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Social Partnership in Germany: Lessons for U.S. Labor and Management

Abstract

German industrial relations in the postwar period have made a major contribution to German industrial success. The German system is rooted in the explicit recognition of well organized interests: strong, assertive employers and employers' associations not afraid to demand what they think is right, including wage restraint as well as reorganization of production toward "lean production"; and strong, assertive unions not afraid to demand what they think is right, including broad skills training, high wages, a shorter workweek, and a "human-centered" work organization. Amazingly, these strong forces end up with negotiated outcomes in a system that is accurately called "social partnership."

Keywords

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Social Partnership in Germany: Lessons for U.S. Labor and Management

by Lowell Turner

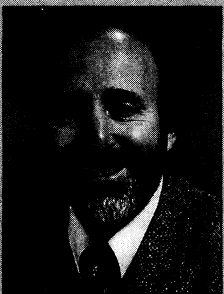
German industrial relations in the postwar period have made a major contribution to German industrial success. The German system is rooted in the explicit recognition of well organized interests: strong, assertive employers and employers' associations not afraid to demand what they think is right, including wage restraint as well as reorganization of production toward "lean production"; and strong, assertive unions not afraid to demand what they think is right, including broad skills training, high wages, a shorter workweek, and a "human-centered" work organization. Amazingly, these strong forces end up with negotiated outcomes in a system that is accurately called "social partnership."

conflicts, but rather on the assumption that conflicting interests in society and in the firm should be organized and have a voice with clear rights. This organization should take place within structures that facilitate the resolution of conflicts in the building of consensus. These structures include comprehensive collective bargaining and codetermination at the level of the firm.

This system is not conflict-free. In the Spring of 1993 in eastern Germany, the employers' association in the metalworking industry, Gesamtmetall, unilaterally abrogated the three-year contract signed in 1991 to bring eastern workers up to nominal wage parity with western workers by 1994. On April 1, 1993, the employers began paying about one-third of the scheduled raise. They took this step because of high unit labor costs in the east and because they could not resist the temptation to go for a win in eastern Germany's mass unemployment labor market (40 to 50 percent in real

GERMANY'S SOCIAL PARTNERSHIP

Social partnership is based not on the assumption of harmony, which can suppress good ideas as well as



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terms). The union in the metalworking industry, IG Metall, responded with a highly effective escalating strike.

The eastern metalworkers began with warning strikes on April 1 and 2 and again on April 14 and 15. In a warning strike, workers walk off the job for twenty minutes, two hours, or half a day and demonstrate, presenting an impressive showing for the evening news. Then they return to work to see if there is movement on negotiations.

The warning strikes unfolded with a breadth and depth that stunned the employers (who expected only weak and hesitant support given the existing mass unemployment) and surprised the union (which feared the same response and took this initial action with its fingers crossed). The union's strategic gamble paid off. Many eastern workers, angry about the dislocation and false promises of unification, channeled their passion into these job actions in April. Strike votes across eastern Germany showed 80 to 90 percent support for a strike, and on May 3 the union began to target selected firms in key regions. In the following two-week period, the number of strikers grew from 30,000 to 100,000. The two sides then reached a compromise agreement, which eastern metalworkers voted overwhelmingly to ratify. Under the agreement, they got their 1993 raises, but not in full until December 1, and they will not reach wage parity until 1996. In addition, there is a new "hardship clause" that allows individual employers to apply to a joint employer-union commission for temporary wage relief.

The day before the first warning strikes, I was in the offices of the employers' association in Berlin getting their side of the story. I told the head of the economics department that I would soon be talking with the members of the National Planning Association's Committee on New American Realities. Should I tell them, I asked, that social partnership in Germany is dead? "No, no!" he replied. "Tell them all about social partnership. We are fighting to preserve social partnership, to adjust the costs to make it work." That was his message.

The successful outcome of the strike achieved important goals: (1) it preserved the principle of widespread patterned collective bargaining whereby both employers and unions take labor costs out of competition within the German market; (2) it considerably strengthened the union's position in the new eastern arena; (3) it strengthened employers' commitment to the employers' association in the east; and (4) it reinforced the integration of workers from the failed communist system into the German "social market" economy. The conflict served a significant social purpose that in the long run will contribute to industrial relations stability in unified Germany.

In spite of this large strike and others like it from time to time, Germany has had a far lower strike rate throughout the postwar period than most other industrial societies, including the United States. Even if the system is not conflict-free, when a rare strike occurs it tends to be large in numbers, to be short in duration, and to play a significant, constructive role in the German economy. This is especially important to keep in mind now as German industry, under the impact of unification, recession, and intensified global competition, experiences a period of uncertainty, cost cutting, and new labor-management tension. Some say the model is in big trouble. But social partnership is resilient. German firms and unions will likely come through the current difficulties with renewed vigor, as they have in the past.

LEARNING FROM THE GERMAN EXPERIENCE

What can be learned not just from the recent conflict but from the past 40 years of German experience? Many firms have had difficulty trying to import a certain lesson from a certain country (e.g., the team concept from Japan) or from another firm or industry. Although it is difficult to transfer lessons from abroad, the first lesson to come from Germany's system of industrial relations is that social partnership works. A thumbnail definition of social partnership would be: first, interests are organized; second, there are legally defined structures for dialogue, negotiation, and exchange of information; and third, these structures encourage relations of partnership. Also, social partnership exists at the national, regional, firm, and workplace levels. These levels are interdependent and mutually reinforcing; the partnership is not very successful at any one level unless it is working at all of them. Finally, social partnership is a win-win system for companies, unions, the workforce, and the economy as a whole. It is particularly appropriate for high performance workplaces as a way to bring everyone on board for restructuring and new work arrangements. But social partnership does not succeed because of good intentions or good personal relationships and trust, although these are important. It succeeds because of an institutional infrastructure that encourages and facilitates the system.

American managers today can frequently be heard saying: "Our employees are our most important asset. We finally figured that out, and now we're changing our ways." For their part, union officials often say: "Well, we've learned that we have to work with—not against—management. We didn't used to think this way, but we finally realized that we would all sink together if we didn't change." These enlightened people then talk about their good

“Two general lessons, then, can be learned from Germany’s social partnership. . . . New relations are needed. . . . and structural reforms are needed.”

personal relationships at the workplace and how the relationships have helped to transform the firm.

The new approaches, valuable as they may be, are not enough. Personal relationships break down. People come and go. Formal structures are necessary to reinforce the new relationships—structures like those found in the innovative labor-management programs taking place at Xerox, AT&T, and Saturn. Yet even these innovations are not sufficient because they can easily become isolated cases. Social partnership requires societywide institutions that promote and reinforce the new relationships throughout the economy, not just at individual firms.

Two general lessons, then, can be learned from Germany’s social partnership. The first is that *new relationships are needed* that stress trust, information sharing, dialogue, and a spirit of partnership that does not suppress interests. The second lesson is that *structural reforms are needed* that encourage the new attitudes and relationships. The emphasis must be on structural reform. Enough people have concluded that American industry faces so many problems that structural reform now appears possible. The current deliberations of the Dunlop Commission on the Future of Worker-Management Relations are a good beginning.

Two examples follow of specific areas where reforms in the United States can be undertaken based on the German experience.

Lessons from Vocational Training

The first area is vocational training. Secretary of Labor Robert B. Reich and many others emphasize the importance of getting the U.S. workforce trained for the 21st century, with frequent reference to the German system of apprenticeship training. The Germans have a highly skilled workforce; about two-thirds have completed an almost three-year apprenticeship. In fact, there are so many skilled German workers (despite shortages in particular areas) that there are not enough skilled jobs available. Trained workers often have to take jobs that

are less skilled than they are qualified for, which nonetheless provides flexibility and the potential for further learning throughout the economy.

The way that training is viewed in the United States is a problem. Training is encouraged as a matter of public policy, with incentives provided to employers to train without addressing whether there will be appropriate jobs for those who are trained. This view becomes especially problematic given the current drive toward lean production, downsizing, and cost-cutting. It is necessary to ask, therefore, if American workplaces are being reorganized in ways that can take advantage of new generations of trained workers.

The German system provides one answer in its expanded commitment to vocational training, which works because it is tied to a broad program of social partnership rather than being an isolated program. Germany has boards at the national, regional, and local levels made up of employers, government, and labor that develop guidelines for training, costs, incentives, regional differences, and other standards. Employers greatly favor this system because they receive significant support for their training and work reorganization needs.

The message for the United States, then, is to make vocational training part of a broad package of new social partnership relations. An expanded training commitment should be tripartite, involving employers, unions, and government, in assessing the future of industry, the future of the shopfloor, and the areas of future job growth. Economic policy mechanisms or institutions should be developed that encourage employers, with union support, to reorganize the workplace to make use of new skills, technology, and organizational forms such as teams that function best with skilled workers.

Lessons from the Works Council

The second specific example from the German system is the works council—the key German institution that integrates labor into management con-

cerns and planning. Codetermination at the supervisory board is also important, but the board meets only a few times a year. The works council is where "the rubber meets the road" in German codetermination—where employee representatives and management daily interact and where the real input occurs. Works councils in the United States could be developed as structures for permanent, ongoing firm- and plant-level employee involvement, facilitated directly by government policy throughout the economy (as opposed to the recent Electromation, Inc., National Labor Relations Board decision or at least very ambiguous NLRB cases).

The European Community as a whole, as well as specific countries such as Denmark, Spain, and Hungary, has various models of works councils in place from which Americans can learn. But the United States needs a U.S. version of the works council, not a transplant of another country's model.

EMPLOYEE PARTICIPATION IN THE U.S. THROUGH EPCS

One possible approach in the United States would be the Employee Participation Committee (EPC). There are many versions, including a Weiler version, a Freeman and Rogers version, and a Cohen-Rosenthal version.

The general format involves establishing, under new labor law, firm-level committees in all union and nonunion workplaces with, for example, 50 or more employees. EPCs would be elected by all employees, blue and white collar, including middle management. They would have specific rights and obligations, particularly rights to regular meetings with top management and access to full information on company plans. They would be required to respect the confidentiality of sensitive business information and to work in the best interests of the company.

EPCs would not have the right to engage in collective bargaining or job actions such as strikes. But they would have the right to be consulted about company plans, especially in areas concerning personnel. In essence, EPCs would facilitate the participation of elected employee representatives in management decisionmaking on matters of importance from strategic planning to shopfloor improvements. This type of structure, conducive to social partnership, could spread the exciting kinds of innovations that are under way in this country with, for example, AT&T and the Communications Workers of America and the International Brotherhood of Electrical Workers, and with Xerox and the Amalgamated Clothing & Textile Workers' Union.

A POLICY PACKAGE OF STRUCTURAL REFORMS

Reforms like expanded vocational training and employee participation will work best if they are part of a broad package of labor market policy and industrial relations reform. They will not work as well if they are put in place individually. Yet such a fragmented approach toward policy is typical in the United States. Americans have a charge-in, fix-it mentality and do not draw the necessary linkages among programs, policies, and institutions.

Considerable thought and analysis are needed to develop a package of mutually reinforcing industrial relations reforms suitable for the United States. This will be an important charge for the Dunlop Commission. Indiscriminately transplanted foreign models will not work. Just-in-time, for example, will not succeed in the United States when close relationships with suppliers do not exist. The team concept should not be shoved down the throats of reluctant employees or supervisors who do not want it. A new apprenticeship system that is not linked to a broader social partnership approach may not produce desired results.

Reform becomes politically possible through tradeoffs. In a nascent system of social partnership, both sides in the labor-management relationship take the risk of change in return for the opportunity for major gains. If a policy package like this works, unions will be able to participate in EPCs in unionized workplaces and in the development of vocational training programs. They will be able to seek union recognition and representation in a less adversarial climate.

Employers will receive major input from a highly motivated and committed workforce at relatively low cost. They will be able to work with partnership-oriented unions. They will get a substantial government-backed commitment to skills training.

Reform is possible, but only if the United States is attentive to its own conditions. The crucial problem is to develop the specifics of structural reform that will work in the U.S. context and make the package politically viable. A majority coalition for reform is necessary; a reform package will not succeed unless substantial segments of both business and labor support it. This will require risk-taking, tradeoffs, and trial-and-error negotiation initiated by labor, business, and government, by all those who are not satisfied with the current industrial relations climate in this country, and by all those who think that labor and management together can make a better contribution to the competitiveness of American industry. It is exciting that a beginning is being made in this dialogue and that meaningful reform is on the agenda. An *American* version of social partnership is what America needs.