of the "working poor," who must now compete with former welfare recipients in transition from welfare to low-paying jobs. This inevitably will continue to lead to increased homelessness, ill health (absent national health care), and other social problems. As these problems mount, employers will be less and less interested in hiring from this large segment of the workforce. As the flight of capital from urban centers illustrates, employers may relocate because there is too much cheap labor available (while their businesses depend on skilled or

highly skilled labor), just as easily as they may do so because there is too little.

In short, Germany cannot solve high-road problems with low-road practices; in the United States, labor and management are confronting the problems of trying to take the high road in a low-road context. Solutions for the two countries are necessarily different, but they can be unified in a common conceptual framework. Actors must differentiate between the constraining and supportive aspects of coordinating institutional frameworks. Centralized forums for setting standards, sharing information, and pooling resources are important components of a successful high-road strategy. However, rigid, functionally specialized and hierarchically organized approaches to innovation and change entail unnecessary institutional constraints. The Germans have a surfeit of both coordinating institutions and organizational rigidities; they need to maximize the former and minimize the latter. Political economic actors in the United States must for the most part build high-road institutions and practices from scratch (using Germany and other countries as guides) while avoiding hierarchical rigidities and constraints. Can this be done? Not without a great deal of U.S.-style innovation and experimentation. Such innovation is currently revitalizing the U.S. labor movement; there is no reason why it cannot also be channeled into high-road institution building.

Notes

1. The German “negotiated” and the U.S. “unilateral” approach to competitiveness are defined in Wever (1995b). They refer to the institutional structures that engender negotiations about organizational change between labor and management in Germany and that discourage such negotiation, creating incentives for a more unilateral managerial approach, in the United States.
2. In October 1997, IG Chemie merged with the miners and leatherworkers unions, forming IG Chemie-Bergbau-Energie.
3. Two examples will illustrate this problem. The Service Employees International Union’s Justice for Janitors campaign organizes workers in an entire labor market rather than in the legally prescribed company-by-company fashion. The internationally acclaimed Saturn experiment, designed by General Motors and the United Autoworkers union to include full-fledged union participation in all areas

- of management, is inconsistent with the law's stipulation that union members cannot perform managerial work and with its provisions for choosing union representatives.
4. For example, disputes between the International Brotherhood of Teamsters and the International Association of Machinists and Aerospace Workers date back several decades.
 5. It is important in this connection to note that some research suggests that the union wage premium is more than compensated for by increases in unionized employers' productivity, which can be attributed to the fact that unions can spur employers to seek more effective ways of organizing work and production and to the fact that productivity and quality-enhancing participatory programs involving unions, workers, and managers may be more successful and long lasting in unionized settings than in nonunion companies (Freeman and Medoff 1984; Applebaum and Batt 1994; Kelley and Harrison 1992).
 6. The most famous of these cases is that of Eastern Airlines in the mid 1980s. A more recent and still unfolding case is that of BellSouth, whose Excellence Through Quality programs, designed together with the Communication Workers of America, became in the late 1990s a lower priority for a management team struggling to come to terms with increasingly heavy competition resulting from the final phases of telecommunications deregulation. In this connection, the telecommunications industry is an interesting German–United States comparative case study, because in Germany the union has been far more successful in defending the rights of workers in the wake of deregulation (Batt and Darbishire, in this volume, p. 17).
 7. The case of IBM leaving Gesamtmetall was more the result of the employment profile and market dynamics in the computer industry.

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