Institutional Resilience in a Changing World Economy: German Unions Between Unification and Europe

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Abstract

By the late 1980s, the relative success of West German industrial relations was widely recognized. But these institutions, and in particular German unions, now face major new challenges. This paper is a preliminary study of contemporary German labor as it grapples with the challenges posed both by German unification and by European integration. The author argues that for particular institutional reasons (entrenched codetermination and industrial unionism within a bargained political economy, and the continuing importance of national institutions), German unions may well occupy a stable position of strength and play an influential role within the German political economy, even as Germany is unified and the single European market proceeds. This argument runs counter to well articulated and persuasive pessimistic views of declining union influence in unified Germany and within the single European market. Pessimistic theorists typically underrate the resilience of German codetermination and industrial unionism and at the same time overrate the declining importance of national institutions. By contrast, the author presents evidence demonstrating the continuing strength and influence of German unions, even in the face of the very difficult contemporary challenges.

Zusammenfassung

Introduction

By the late 1980s, the export and domestic market success of West German industry had called attention to the stability, flexibility, and successful "participatory" quality of German industrial relations. At the same time, West German unions, with stable membership density at over 40% and success in the 35-hour work week campaign, emerged in an era of widespread union decline with the strongest labor movement among the major industrial societies. But just as the success of West German industrial relations and unions became most visible and widely recognized, unions in Germany have found themselves quite suddenly posed and torn between the rather extraordinary and simultaneous new challenges of German unification and European economic integration.

How German unions cope with these new challenges is an important focus for research because in the past decade, while organized labor in the United States, Britain, Italy and France has declined in influence under the weight of changing world markets and employer and government challenges, unions in Germany have retained and expanded influence, especially in the workplace, via the institutions of codetermination. British and Italian unions, whose leaders once advocated more militant
approaches and criticized the plodding Germans bogged down in class collaboration, now propose their own versions of works councils and expanded participation in management. German industrial relations have become something of a model, in different ways, for both employers and unionists of other industrial societies, especially in Europe. At the same time, as the government and employer-led drive toward a single European market proceeds, German unions have played a role at the European level, attempting to organize cross-national union efforts in the battle for a "social dimension."

In addition to its immediate relevance for worker interest representation, the study of contemporary German unions and industrial relations affords a useful window on both German unification and European economic integration. Broadly speaking, this article is an exploration of the relationship between existing national institutions and major market and political transformations underway in contemporary Europe. In a period in which many are proclaiming the devaluation of national institutions (at the expense of both supranational and local institutions and developments), I see national institutions not only as continuing important structures or frameworks for action but as major explanatory variables helping to determine the shape of future outcomes, both international and domestic.¹

¹ This perspective draws on important recent work on the importance of national institutions as explanatory variables for contrasting cross-national outcomes, including Zysman 1983; Wilensky 1983 and 1991; Hall 1986; Boyer 1990; and Steinmo and Thelen 1992.
But clearly it is no longer adequate, if it ever was, to look only at national institutions. In this period of market globalization accompanied by widespread decentralization of bargaining, one must in fact look at three levels of union-management interaction: the local level, where increasing diversity is apparent and where firm and local union structures and strategy matter a great deal (Locke 1990); the national level, where national institutions continue to set important frameworks for national unions, employer associations and large firms as well as for plant-level labor and management (Soskice 1990; Wilensky 1991); and the international level, where unions, especially in Europe, are attempting to build new cross-national ties and institutions in an effort to catch up with the internationalization of business (Silvia 1991; Turner 1992).

There are tensions between these three levels of interaction, strategy and analysis. If globalization of markets is paradoxically driving a decentralization of bargaining, local union capacities and labor-management relations become increasingly important. But does this mean that national institutions, including national unions, are therefore less important? I think not, at least not necessarily. In the German case, local unions and works councils have been able to play a continuing influential role precisely because works councils, as nationally legislated firm- and plant-level institutions, have

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2. Although long overlooked and now increasingly important, international union relations have had significance throughout the postwar period (Windmuller 1980).
legal rights to information, consultation and participation in management decision making (Streeck 1984a; Thelen 1991).

National union federations in Western Europe are pushing, through the European Trade Union Confederation (ETUC), for an EC-wide social dimension, including a strong voice in community affairs for the "social partners" (primarily the ETUC and its employer counterpart UNICE). Does this mean that national unions will decline if the upward push of authority and influence is successful? Again, I doubt it. The upward push by unions aims precisely at preserving national union influence within a deregulated single European market (Streeck 1991, p.346).

The point here is that shifting influence among the three levels does not necessarily play itself out within a zero-sum game. In the German case, Thelen (1991) has persuasively demonstrated a mutual expansion of influence in the relations between national unions and works councils/local unions. For some countries, shifting influence may herald national union decline (see Locke 1990 on the Italian case); but such a linkage is not a necessary one and depends on the configuration of national institutions as well as the way in which actors use those institutions.

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3. For useful English-language introductions to the "dual system" of German industrial relations, including codetermination through the works councils, see Adams and Rummel 1977; Streeck 1984a; and Berghahn and Karsten 1987.
The Argument

In my recent book, *Democracy at Work*, I have argued that unions are successful in contemporary world markets only where they are backed up by society-wide institutions that integrate them into firm decision making (Turner 1991a). A case in point is Germany, where a structure that includes works councils and nationally organized industrial unions engaged in various levels of "corporatist" bargaining has made it possible for contemporary unions to prevent the decline so common to many other industrial societies.

This paper builds on that analysis to test two arguments:

(1) that particular national institutions (legally mandated works councils, national industrial unions, sub-peak "corporatist" bargaining as in union/employer participation in national vocational training) make it possible for German unions to maintain influence even in the face of the intense new challenges of German unification and European integration;⁴ and

(2) that even in a world characterized by increasing globalization of markets and decentralization of bargaining, national institutions retain important explanatory power in determining industrial relations and interest group outcomes.⁵

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⁴. This argument extends the Katzenstein thesis on institutional stability and adaptation in the West German case (Katzenstein 1989, pp.307-353).

⁵. Both arguments are based on the assumption that there are different types of political economies, based on contrasting types of institutions and patterns of behavior, and that these
As evidence, I examine the effects of German unification and European economic integration on German unions so far, along with the response of German labor to these ongoing events. Although clear outcomes are several years away, available evidence points in certain directions, and it is important to consider such evidence. There is today much intelligent speculation on the future of Germany, the EC, and specific institutions such as unions and industrial relations; my purpose, however, is not so much to add to this growing body of speculation as it is to examine the hard evidence available so far.

In particular, I suggest that outcomes for industrial restructuring as well as for union and works council influence in eastern Germany (and therefore in unified Germany as a whole) are quite open, and definitely include the possibility of union success. This is true because while market influences are pushing in one direction (mass unemployment, for example, undermines union influence), the spread of western institutions to the East pushes in another direction (German codetermination differences matter for economic, political and industrial relations outcomes. Wilensky has identified three types which he calls democratic corporatist, corporatist without labor, and least corporatist (Wilensky 1983; Wilensky and Turner 1987); Zysman (1983) has called his types state-led, company-led, and bargained; and in a very interesting recent analysis, Soskice (1990) has identified two groupings which he calls coordinated market economies (from Katzenstein 1985) and liberal market economies. Germany, for example, falls into the democratic corporatist/bargained/CME categories; the U.S. and Britain fall into the least corporatist/company-led/LME categories.
law, for example, gives unions a strong new toehold. In spite of current risks and dangers, there is a strong possibility that successful modernization strategies in the new eastern states of Germany will include solid union and works council influence. This argument runs counter to the position of many scholars who argued first that German unions were headed for decline in the 1970s and 1980s (see, for example, Hohn 1988), and now, although the earlier analysis may have been wrong, that unions are certainly facing a pessimistic scenario in current circumstances (Mahnkopf 1991). Such arguments are problematic, I think, because they are based either on misspecified institutional analysis (the contradictions of the German dual system of industrial relations) or on broad social and economic forces that downplay the importance of institutions. The southern strategy of U.S. firms, moving to the U.S. South to avoid unionization and thereby contribute to the weakening of the U.S. labor movement, cannot be reproduced in eastern Germany, I would argue, for particular institutional reasons: codetermination backed up by law; and a cohesive national structure of industrial unionism and regional collective bargaining.

In the European arena, outcomes are similarly open, because the EC is becoming neither fully Euro-corporatist nor fully neo-liberal federalist. Rather, the single European market is

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6. This argument is elaborated in Jürgens, Klinzing and Turner forthcoming.

7. These concepts will be developed and discussed below in the section on European integration.
developing on the basis of intergovernmental alliance, "subsidiarity" (decision making and specific implementation of general policy pushed down to the lowest possible level), and the continuing importance of national institutions. German unions, for example, defend codetermination at home while pursuing cross-national labor alliances, both to establish Euro-works councils at particular firms and to push for expanded information, consultation and participation rights for all employees in the EC. While the Social Charter has so far been a major disappointment to German and other unions (Silvia 1991), the battle continues; and Euro-works councils have in fact been established at a number of firms (Northrup, Campbell and Slowinski 1988; Turner 1992, pp.22-25). This argument runs counter to analyses that see spreading marketization in Europe necessarily undermining the relevance of national institutions, thereby contributing to likely union decline (see Streeck 1991 for a particularly persuasive analysis along such pessimistic lines).

In the concluding section, I will consider theoretical implications of the evidence and analysis presented in this paper. It is quite clear that theory in both industrial relations and in the study of interest groups is in need of new insight, in light of both a changing world economy and changing industrial relations. The analysis presented here points to the conclusion that earlier theories of national systems and institutions provide a surprisingly good starting point, as long
as institutional resilience, stagnation and transformation are considered, and as long as the study of national institutions is complemented and deepened by the study of both local and international industrial relations.
German Unification

From the perspective of an American observer, German labor's relative influence and resilience since the 1970s is quite apparent. Perhaps the only thing more surprising than German union strength at a time of widespread world-wide union decline is the constant readiness of German scholars, in the face of all evidence, to identify and predict German union decline (Windolf and Hohn 1984; Streeck 1984b; Hohn 1988; Hoffmann 1988). Such predictions, in fact, have amounted to a growth industry for German academics of both the left and right since the 1950s.

By the late 1980s, the din from such predictions had finally died down, as British, Italian, American, "Euro-" and other unionists began to look seriously at what they could learn from their more successful German colleagues. But German unification, for which German unions (like all other German actors) were quite unprepared, has now set off a new round of dire prediction and pessimistic speculation.\(^8\) Let us step away from the predictions, however, to look at what the early evidence shows.

Formal unification of the two Germanies occurred on October 3, 1990. But the reality of economic, political and social unification is an ongoing process that began in 1989 and will continue for many years. The process has so far included economic collapse and massive unemployment in the new states of

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\(^8\) See Mahnkopf 1991 for a particularly thorough and persuasive pessimistic analysis of the prospects for unions in unified Germany.
eastern Germany, considerable tension between western and eastern cultures (in and out of the workplace), open season for neo-Nazi/skinhead attacks on foreigners, and real concern about both continuing internal migration from East to West and threatened massive immigration from Eastern Europe and the now independent republics of the former Soviet Union. But the process has also included, and been dominated by, a massive transfer of institutions from West to East: codetermination law (the 1972 Works Constitution Act and the 1976 Codetermination Law) now covers the entire eastern region; (West) German firms have moved in, albeit slowly, to provide new investment; and western unions have moved in to organize the eastern workforce.

In the summer of 1991, together with Ulrich Jürgens of the Wissenschaftszentrum Berlin and Larissa Klinzing of Humboldt Universität, I conducted interviews with newly elected works councillors as well as union representatives and managers at six large eastern German firms. We picked the firms for a mix in their likelihood of success in the new market economy: one firm that had secured solid Western investment (through takeover) and appeared well poised for future successful production; two firms that had been taken over or entered joint ventures and were pushing for more investment funding from the Western firm; two firms that were seeking new investment and struggling to survive; and one firm that was going under. The firms were in the autos,___

9. For a full reporting of the research findings, see Jürgens, Klinzing and Turner forthcoming.
machinery and electronics sectors; and all had been organized by the (West) German Metalworkers Union (IG Metall) in the wake of the collapse of the old communist unions.

We found a fluid situation in which the contours of future outcomes for specific plants, firms and workforces as well as for the eastern economy as a whole were very much up in the air. Given what we saw at the manufacturing plants and firms that we visited, we can extrapolate two distinct possible future scenarios for the new eastern states. First is a polarization scenario in which the eastern region is sweated for its cheaper labor costs, with production facilities serving the function of extended assembly lines for western-based mass production (Voskamp and Wittke 1991). In this scenario, eastern Germany would emerge at the bottom of a nationally segmented labor market, as a permanently less developed region (a sort of German Mezzogiorno). Exploitation of the East could increase growth in the West without contributing to rapid development in the East; and German unions could be weakened as employers play eastern workforces off against their counterparts in the West. This scenario would likely include increasing conflict and a potentially serious destabilization of German industrial relations.

The alternative is a modernization scenario, in which firms make use of the "advantages of backwardness" (Gerschenkron 1962)

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10. See Katzenstein 1991 for a brief discussion of this possibility and its implications.
to invest in the eastern states as a potential high growth area. In this scenario, firms take advantage of eager and flexible workforces and workforce representatives in the East to bring in the latest organizational innovations (such as shopfloor teamwork) and new technology. Works councils and unions are integrated into relations of partnership in this drive toward advanced levels of productivity and flexibility, spurring new growth for Germany as a whole. Union influence could expand in this scenario, provided unions adapt bargaining strategies to the innovations in the East, facilitate transfer of lessons in both directions (East-West and West-East), and prevent East-West whipsawing strategies by employers.

In our plant visits, we have seen each of these scenarios taking shape; and we also saw cases where management had not yet worked out its strategy and where employer-works council negotiations had barely begun. As to which of these scenarios (or some version in between) will be dominant, the future, in the summer of 1991, appeared quite open. In the complex interplay between markets, institutions and politics in this new situation, many things are possible; and there is considerable scope for actor choice (by government, employers, unions and works councils). There is definite potential for the modernization scenario including stable (West) German-style industrial
relations and an influential role for unions and works councils.¹¹

What have western unions accomplished so far in the East? After a slow start, a great deal. The old communist unions have either collapsed or been absorbed in parts into the western unions, which have effected a rapid organizational spread into the new eastern states since the summer of 1990 (Fichter 1991). Eastern workers, driven by insecurity and the need for new representation in a market economy, joined the western unions in large numbers. IG Metall alone grew by a million members, from 2.6 to 3.6 million, in less than a year (Fichter 1991, p.31). All the works councillors we interviewed were IG Metall members, and this seems to be a widespread pattern. The unions set up extensive training programs for newly elected works councillors; and they have engaged in comprehensive regional-level collective bargaining designed to phase in wage parity for eastern workers with their counterparts in the West.¹² Unions have also pushed

¹¹. We returned to the same firms in the summer of 1992 and found a more pessimistic version of the same story. Works councillors in particular were disillusioned at the role they had been forced into: negotiating the terms of mass unemployment. But which developmental and industrial relations scenario would predominate in the long run appeared just as open in 1992 as in 1991 (Jürgens, Klinzing and Turner, forthcoming).

¹². IG Metall contracts call for wage parity by 1994. Real wage parity, however, will not be reached for several more years, since eastern workers will continue well beyond 1994 to work longer hours with less vacation time, holidays, and benefits; and in many cases eastern workers are grouped into lower pay categories than their western counterparts. Economists who criticize union bargaining efforts aimed at approaching wage parity ignore the political realities: if unions do not do this, migration (including severe skills and brain drain) will continue
for an increasing "social partnership" role, illustrated by their negotiations with the Treuhandanstalt (the government-established agency in charge of privatizing the assets of the former East German state) for the establishment of employment and training societies.\textsuperscript{13}

The picture, however, is far from rosy for unions in the East. Millions of new members in exceedingly insecure employment situations started out with high expectations of their new unions that could not be fulfilled (employment security, "overnight" parity, training for all, industrial policy). Unions have managed to do little to prevent the de-feminization of the eastern workforce (employed in virtually equal numbers to men in the GDR, women now account for 63\% of the unemployed in the East; Employment Observatory: East Germany, May 1992, p.2; Cook 1991). We observed considerable tension between western unionists in the East and newly elected eastern works councillors (also now members of the same unions as the westerners). Reflecting a broader tension between "Wessis" and "Ossis" in contemporary Germany, union representatives from the West (who run most regional and local union offices in the East, at least for the IG Metall) have different attitudes, values and interests in many cases than the new works councillors in eastern workplaces. In

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\textsuperscript{13}. The Week in Germany, July 26, 1991, p.4.
an example that we heard repeated several times, eastern works councillors and workforces, to secure their jobs, were willing to agree to long hours, three shifts and/or weekend work, to show employers that they were worthy of Western investment. They resented pressure from western unionists who evoked successful, decades-long battles in the West against night-shift and weekend work, both of which disrupt family life.

Tensions inherent in the German "dual system" of industrial relations (works councils with bargaining rights in the plant; unions with bargaining rights outside the plant) are thus aggravated when the parties come from different political and workplace cultures and face very different economic situations. But most of the works councillors and union representatives we interviewed expressed a basic works council-union solidarity in addition to the tension and frustration. The tension can perhaps best be understood as a major challenge for unions and works councils in the East, but not as a necessary source of future union decline. On the contrary, legally mandated works councils have given the unions an important toehold in a new environment.¹⁴ Employers are negotiating the new terms of employment and work organization with newly elected works councillors; and employer associations (as in the West) are negotiating basic wage levels and framework agreements at the

¹⁴. Although unions and works councils are legally distinct, unions in the West typically run slates of candidates which are elected to works council office. The same pattern appears to be establishing itself in the new eastern states.
regional level with industrial unions. (West) German industrial relations, in spite of current problems, may well be on the way to full introduction and establishment throughout eastern Germany.
German Unification: The Case of VW

At one firm in particular, VW in Saxony, the new works council appeared ready to take on a stable role of negotiation and partnership in the building of a major "modernization scenario" effort, with strong union backing. Because IG Metall plays a pattern-setting role for German labor as a whole, and because negotiations at VW have maintained high labor standards and often broken new ground within IG Metall itself, works council/union efforts at VW in eastern Germany could influence emerging industrial relations in the East, at least as a model for large firms. Since it is also possible that the VW case could prove the exception, the following case study summary should be seen as one possible indicator of things to come.¹⁵

As East Germany began to open up in late 1989, VW moved quickly to establish a joint venture with the East German producers of the Trabant car, and to build a new plant, scheduled to open in 1994, to produce small VW cars (Golfs) for western and eastern markets. At an adjacent older plant in Mosel, near Zwickau in Saxony, VW, by June 1991, had rehired 1250 former Trabi workers to begin final assembly of VW Golfs and Polos from

¹⁵. In June of 1991 and again in June of 1992, Ulrich Jürgens and I traveled to the VW plant in Saxony for intensive interviews with works councillors and managers, on which this case study is based.
bodies supplied by the flagship VW plant in Wolfsburg.\textsuperscript{16} Because a low labor-cost strategy had been undermined by currency union and by the IG Metall's regional contract for wage parity by 1994, success for the Mosel plant, according to current plans, will be based on innovations in production and work organization.

Both management and labor view the Mosel experiment as a sort of German NUMMI or Saturn -- two GM projects in the U.S. designed to proved that advanced organizational innovation based on labor-management cooperation is possible with domestic workforces.\textsuperscript{17} VW management at Mosel was quite explicit in its intent to introduce at this semi-greenfield site innovations that would be much more difficult at western plants, where established practices and interest representation are entrenched. Management planned, for example, to hire only skilled workers and to organize them from the start in production teams of 8-12 members.\textsuperscript{18}

Communist union structures at the Trabi plant collapsed in 1990; and in April 1991, the smaller, rehired workforce elected

\textsuperscript{16} Of the 7,000 workers formerly employed at the Trabi plant in Mosel, some took early retirement while others found new jobs in the West. The largest number, however, were on paid "short time" status, meaning they faced imminent official unemployment. Many of this latter group hoped to get rehired at Mosel, as the workforce expands toward 5,000 in 1994.

\textsuperscript{17} NUMMI is actually a GM/Toyota joint venture, run by Toyota management (see Turner 1991, pp.53-62), while Saturn is more of a homegrown GM-UAW project. The Mosel experiment is therefore probably more akin to Saturn than to NUMMI.

\textsuperscript{18} This is not as difficult as it sounds, since most former Trabi workers had completed apprenticeships and were classified as skilled workers.
its first works council under provisions of the Works Constitution Act (which, as a result of unification, now covers eastern Germany as well as western). Prior to the election, rehired union activists from Trabi days joined the western IG Metall (as did most of the workforce) and sought an experienced VW works councillor to assist them in negotiations with experienced VW top management from the West. Through IG Metall sources, they located Dieter Riemann from the VW Kassel plant, who impressed them with his knowledge and non-authoritarian style. VW management was persuaded to put Riemann on the books; he was elected to the new works council with the highest number of votes (about 600 out of 800 total cast).

The remaining elected works councillors were all former workers at the Trabi plant, most of them former union activists from the middle and lower ranks, some of them former party members and some of them not. This mixed group, including both blue and white collar workers, elected Riemann as head of the works council and set about to build an effective bargaining team.

Working in a plant receiving major new investment from the West, these works councillors were optimistic about their prospects for the future. They supported VW's modernization strategy (that would include elements of "lean production" including an advanced stamping plant for quick die changes but would avoid a primary reliance on automation) and saw in it the opportunity not only for rising workforce wages and future
employment security but for better, more humanistic working conditions. They supported, for example, management's intentions to establish plant-wide teamwork; but they planned to use the IG Metall's principles of group work (Muster and Wannöffel 1989, pp.39-54; Turner 1991, pp.113-14) to push for the human-side benefits of innovative work organization. They expressed commitment to the concept of an "engaged team worker" (mitwirkender Mitarbeiter) with shopfloor autonomy and problem-solving responsibility.

There were elements in management's strategy, however, that they did not like. Management, for example, planned to run the plant round-the-clock on three-shift production. This is an important issue because West German unions have long fought against night and weekend work. In subsequent negotiations, although the Mosel works council attached stringent conditions, especially regarding break time, to its approval of night work, management got the three-shift system that it wanted.\(^{19}\)

Works councillors were also opposed to the continued presence of so many "old red socks," as the former communist managers are known. The rehiring of old bosses to work the new system was a common pattern at all the plants we visited. VW management claimed that many of the old middle managers did well

\(^{19}\) Clear losers in these negotiations have been the women workers who accounted for half the workforce at the Trabi plant. They were excluded in the first year of hiring due to the now obsolete West German legal ban on night work for women; although some women are now being hired, their numbers remain small. This is a typical pattern throughout manufacturing industry in eastern Germany.
on assessment tests and have shown the capacity to learn, adapt and manage in the new environment. Workforce representatives disagreed. As at the other firms we studied, works councillors claim that many of these old-timers lack both the trust of the workers and the capacity to develop non-authoritarian relations and innovative labor-management practices.

In all of the important issues they face, the Mosel works councillors intend to seek guidance from and to work closely with the VW general works council at Wolfsburg. As for the workers themselves, they have joined the IG Metall in large numbers and participated actively in the election of the new works council. VW management from the West expressed its pleasant surprise at the flexibility and skill levels of the Mosel workforce. And it may be that modern team or group work can build on earlier traditions of "brigade organization" from the old Trabi plant.

To what extent innovative modernization approaches can succeed as both managers and workers from the old system are retrained and incorporated into new structures remains to be seen. VW-Saxony management and works council are betting that it can work, and that this plant will not be an isolated outpost. The firm plans to continue building up its local sources of supply (while still getting many parts from the West), in the long-term hope that Mosel can become the core of a modernization network.
European Integration

If processes of German unification are fraught with ambiguity and uncertainty of outcome, the road toward European economic (and to some extent political) integration is downright murky. For any attempt to assess the prospects for unions in the single European market, the first problem lies in conceptualizing the changes currently underway. In this section, I argue that the type of (Western) European Community currently emerging does not necessarily contain the seeds of continuing and future union decline, especially (but not only) for German unions, and that features of the integration process leave plenty of scope both for the continuing importance of national unions and for an enhanced role for the European Trade Union Confederation.

First established in 1957, the European Economic Community helped to set in motion a prolonged process of gradual economic and social integration in Europe (Wallace 1990). Although based in part on this decades-long process of functional integration, the 1986 "relaunch," which took shape in the single market drive scheduled for completion by the end of 1992, was a response to particular world market pressures and difficulties. Fearing rising Japanese and NIC competitiveness and doubting U.S. capacities to offer a way out, European business and government leaders agreed to bring down market barriers within the EC in order to spur the restructuring of European industry (Sandholtz and Zysman 1988; Krause 1991). In its essence, the single
market, now expanded by a commitment (if and when Maastricht is finally ratified or renegotiated) to a common currency and central bank by 1999, is a deregulatory project.

But deregulation, by opening up semi-protected markets and clearing away labor-market regulations, is threatening to organized labor; and the single European market is no exception, as numerous analysts have pointed out (Mosley 1990; Streeck 1991; Silvia 1991; Edwards and Garonna 1991). Labor has responded to the new challenge of cross-national deregulation in two principal ways: by defending the national institutions on which their power has been based, and by campaigning through the European Trade Union Confederation (ETUC) for a "social dimension" to the single market project. In spite of agreement on a Social Charter by 11 of the 12 member states (excluding Britain) in 1989, little has yet been accomplished in the way of concrete measures to establish labor's most important "re-regulatory" social policy goals (Silvia 1991; Turner 1992).

If we conceptualize the emerging new European Community as a neo-liberal, deregulated market economy, led by a confederal European Council of Ministers and Commission, or even in the long run by something akin to a federal state, then the prospects for unions may indeed be grim. In this vision, which may be near to the hearts of some internationally minded European business executives, domestic laws and corporatist bargaining arrangements that ensure labor inclusiveness at the national level could well be undermined, even in strong labor states such as Germany. This
is the type of scenario that Wolfgang Streeck (1991) articulates so well in his rather pessimistic analysis of the prospects for European and German labor.

If, on the other hand, the social dimension takes off, the ETUC gains strength and influence, and we end up with a "social Europe" or a social-democratic/corporatist Europe, then not only would German unions retain strength, but labor movements that have experienced recent decline (Britain, Italy, France) could also find new life. This is clearly what British and Italian unions federations, who now include many new supporters of European integration among their ranks, have in mind. Social Europe offers an appealing vision for supporters of the social dimension, who see potential competitive advantage in Europe's traditions of labor inclusiveness, in contrast to weaker union regimes in Japan and the U.S. (Steinkühler 1989; Lodge 1990).

Streeck's argument is the more persuasive: in this era of widespread union decline, and given great diversity among European unions in structure and orientation, it is difficult to imagine circumstances that could reproduce democratic corporatism (whether of the harder Swedish or softer German variety) at the European level. And this is the crux of Streeck's argument: European economic integration is undermining the national institutions on which German union strength is based; and since German unions will not succeed in reproducing at the European level what they are losing at home, German unions may well face the prospect of seriously declining influence (Streeck 1991).
It is not easy to argue with Streeck, from whom I for one have learned so much about German industrial relations. But in this case, I think he may have overstated the case. His pessimistic predictions flow from the fact that the new Europe will not be transnational-corporatist. But very few observers really expect such an outcome; and there is an intermediate scenario between the social and neo-liberal visions that may well be at once more realistic and more grounded in the continuing importance of national institutions. The EC that has so far emerged in the wake of the 1986 relaunch is one that is very much based on intergovernmental negotiation and alliance. Even if a single currency and central bank are established as planned by the end of the decade, there is no reason to suppose that the centrality of such nationally-based bargaining will diminish. There is little groundswell of support for the creation either of a powerful federal executive for the EC or a greatly strengthened European Parliament. National governments and institutions, including industrial relations, will likely remain major locuses of authority for the foreseeable future (Rhodes 1991).

"Subsidiarity" (yet another contribution to Euro-jargon) is the officially recognized concept whereby decision making and implementation of policy in the EC are pushed down to the lowest possible level. Subsidiarity allows for considerable cross-national institutional diversity within the EC; for labor, this means that very different industrial relations systems can continue to co-exist within the single European market. But
European as well as foreign capital, it is feared, will increasingly avoid northern Europe, to be invested in southern European countries characterized by low labor costs and weaker labor standards. As such "social dumping" accelerates, the bargaining power of unions in strong labor countries such as Germany will be significantly undermined.

But subsidiarity is a two-edged sword. If decision making and implementation are pushed down to the lowest level, then national and local institutions and interactions remain important. National and local unions and works councils, therefore, remain significant actors. While the threat of disinvestment and social dumping can exert pressure on such actors, national and local institutions including laws and established industrial relations practices continue to afford important backing.²⁰

In the German case, subsidiarity means, for example, that any weaker version of codetermination (limited perhaps to information rights) enacted at the EC level should not take precedence in Germany over national law and practice. Information, consultation and codetermination (veto) rights granted the works councils under the Works Constitution Act, which especially since the late 1970s have afforded German unions

²⁰. See Due, Madsen and Jenson 1991 for an interesting discussion of the continuing divergence of industrial relations within the EC, and the continuing importance of national institutions as EC rules require national legislation that is nonetheless different from country to country (as a result of subsidiarity).
a major base of influence within the firm, remain secure at German firms in the new Europe. There is little reason to expect any fundamental change in highly successful German patterns of productivity coalition and diversified quality production associated with strong unions and works councils.  

Which way the subsidiarity sword will cut depends in considerable measure on investment decisions by German firms. Pessimistic scenarios imply an accelerated flight of capital from northern to southern Europe, as firms are attracted by lower labor costs and less constraint on management decision making. Erickson and Kuruvilla (1992) have indeed identified an economic rationale for social dumping. But German investors have long been able to invest elsewhere in the world, including southern Europe. VW, for example, bought the Spanish auto firm SEAT a decade ago and has produced large numbers of small cars in Spain ever since; but this major investment was carefully monitored by the VW general works council in Germany and has not been associated with disinvestment at home.

It is in fact to be expected that prosperous German firms will increasingly invest in eastern Europe and in the republics of the former Soviet Union as well as in southern Europe and other parts of the world. This is a problem for German unions only if such investment is associated with the credible threat of disinvestment at home. Investment abroad can in fact be

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21. For useful presentations of the "virtuous circle" characterized by external labor market rigidity and internal flexibility, see Streeck 1984a and 1989.
associated with increased demand and production at home, if (1) foreign plants require capital goods from the home market; and/or (2) rising income abroad increases demand for the high quality goods of the home market. The effects of foreign investment on domestic production and industrial relations are complicated and contingent and may well include positive effects for domestic institutions alongside (or even in place of) negative effects associated with social dumping concerns.

Empirical data gathered in the coming years will give us a better idea of how the positive and negative effects of German investment abroad balance out at home. In the meantime, however, it is quite clear that German firms, in spite of considerable and growing foreign investment opportunities, have continued to invest in the home market and have done extremely well there. High growth in the (West) German economy since the early 1980s has provided a major engine of growth for Europe as a whole. German firms have reaped large profits over the past decade from the productive efforts of a well trained, highly skilled, and well organized (with the assistance of the works councils) domestic workforce. There is little reason to believe that German firms are ready to abandon this proven field of investment en masse for the uncertain fruits of less trained, lower skilled albeit lower wage workforces elsewhere. Social dumping concerns raised by the single European market have yet to be translated into empirical reality. And subsidiarity, it could be argued,
has so far protected rather than undermined German institutions and German union strength.

National and local institutions and actors remain important in the new EC, whose real form appears to be evolving somewhere between the visions of the neo-liberal deregulators and the trans-national democratic corporatists. There is, nonetheless, a process of institution-building and authority expansion at the EC level, taking shape in what Michael Gorges (1991) has characterized as "Euro-corporatism." The European Commission, the increasingly large and influential body that formulates EC legislation, relies extensively on input from European-level interest group confederations, especially UNICE (the employers) and ETUC (the unions). In spite of internal diversity, tension and organizational looseness within both of these bodies, they have been afforded de facto quasi-monopoly status at the European level by the Commission. They bargain with each other as the major "social partners" (trying to agree on legislation for the Commission), they formally propose and advise on regulations, directives and other Commission measures, and both have expanded their efforts and influence at the EC level in recent years.

These confederal interest groups and their relations with each other and with the Commission are especially important in ongoing negotiations concerning the social dimension. While so far little of real substance has emerged from these deliberations (Mosley 1990; Silvia 1991), the battle is far from over. The Commission, for example, has proposed and continued to refine
directives on controversial issues such as "atypical work" (ensuring benefits for part-time workers) and information, consultation and participation rights for employees. Employers take these proposals quite seriously, as any reading of recent European-level employer newsletters attests. UNICE, in fact, has decided that it may be better off negotiating directly with ETUC, to reach agreement on measures to present to the Commission, than to wait for Commission initiatives and Council of Ministers decisions. UNICE and ETUC have since 1991 therefore accelerated their own processes of discussion and negotiation. While UNICE hopes bargaining between the social partners can result in agreements that will substitute for enforceable Commission directives, ETUC views such agreements as a complement to formal EC action. Whichever way it works out, the role and influence of both UNICE and the ETUC within the EC appear to be expanding; and both sides expect compromised agreement on major social dimension issues in the future.

The recent Treaty of Maastricht, negotiated in December 1991 and signed in February 1992 (and now awaiting national legislature or referendum ratifications), may take the social

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22. Almost every recent edition of Industrial Relations Europe, for example, carries front page stories about the progress of such controversial directives and about union campaigns for participation rights and Euro-works councils. See also recent issues of European Industrial Relations Review.

dimension one step further. Eleven of the twelve member states (again excluding Britain) pledged to formulate social policy jointly, including a shift to qualified majority voting in key areas (such as information and consultation, but not participation, rights) in order to expedite decision making.\textsuperscript{24}

It was, in fact, concern with just such an outcome at Maastricht that pushed UNICE into a new willingness to reach "peak" agreements with ETUC.

Not only, therefore, does subsidiarity act in certain ways to protect national and local institutions, but future progress on EC-level social policy is not inconceivable. Although little has so far been accomplished, ETUC has established a role for itself at the Community level, pushing both to bring labor standards up throughout the EC and to make sure that economic and political relations in the new Europe are labor inclusive (Gorges 1991).

German unions, through the German Union Federation (DGB), play an important role within the ETUC. Concerned about social dumping and the possibility of whipsawing by German employers (based on lower labor standards in southern Europe), German labor has actively promoted the social dimension. In particular, German representatives have pushed for measures to expand information, consultation and participation rights for employees throughout the EC, since German unions recognize in their own works councils and codetermination rights a major basis for

continuing union influence in an era of industrial restructuring (Fuchs, Uhl, and Widuckel-Mathias 1991, pp.730-31). Labor's influence within the European integration project has been limited in part precisely because of the absence of such institutions at the level of the European multinational firm and the weakness of such rights outside Germany. An important part of the social dimension for German unions is the building of new institutions and rights of participation throughout the EC (Steinkühler 1989; Däubler and Lecher 1991).

German labor at the EC level has in fact been criticized in the past by labor representatives from other countries for the one-sided and insensitive advocacy of its own codetermination model. There is evidence, however, that German unionists have accepted the fact that their own model will not become the model, and that different types both of participation and industrial relations in general can be viable in different countries. Part of the gradually developing cohesiveness of the ETUC appears to be based on a growing acceptance among all the member national union federations of different national industrial relations models (Gorges 1991, p.29). How this acceptance of diversity will shape future social policy initiatives at the European level remains to be seen; but it does seem clear that this tolerance combined with the compatible principle of subsidiarity means that EC-level social policy will be implemented in different ways in different countries. This is certainly the case for initiatives
German labor has been disappointed with progress so far at the EC on the social dimension. At the same time, German unions are committed to continuing the push for European social policy as well as to strengthening the authority and role of the ETUC. German union strategy in the face of European integration now moves on several different levels at once: the push for ETUC influence and European-wide social policy at the EC level; the defense of national institutions, including use of the subsidiarity principle; the push for expanded works council influence in restructuring at the firm and plant level within Germany; and the building not only of cross-national union linkages but of cross-national Euro-works councils at German multinational firms.

German unions appear quite as strong now within Germany as they were a decade ago, and this after nine years of conservative governance. I see no evidence that the relaunch in 1986 and subsequent drive toward Europe 1992 have yet weakened German unions (and the evidence is reviewed in the concluding section).
European Integration: The Case of VW

Because German unions are convinced that works council information, consultation and participation rights are crucial to the continued stability of union influence within both the Federal Republic and the EC, it is appropriate to look briefly at a concrete case in which German labor has attempted to establish a Euro-works council. The efforts of the general works council and IG Metall at Volkswagen offer one such case.  

The original initiative for the establishment of a Euro-works council at VW came from the company's general works council in Wolfsburg, Germany. This body is made up of leading members of all six VW plants in (West) Germany; all members of the general works council belong to the IG Metall. The German Works Constitution Act (1952, amended and strengthened 1972) provides not only for works councils (Betriebsräte) at all workplaces with five or more employees, but for general works councils (Gesamtbetriebsräte) at firms with more than one plant. In addition, the law provides for "company" or "conglomerate" works councils (Konzernbetriebsräte) for firms that include more than one independent subsidiary. The VW Euro-works council was established under this latter provision at a meeting in August of 1990, by works council representatives of VW in Germany, Audi in

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25. Sources for this brief case presentation include press reports, VW general works council documents, and interviews which I conducted at offices of the VW general works council in Wolfsburg in June of 1991.
Germany, SEAT in Spain, and VW in Belgium. The council consists of eight representatives from VW in Germany, two representatives from Audi, five representatives from SEAT, and two representatives from VW in Belgium. The council also plans to bring in representatives from newly acquired VW plants in Saxony and in Czechoslovakia (Skoda and Bratislava).

The VW general works council took the initiative to establish this Euro-works council for a number of reasons: a desire to exert influence in VW's growing internationalization of production within Europe; concerns about social dumping, meaning the danger of increased VW investment in lower wage and labor standard countries at the expense of investment in Germany; a desire to work with Spanish and Czechoslovak colleagues to help raise wages and labor standards in those countries; and disappointment with progress at the EC on legislating works councils for European firms. The conscious intent of activists on the new VW Euro-works council is not only to receive information and begin to negotiate jointly with VW management across Europe, but to use German law to set an example for the spread of Euro-works councils at other firms.

VW management has taken a "friendly" attitude toward the new Euro-works council and was present at the founding meeting; and in February of 1992, the company formally recognized the council.

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and its right to meet (at company expense), receive information, and discuss issues of strategic importance with management. Leaders of the council expected such recognition and contractual legitimation from the start, if only because VW management places a high premium on cooperative relations with its already established works councils, especially in Germany.

Even prior to formal recognition, works councillors claimed already to have accomplished important things. First, they have set up a viable cross-national labor body that has met regularly and laid the groundwork for an official role at Europe's largest auto firm. Second, they have exchanged information among union/works council representatives from several countries and set in motion a regularized exchange process to inform national and plant bargaining (Fuchs, Uhl, and Widuckel-Mathias 1991). Third, cross-national information exchange has already paid dividends in bargaining outcomes: discussions at the Euro-works council of a shorter work week in Spain were followed by concrete bargaining gains in this regard at SEAT.\footnote{\textit{BR kontakt}, newsletter of the VW general works council, July 1991, p.4.} And finally, the council has already achieved recognition, especially in labor circles, as one possible model for the spread of Euro-works councils at European multinational firms.

VW Euro-councillors are surely right in their perception that their nationally based influence in the various countries, and especially in Germany, could be threatened if they fail to
"Europeanize." Works councillors at VW in Germany are therefore pushing representation functions and rights at several levels: at the local and plant levels on the works councils of individual plants; at the firm level on the VW general works council and in IG Metall-company collective bargaining; at the national level within the IG Metall (where the chairperson of the VW general works council is a member of the national executive board); and now at the international level within Europe, deepening ties with labor representatives at VW plants in other countries to establish what they hope will become a path-breaking Euro-works council. Buoyed by this dense network of works council and union negotiation points, VW works councillors and their union (IG Metall) have made major efforts to adapt to new circumstances, and in particular the challenge of European integration. There is little evidence so far that their influence has been seriously weakened by the onslaught of the single European market.
Conclusion

German unions have so far continued to perform reasonably well in the face of both German unification and European integration. They have maintained a fairly stable membership density of over 40% for the past decade; they have bargained for real wage gains over the past few years; they have lowered the standard work week from 40 hours toward 35; they have maintained comprehensive bargaining coverage within western

29. Union membership density in West Germany (using figures for all unions and for the total employed workforce) was 45% in 1980, 46% in 1985, 44% in 1989, and 43% in 1990 (author's calculations from data in Statistisches Jahrbuch 1991 für das vereinte Deutschland). With unification and rapid unionization of the new eastern states, membership density for unified Germany appears to have climbed slightly in 1991, up 1-2% by most estimates. Percentages are inflated by the inclusion of retirees in union membership figures; but the numbers given capture the trends. For the dominant DGB unions, membership density shows essential stability accompanied by a very gradual downward trend, from 33.4% in 1980 to 31.8% in 1989 (Kittner 1991, p. 88). Again this number appears to have climbed slightly since unification.

30. In 1990, for example, wages and salaries rose by an average of 4.9%, while inflation was 2.8% (European Industrial Relations Review 210, July 1991, p. 14). For 1986–90, average wage and salary gains totaled over 25% while cumulative inflation was 7.4% (Industrial Relations Europe XIX:226, October 1991, p. 5). Since the scope of collective bargaining is wide in Germany, and since bargained wage and salary levels are generally spread throughout the entire economy (either by pattern following or by government order), aggregate wage and salary increases are indicative of union bargaining gains (quite unlike the contemporary situation in the U.S., where "union wage effect" literature contrasts wage developments in union and non-union sectors of the economy).

31. Based on the initial breakthrough to 38.5% by IG Metall following a six-week strike in 1984, a 35-hour work week is now contractually established for implementation by 1995 in the metal working and electronics sectors.
Germany; they have quickly established major bargaining coverage in the new states of eastern Germany and have bargained for phased in wage equality with the West for many sectors of the eastern economy; they have maintained their overall domination of the works councils throughout Germany; \(^{32}\) they have maintained their sub-peak corporatist position in important quasi-public national and local institutions such as those responsible for vocational training; and they have maintained and in some cases expanded influence in company decision making both through the works councils and through nationally mandated participation on company supervisory boards.

They have managed to do all this, I argue, because of the leverage afforded by particular national institutions of industrial relations, especially the works councils with information and participation rights and the large national industrial unions engaged in regional-level collective bargaining. For German unification, the eastward spread of these institutions has made it possible for the labor movement to gain a quick toehold in very difficult circumstances, both at the plant and local levels and at the regional level. And for European integration, these institutions have made it possible

\(^{32}\) Under German law, works council elections occurred every three years throughout West Germany until 1990 and will now occur every four years. In the most recent elections (1990), 75% of the works council positions were won by union members, with 92% of these coming from one of the 16 industrial unions of the DGB (Niedenhoff 1990, pp.11-12). This showed a modest improvement for the union share from the previous elections in 1987; the DGB share of works council membership has grown steadily since 1978.
for German labor to defend its position at home while pushing outward in cross-national collaboration through the ETUC and through the new Euro-works council movement. In so doing, German labor has so far defied the pessimistic predictions of many astute observers regarding future prospects of both German and European unions.

I do not mean this to be a deterministic analysis: the institutions alone do not cause the outcomes. Particular national institutions, reflected in local, regional and national patterns of negotiation, make particular outcomes possible. Success, I would argue, lies within the range of possibility for German unions because of their particular structures of representation (while similar success may today lie outside the range of possibility for unions in other countries lacking parallel institutions). Nonetheless, what actors do with given institutions is also extremely important. IG Metall moved in the 1980s to use the works councils in new ways, to gain influence in processes of industrial restructuring and work reorganization, as a matter of strategic choice and with some success (Thelen 1991). They did not have to do this; but the legally mandated works councils made the new strategy possible. In similar fashion, IG Metall has developed particular strategies to move rapidly into the new eastern states of Germany; and again the legally mandated works councils and cohesive industrial union structure has made this move possible.
The findings and analysis presented here do not mean that all is well for German unions. In addition to the risks posed by unification and European integration considered above, German unions face other difficult challenges. The prospect of massive immigration from eastern Europe and the former Soviet Union poses a major social policy dilemma for German labor, based on the threat of significant new internal labor-market pressure. In addition, German unions have so far maintained membership density by deepening membership in their areas of strength rather than by extensively organizing growing occupational groups (service, technical, white collar) in a changing domestic economy (Armingeon 1989). Although the unions have in the past decade substantially increased membership and participation by women as well as by foreign workers, campaigns for renewal and more internal union democracy face an uncertain future.

Although national unions in Germany, especially in comparative perspective, have on the whole done quite well in recent years, this does not mean that local diversity and changing international circumstances do not matter. As we have seen in eastern Germany, there is considerable diversity in industrial relations across plants, dependent on particular firm and works council circumstances and strategies (and this is true in the West as well; Herrigel 1989; Turner 1991). Within the context of given national institutions and possibilities, local actors make choices and play out their strategies and interactions; within this mosaic can perhaps be found a national
pattern (or patterns) of outcomes (Locke 1990). To assess the substance and relative success of the adaptations of actors such as unions, as well as the range of choice, it is important to look at the diversity of local outcome.

At the same time, globalization of markets, and in particular the spread of the single European market, means that national and local actors face important new pressures. Again, particular national and local institutions afford certain possibilities for response and set a framework for the strategic choice of actors. Attempting to build upon and expand the use of existing institutions, German unions have begun to respond on a number of levels to European integration.

What are the implications of this analysis for comparative industrial relations theory? To begin with, traditional approaches based on the study and comparative analysis of the structure and workings of national institutions by scholars such as Commons (1934) and Kassalow (1969), and the industrial relations systems approach developed by Dunlop (1958), afford a surprisingly good basis for modern industrial relations theory. Later analyses that weave in the dynamic interaction of national actors and institutions (unions, employers and the state) with circumstances of economic crisis and changing world markets mark an important expansion of nationally based analysis (Flanagan, Soskice and Ulman 1983; Lange, Ross and Vannicelli 1982; Gourevitch, Martin, Ross, Bornstein, Markovits and Allen 1984). Studies of changing world markets and work organization, and the
challenges for and responses of national and local unions make an additional contribution to understanding the dynamic context facing contemporary unions (Piore and Sabel 1984; Kern and Schumann 1984; Boyer 1988; 1990). And finally, the work of strategic choice theorists is important in identifying the range of choice facing the key actors within their institutional settings and the effects of their choices in conflict and negotiation (Kochan, Katz and McKersie 1984).

But all of this is still not enough. Streeck's work is important (among other reasons) because he identifies the close linkages among national industrial relations institutions, patterns of production organization ("diversified quality production" in the German case), and both economic and industrial relations outcomes (Streeck 1984a, pp.411-420; 1989). The recent work of Soskice (1990) is important in specifying general national institutional configurations (such as the "coordinated market economy"), within a rapidly changing world economy, that make particular favorable outcomes possible. And the equally recent work of Locke (1990) makes a useful contribution in grappling with and highlighting the growing importance of local-level industrial relations diversity in an era of bargaining decentralization.

What we need is a theoretical framework that begins with existing national institutions, that analyzes the capacities of

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33. See Boyer 1990 for an even more diversified typology and perspective on contemporary national trajectories of industrial relations.
these institutions in the face of changing world markets and other contemporary challenges, and that then moves from this level to examine both local diversity and cross-national collaboration. We need to do this work comparatively, to sort out contrasting national and local capacities. Pressures of both internationalization and decentralization will give us new insight into national configurations and capacities, and at the same time highlight the relative importance of local diversity and cross-national collaboration. We may find that national institutions are less important today than they were in the past (although I doubt it); we may find that local experimentation and diversity are shaping new national patterns, or contrasting patterns within the same nation; we may find that international market pressures and cross-national union collaboration are blurring national differences.

In the end, the answers to these questions are empirical and require detailed international and comparative research, much of it necessarily interview-intensive field work (since there is often no other way to find out what is happening beneath published data and journal and press accounts). The world is changing around us, and industrial relations is no exception. We need new theory to understand new circumstances, dynamic theory that analyzes and explains relative international, national and local institutional capacity, the range and effects of actor choice, comparative institutional resilience, stagnation and transformation.
German unions and industrial relations have so far presented a picture of institutional resilience in the face of challenging circumstances. This is true because of the way in which representation is structured and the decisions that actors, including unions, have taken within those structures. And the institutions are essentially national, although they are translated variously into local diversity and cross-national collaboration.

The situation faced by unions both in unified Germany and in Europe is dynamic and subject to rapid future change. German employers have decisions to make about their continued willingness to work within the constraints of codetermination and strong industrial unionism, now that they will operate within a single European market. Government has policy decisions to make regarding industrial relations as does the EC. But so far, at least, German unions have found effective responses both to changing circumstances and to the decisions of others. The particular institutional framework in which they operate has made such effectiveness possible.
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