

Condemned to

co-operate



Photos: Jürgen Siepmann

The success of the Social Democrats in the last German general elections in 1998 offers consensus-based politics a new chance. Are unions, employers and government ready to take up the challenge?

Until the early '80s, Germany was seen as being better than other countries in managing critical situations, because under the German model the government aimed to solve problems by reaching agreement with the bodies representing the main economic, social and political interests. Today, Germany seems much less successful in coming to grips with major policy challenges, whether they are in increasing employment levels, financing pensions, developing an effective plan for the future of the health system, reforming education, or ensuring that the workforce has the right qualifications. What has changed? The political parties still exist, the bodies representing the main interest groups have not disappeared, the structure of political institutions is very much the same as before reunification.

However, the bodies representing workers and employers, the trade

unions and employers' associations have been weakened, although it would be wrong to describe them as weak. It is frequently suggested that this weakening is a result of economic globalisation and increasing international competition. There are good reasons for seeing these processes as new challenges, but there are equally good reasons not to view them as inescapably determining Germany's future. Political developments are not predetermined and it is possible to envisage ways of regaining the capacity to take political action, despite these new challenges.

The German 'Middle Way'

The institutional structure of Germany encourages a negotiated approach. The strongly federalist outlook and the multiple connections between Länder

(regional) governments and federal (national) government means that problems have to be broken down into manageable sections which can then be resolved in the dense network of inter-related policies that link the two levels. This system of checks and balances describes at the structural level what Manfred G. Schmidt¹ has called the politics of the middle way. A series of factors – the federal structure, the German party system with two dominant parties, the high degree to which class conflict is institutionalised, the power of veto that both the autonomous federal bank and constitutional court enjoy, and the fact that there are both highly centralised mechanisms for representing differing and clearly defined interests and also

¹ Manfred G. Schmidt, West Germany: The Policy of the Middle Way, in: *Journal of Public Policy*, Vol. 7 (1987), 135-177.

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multiple centres of decision-making – these all contribute structurally to the middle way. In political terms, this tendency is the result of the mixture of three different traditional attitudes towards the state: liberalism, reform-oriented conservatism, and democratic socialism. The result is a policy mix which can be seen neither as welfare capitalism nor market capitalism, but rather something in between.

Often these closely interlinked and intertwined networks of policy-making have been judged as creating a climate unfavourable to reforms, as being too inflexible, and as a reason for the increasingly pressing political problems. However, close observers of German politics like the American political scientist Peter Katzenstein² have come to a different conclusion. He believes that it is precisely the need for political experiments to be limited and the fact that the country has adapted to problems in a gradual, although continuous, way that has contributed to social peace and the positive, stable development that Germany has experienced since World War II. The institutional structures of Germany maximise the need for and the chances of political consensus when negotiation takes place between the main bodies representing different interests. Even where negotiation does not take place, the concerns of other interests have to be anticipated and taken into account because otherwise there would be a high likelihood that policy would be blocked, given the strong linkages in the process of decision-making. The structure of political institutions provides a continuous pressure towards

agreement between differing interests and moves to the political centre. This remains the case even after German reunification.

A social democratic approach

Despite the continuity in institutional structure, the approach of trying to achieve an agreement between differing interests in order to get them to act in concert became less marked in Germany in the period following the early '80s. This approach, so central to the German model, has only recently been revived with the Alliance for Jobs (Bündnis für Arbeit). Research on corporatism, where typically government works closely with unions and employers, or other interest groups, shows that this is no accident. Rather, it seems that the pressure for concerted action is a characteristic of social democracy. The German political scientist Gerhard Lehbruch, together with Philippe C. Schmitter, the father of the concept of so-called neo-corporatism³, sees social democratic participation in government as a necessary condition for corporatist policy-making. Bob Jessop⁴, a British social scientist, even claims that corporatism is the highest form of social democratic policy-making. This is why the federal elections of 1998 provide a chance to revive concerted action and corporatist policy-making.

The hypothesis that the close working relationships between unions, employers and government at national level – corporatism – is essentially social

democratic is normally based on two pieces of evidence. First, there is the crucial role that trade unions play in bringing differing interests to work together. Second, there are the areas that are typically dealt with in a corporatist manner: classically, these are the overall management of the economy and income policies based on consensus. However, as the corporatist approach is also used in areas where trade unions are not much involved, this explanation alone is not enough. There are additional reasons which go beyond the closeness of the political left and the unions. A key is the fundamental differences between left and liberal parties in their view of politics. A central element in corporatism is the idea that developments can be politically influenced and that there is a need for planned intervention in market processes. Behind corporatism is always the idea of more and not of less state – a fundamentally left rather than liberal concept.

The political change in 1982 (the so-

² Peter Katzenstein, *Policy and Politics in West Germany – The Growth of a Semisovereign State*, Philadelphia: Temple University Press 1987.

³ Philippe C. Schmitter, Gerhard Lehbruch (eds.): *Trends toward corporatist intermediation*, Beverly Hills/London: Sage 1979; Gerhard Lehbruch, Philippe C. Schmitter (eds.): *Patterns of corporatist policy-making*, London/Beverly Hills: Sage 1982.

⁴ Bob Jessop, *Parliamentarism and social democracy*, in: Philippe C. Schmitter, Gerhard Lehbruch (eds.), *Trends toward corporatist intermediation*, Beverly Hills/London: Sage 1979, 185-212.

German corporatism

A key characteristic of German politics and democracy are the traditionally strong elements of negotiation between government and major interest groups. In contrast to pluralism, where interest groups are pressure groups in the sense that they demand something from politics and where the balance of forces determines the outcome, the corporatist approach to representing differing interests is characterised by political exchange between government, parties, and highly centralised interest groups. There is a more or less formalised structure of tripartite or multi-partite negotiation bodies which exist often on a medium- or long-term basis. The aim is a consensus between the major forces in society and politics which can be translated into policy packages of common benefit. The symbol

of German corporatism is the so-called concerted action (Konzertierte Aktion) between government, employers' associations and trade unions of the late '60s. This was the period when the characteristic of German politics of searching to fine-tune differing interests in order to better solve political problems became probably most obvious. Compared to other nations, German politics are characterised by strong participation of the major (umbrella) interest groups in policy-making, in particular in the area of policies dealing with agriculture, labour relations and health. Such processes of co-ordination require certain preconditions: an institutional structure with a political culture that is supportive of the negotiating process, and organisations involved in bargaining with a large membership. In addition, the major political players must be willing to get involved in this kind of bargaining.

called ‘Wende’) – from the Social-Liberal government with Helmut Schmidt as chancellor to the Christian-Liberal government under the leadership of Helmut Kohl – was not only a change in the political complexion of government, but also a change in the way policy was approached. The Christian-Liberal government relied much less on attempting to reach a political agreement between different interests and more on the market, an approach that was pursued until the change of government in September 1998. Since then the ‘red-green’ coalition, made up of the Social Democratic Party (SPD) and the Alliance 90/The Greens (Bündnis 90/Die Grünen) has taken the initiative to revive the approach based on reaching a common agreement between differing interests. The SPD made an ‘Alliance for Jobs, Training, and Competitiveness’ (Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit) one of the major issues of its election campaign, and in government the coalition partners agreed that mobilising support around such an alliance should be a key priority. The Alliance was set up as a new permanent tripartite arrangement at national level, bringing together government, trade unions and the employers’ associations. However, a revival of this policy approach faces a major test.

Reaching a win-win deal

Key in determining whether it will be possible to initiate common action are the incentives which the government can offer to those involved. Bargaining needs to be on some sort of agreed basis. But this is only possible if both sides believe in potential mutual benefits. A government therefore must be able to guarantee some accompanying measures which ensure that both sides will benefit by stepping back from pursuing their own specific interests. This is why the sociologist Wolfgang Streeck, who is advising the government, has pointed out to the government and the employers and unions that leadership requires mutual trust⁵. A hypothetical example: if the government offers to reduce the



employers’ on-costs, such as national insurance and pensions contributions, by requiring employees to make higher contributions for private insurance, this is a deal that trade unions can only accept if in turn employers promise to increase employment by the same amount that their labour costs have fallen. The common gain could be higher employment, which is in the interests of trade unions, and for the government, higher tax revenues and lower unemployment payments. At the same time, employers benefit from lower labour costs and everybody benefits from a higher growth rate.

The real ‘Alliance for Jobs’ is based on a similar deal: that the additional income created by increases in productivity growth, which could be used for wage increases, will instead be used primarily for job-creating agreements. It is still uncertain whether the example is valid in terms of economic theory or not, and whether the agreement reached by the Alliance will work in practice. However, the example shows that in addition to mutual trust, there is a second factor needed for success. This is the capacity of those involved to get their members to accept what has been agreed with the government.

This is why size of membership and membership density are important

guides to the possibility of reaching such a deal. In Germany, the two central organisations of corporatism, the trade unions and employers’ associations, have been confronted with membership losses for years. Every month, trade unions lose between 30,000 to 40,000 members, with the biggest losses being in the new Länder of the former East Germany. In the largest industrial sector in Germany, i.e. metalworking and electrical engineering, the proportion of companies belonging to employers’ associations has fallen from about 66% in the ‘60s to about 43% in the early ‘90s. In 1998, only 51% of employees in the former East Germany and 68% of those in the former West Germany were covered by industry-level agreements, down from 56% in 1996 in the East and 72% in 1995 in the West⁶.

With respect to ‘global champion’ Kohl (see picture, page 47), his successor, Schröder, promised during the electoral campaign in 1998: ‘We will not change everything, but we will make many changes for the better’.

⁵ Wolfgang Streeck, Die Gewerkschaften im Bündnis für Arbeit, Beitrag zur wissenschaftlichen Konferenz anlässlich des 50.

Gründungstages des DGB, München, 11.-12. Oktober 1999, MPIfG Working Paper 99/11.

⁶ eironline, 1999 Annual Review for Germany, December 1999 (URL: <http://www.eiro.eurofound.ie/1999/12/features/DE9912228F.html>); Susanne Kohaut, Claus Schnabel, Tarifbindung im Wandel, in: IW-Trends 02/1999, Vol. 26 (URL: <http://www.iwkoeln.de/trends/tr2-99/tr2-1-01.htm>).

This development is not just a result of industrial change and unemployment. It is also linked to an assessment of what trade unions and employers' associations can offer, and have been able to offer, during the last 18 years under a government which has made little use of the potential for agreed policy-making. In the Netherlands, for example, after a long period of decline in membership figures, trade unions are now, with the success of the 'Dutch model' of concerted action, regaining members. This shows that it is not inevitable that unions and employers' associations must have an ever-decreasing ability to commit their members to an agreed line of action. Paradoxical as it may seem, the decreasing capacity of unions and employers' associations to attract members and commit them to a deal can only be overcome by making successful deals in the context of successful national concerted action.

But the context for successful policy-making based on corporatism has changed not only because of the relative organisational weakness of the social partners. Globalisation of the economy as well as growing limitations which European integration has placed on nation-states' room capacity for independent action have reduced the possibility of success at the purely national level. However, this does not mean the end of corporatism and the possibility of reaching agreement between different interests at the nation-state level. Increased competitiveness in world markets may depend on flexibility in labour relations as well as cutting wage costs. Often, market mechanisms are seen as delivering such flexibility, while corporatism is equated with inflexibility. However, corporatist arrangements have proved to be very sensible and successful in taking account of supply-side interests (for example, by trading wage restraint against increased investment). Nobody who examines Denmark or Austria can claim that corporatism is inevitably allied to Keynesian demand-side policies⁷.

In addition, in the EU context, the growing internationalisation of the way we are governed does not rule

out corporatism and the prospect of reaching agreement between differing interests. The internationalisation of monetary policies through the European Economic and Monetary Union (EMU) obviously places limits on demand-side policies, since it needs a consistent set of fiscal, wage and monetary policies⁸. But the same does not apply to supply-side policies. In particular, increasing European integration brought by EMU has led to a revival in corporatist arrangements in some European countries in order to find measures to meet the convergence criteria in an agreed way⁹.

New forms of solidarity

Corporatism will only be successful and have a future to the extent that it can be used to achieve a supply-side oriented agreement between differing interests. Corporatist concerted action would have to be the mechanism used to implement what in discussion among European social democrats is described as the 'Third Way' or 'Neue Mitte', something which the commission on fundamental values of the German SPD currently has on the agenda. The Third Way aims at a gradual restructuring of the relations between politics, society and economy. The core idea is to change the welfare state from being an agent of distribution to being a mechanism for investment. The argument for solidarity moves away from its protective and redistributive impact towards the fact that it is successful in competitive and productive terms.

A good example is investment in human capital (i.e. education and vocational training) which provides the individual with marketable skills and the ability to compete. Equality and social justice should not be based on redistribution of individual resources for consumption after the event, but on investment beforehand in human capital, infrastructure and productive capacity. This type of 'supply-side egalitarianism' and a change to 'competitive solidarity'¹⁰ are not without risk; success is not certain. On the other hand, all other strategies have failed so far. Market

forces are incapable of co-ordinating developments without producing unintended and unwanted social consequences, nor has the artificial removal of labour (for example, through early retirement plans) proved to be particularly successful in increasing employment. What is needed are new concepts of distribution and financing, which still give capitalism a human face.

This is not possible without consensus, at least not in a political system like that of Germany, where federalist linkages between Länder governments and national government on the one hand, and strong interest groups on the other hand provide many points at which political decisions can be vetoed. At present, major interest groups, in particular the trade unions and employers' associations, are strong enough, together with the government, to take up such an option. The government cannot act against them. There is therefore no real chance of initiating the reforms that are necessary other than by using the mechanisms of corporatism for reaching an agreement between differing interests. Without this, the reforms will not take place; the unresolved problems will persist and positions of the bodies representing these varying interests will continue to erode. The German way of corporatism is condemned to succeed. ■

⁷ Jelle Visser, Fünfzehn Jahre Bündnis für Arbeit in den Niederlanden, in: Gewerkschaftliche Monatshefte 10/98, 661-668; Heinz Werner, Beschäftigungspolitisch erfolgreiche Länder – Lehren für die Bundesrepublik Deutschland?, in: Aus Politik und Zeitgeschichte B34-35/98, 3-14.

⁸ This point was already stressed by Fritz W. Scharpf in 1987. Fritz W. Scharpf, Sozialdemokratische Krisenpolitik in Europa, Frankfurt/New York: Campus 1987.

⁹ Gerda Falkner, Corporatist Governance and Europeanization, in: European Integration online Papers (EIoP), Vol. 1, No. 011 (1997) (URL: <http://eiop.or.at/eiop/texte/1997-011a.htm>).

¹⁰ Wolfgang Streeck, Competitive Solidarity: Rethinking the "European Social Model", MPIfG Working Paper 99/8.