

Codetermination in comparative perspective

By Kathleen Thelen and Lowell Turner

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The trend of western industrialised societies is towards decentralization of collective bargaining and the active participation of the workforce in productivity and efficiency improvements. How well does the German model of co-determination perform in competition with liberal market economies? Compared with other countries, how adaptable is it?¹



Photo: Werner Bachmeier

Competitiveness on the world market increasingly depends on plant-level institutions and processes that guarantee predictability and that promote the active cooperation of employees in production processes and decision-making. Across a broad range of countries we can observe new or intensified pressures for a decentralization of bargaining, including the breakdown of national-confederal bargaining in some countries, but also more generally a delegation of more bargaining authority to plant-level representatives. However, in most of the countries surveyed in our report, decentralization (and its counterpart flexibilization) in industrial relations has not resulted in a “return to the market” so much as a re-regulation at lower levels. “**Coordinated market economies**” appear to be groping toward changes that will

¹ This article summarizes the main results of the expert report: Kathleen Thelen/ Lowell Turner: German Codetermination in Comparative Perspective (Verlag Bertelsmann Stiftung: Gütersloh 1997). The report was written as a contribution to the project on “Codetermination and New Management Practices” which is sponsored by the Bertelsmann Foundation and the Hans-Böckler-Foundation. Prof. Dr. Wolfgang Streeck directed the scientific contributions to this project. The report compares German codetermination with alternative systems of employee representation and organization found in the other large advanced industrial countries (Great Britain, USA, Japan, Italy, and France), as well as with parallel institutions found in a selected group of smaller European countries (Austria, Belgium, Denmark, the Netherlands, and Sweden). The authors thank Christa van Wijnbergen for her assistance in preparing this summary.

continue to capture the benefits of national coordination (especially on wages) but combine this effort with reforms that allow firms to adjust more flexibly to changes in market conditions. All this, however, contrasts sharply with the recent experiences of the **“liberal market economies”**. In these cases, wage bargaining (less centralized to begin with) has been further decentralized – frequently to the plant level – a process accompanied by a further weakening of unions, along often with the collapse of important employer's associations.

Continued Diversity

Despite predictions by some scholars that globalization would force a convergence of industrial relations institutions and practices, and in spite of an observed widespread trend in the advanced industrial countries toward the growing importance of plant-level structures for labour participation, we detect no general trend toward cross-national convergence for either society-wide or workplace industrial relations. Employers everywhere see flexibility and cooperation at plant level as increasingly important to their competitive success, but differences in institutional starting points have led them to pursue this common goal in very different ways cross-nationally (from the abandonment of federal bargaining in Sweden, to the renewal of tripartite bargaining in Italy, to attempts to dismantle traditional structures at the plant level in the United States). For the overall framework of industrial relations as well as specific workplace-level institutions, the dominant reality is continued cross-national diversity.

In some ways, divergence is increasing, as countries pursue their own particular strengths or institutional possibilities in adapting to new market conditions. This is especially so when comparing the liberal market economies

to the “coordinated market economies”. Anglo-American style deregulation is particularly attractive to many firms in other countries, given the way that “management unilateralism” enhances employer control. This apparent freedom, however, is a two-edged sword, often fostering a new adversarialism on the part of employees and/or unions or employer-led “pseudo-participation” that has no lasting substantive content. In addition, the decline of institutionalized industrial relations can result in an expanded and quite expensive – and from an employer point of view sometimes onerous – direct government regulation. In the United States, for example, the absence of works councils and the decline of unions has meant greatly expanded administrative and legal costs for firms and government in areas such as occupational health and safety, equal employment opportunities, sexual harassment and unfair dismissal.

Employers' Interest in a Constructive Relationship

A common theme that runs through recent developments in industrial relations across the advanced industrial countries (and virtually all of the coordinated market economies) is employer's strong interest in promoting (where it does not exist) or preserving (where it does) reliable, responsible, and if possible, unitary bargaining partners at plant level. It seems that almost everywhere employers see cooperative relations at plant level as a precondition for successful adjustment. In France in the past decade, for example, the expansion of direct participation, including quality circles, has been significantly employer-led rather than negotiated. On the other hand, in countries such as Germany and the Netherlands, well-established works councils can accommodate employers' interest in a unitary partner at plant

“Co-ordinated market economies” (we borrow the term from David Soskice), such as Germany, but including also countries such as Austria, Denmark and Sweden, have alternately been referred to as the “Rhine model” or “democratic corporatism”. They appear to promote quality-competitive adjustment strategies that combine strong economic growth with social equality. In this model, co-determination is seen as a key component.

“Liberal market economies” can be found in the Anglo-Saxon countries. They are based on more short-term, market-based interactions, with less overall coordination and growing deregulation. In the 1990s, these economies are associated with strong economic performance but growing inequality.



Photo: Jürgen Seidel

"The German model" is characterized by unified plant-level representation through legally based works councils with strong formal and informal links to external unions and possessing relatively strong and legally defined rights vis-à-vis employers in plant decision-making. This form of co-determination is an integral part of a larger institutional framework (including a financial system characterized by close linkages between banks and industry, vocational education, comprehensive collective bargaining, and extensive welfare provisions) that interrelate and interact to produce the combination of strong economic performance, social peace, and relative egalitarianism that is traditionally associated with the German model.

level since works councils already provide a stable institutional mechanism for mediating the conflicting interests of different workers, and for mobilizing and negotiating the terms of employee participation in plant-level decision-making. Thus restructuring and the reorganization of work in Germany already occur within a framework of co-determination and social partnership inclusion at the workplace.

At the same time, cross-national comparisons also underscore the importance of strong de facto linkages between labour representatives within and outside the plant, and in particular, the problems and complications that emerge in those cases where plant based representation operates separately from and sometimes at odds and in competition with unionism outside the plant. Germany's industrial relations "dualism" and its strict separation of bargaining competencies between works councils and industrial unions militate against some of the problems that arise when bargaining issues at the two levels overlap and where deals struck at one level are not necessarily regarded as binding on the other. That's why, motivated by a desire to control inflation and reduce labour conflict, Italian employers supported changes that if anything move industrial relations institutions in the direction of the traditional **German model**. Recent reforms establish the primacy of industry-level bargaining over local bargaining on wage issues and also – at employer's insistence – strove to strengthen the links between local bargaining agents and national unions.

Likewise, the reforms initiated by employers in some of the more centralized coordinated market economies such as Denmark and Sweden have resulted in changes that in some ways brought these countries closer to the traditional German model by renegotiating the relationship between central collective bargaining and local bargaining (multi-industrial rather than federal bargaining, greater flexibility in the link between plant-level negotiations and industry-wide collective bargaining; a retreat from solidaristic wage policies).

Contribution to "High Road" Competitiveness

Co-determination imposes constraints on employers, but in comparative perspective the issue becomes what kinds of constraints and with what implications for firm competitiveness. In Germany, co-determination discourages firms from pursuing "low road" price-competitive strategies while at the same time encouraging and facilitating "high road" quality-competitive production. Other elements of the high road, such as Germany's much-envied vocational education and training system and long-term "patient" capital, work together with strong workplace representation to promote both upmarket product development and production as well as high wages, salaries, and living standards.

At the same time, co-determination at the workplace includes considerable collaboration and flexibility to make possible the reforms and innovations necessary for continuing high road success. In contrast to the low road

strategies and production so common in the US and UK, the German high road continues to appear compatible with economic restructuring and success as well as with active workplace representation, inclusion and employee participation. Work reorganization, for example, is both more cumbersome and causes more conflict in the United States than in Germany since American unions have frequently viewed the dismantling of rigid "Fordist" production techniques and the introduction of more flexible team concepts as undermining traditional union work rules on job classification. In Germany, works councils have proved adaptable to significant changes in the market and continue to play an important and constructive regulatory role at the workplace. As the need to expand direct worker participation grows, works councils often help to negotiate and develop consensus for new workplace innovations such as group work and continuous improvement.

Unitary plant-based representation of the sort that Germany's "dual" system of industrial relations guarantees (through unified, legally-based works councils) appears to be especially important to successful negotiated adjustment in the context of rapidly changing production structures. Other countries such as Denmark and Sweden also have co-determination, but in these cases workplace representation is an extension of the collective bargaining relationship rather than, as in Germany and Austria, a separate (statutory) institution. While performing some of the same functions as German works councils, these alternative models of co-determination also tend to reproduce at plant level divisions that stem from union fragmentation at higher levels (e.g., between blue and white collar workers, or skilled and unskilled workers). As a result, we find attempts recently by employers in both countries to overcome these divisions (in Denmark, through the employers' goal of "one company, one agreement"; in Sweden, through initiatives on the part of some large employers toward "co-worker agreements" that bring representation of white and blue collar workers together).

The Challenge of Deregulation

Co-determination in Germany today finds itself up against important challenges, including the strong ideological pull of the rhetoric of deregulation. Our comparative study highlights, however, the need to view the "deregulation thesis" in a somewhat more critical light. As we have argued, what at first looks like deregulation (e.g. the breakdown of confederal bargaining in Denmark and Sweden) in fact amounts more to a downward shift in the locus of regulation.

Even where deregulation has arguably gone the furthest, as in Britain and the United States, we sometimes also find increased government regulation. Moreover, in such economies – and again obscured by the rhetoric of deregulation – we also find myriad attempts by employers to fill the void left by the decline of unions by creating new channels to enlist employee participation and voice in plant

decision-making, attempts which frequently founder because such employer-created and -dominated institutions are not seen as legitimate and thus do not inspire in employees the trust that appears to be necessary to secure their active cooperation in restructuring.

While the comparative evidence we have examined warns against the breakup or devaluing of co-determination's predominantly salutary processes of negotiation and inclusion, it is also quite clear that the dual system, and its employers, works councils, employer associations and unions, face an unprecedented need for innovation and reform. Defending the strengths and virtues of traditional institutions in Germany will involve both a shoring up of the institutions at home and a strengthening of the European Union's social dimension, as well as expanded flexibility and appropriate innovation by reform-minded actors. Because the ill-fated attraction of the low road is so strong in contemporary society, however, it is essential that reform be carefully developed and regulated so as not to open the floodgates of full-blown neoliberal deregulation.

Potential of German Co-determination

In view of the results of the international comparative study, we consider here the relative potential of German co-determination in the face of serious contemporary challenges. As to the question whether co-determination can serve as the institutional background for a cooperative labour regime under new competitive conditions, the German system compares well, above all to the neoliberal alternatives. There is no need to transform an adversarial regime (as in much of American and British industry) into a cooperative regime. German firms have the advantages of established practices of labour-management collaboration and institutional channels of negotiation in accommodating newly decentralized managerial decision-making and direct workforce participation.

In Germany, successful decentralization and participation can also be undermined or slowed down by entrenched office-holders in management and works councils, and in collaborative processes of mandated negotiation. However, co-determination could well provide a competitive advantage to the extent that works councils, supported by union research departments, continue to develop – as they already have in many cases – more proactive approaches to product and process innovation and thus contribute to a stronger innovation culture at German firms. In the German case, firms may have to negotiate some of the terms of internationalization with general works councils and employee representatives on supervisory boards, but such negotiations do not appear to inhibit either exports or foreign investment by German firms. There are other reasons why Japanese and American firms have in recent years shown superior innovation capacity (e.g. highly mobilized processes of “continuous improvement” in the Japanese case; support for venture capital and the relative freedom for small, innovation-oriented startups in the U.S.), but co-determination itself

does not appear to pose an insurmountable barrier.

This does not mean that survival will not require reforms; and that appropriate reform efforts will make most sense if they encourage the explicit development of co-determination as a competitive asset as well as a mechanism for workplace representation. Regarding the common trend towards a decentralization of bargaining, especially for issues of plant-level concern such as the reorganization of work, the works council structure appears to offer a strong institutional channel for reform, in a context in which comprehensive collective bargaining increasingly allows menus of options for firm and plant-level agreement and variation. Thus an expansion of choice offered within sectoral framework agreements, in negotiations between employer associations and unions, appears to be a continuing and necessary reform. The basic concept and framework of co-determination appears eminently compatible with direct participation, if the latter can be more strongly promoted through the existing institutional context. The cutting away of unnecessary internal rigidities may also be promoted by institutional reforms, again without threatening the basic system or the viability or bargaining power of existing actors.

“Standortvorteil Mitbestimmung”

All in all, and particularly in light of employer initiatives to foster cooperation at the plant level across a range of countries, we find that co-determination and its contribution to social peace, provides a crucial “Standortvorteil” and are worth the costs for German firms. It is quite true that American and British firms seem equally able to yield social peace (as measured by low strike rates) in the current era without co-determination. This broad finding does not mean, however, that a concerted attempt to weaken or dismantle co-determination rights in a country such as Germany where such rights are long established would not result in a prolonged upsurge of protest and disruptive job action.

Moreover, it seems that employers need more than just social peace in the sense of a quiescent workforce. As we have seen, in countries as diverse as France and the United States, many employers have been discovering the limitations of managerial unilateralism, which in the context of contemporary world markets turns out to be a poor substitute for the active participation and cooperation of the workforce. The latter appears to hinge quite crucially on the presence of institutions and procedures that employees as well as employers view as legitimate. If anything, recent experiences from the more deregulated economies point to the difficulties that employers and governments face in creating such institutions where traditional channels have been destroyed or faded into disuse. Precisely because international market and ideological forces are pushing in the other direction, co-determination and comprehensive collective bargaining are more necessary now than ever in preserving Germany's comparative advantage at the high end of product markets, along the more demanding but also socially more responsible high road. ■