Coping with the Single Market:
Corporatist Response Strategies in Germany and Austria

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Abstract:

While Germany is facing the wholesale disorganization of sectoral collective bargaining, the Austrian social partnership has gained new strength in the 1990s. Comparatively, Austro-corporatism proved able to undergo a process of skillful adaptation, despite Austria's belated entry into the European Union and despite a number of apparent disadvantages and weaknesses of the Austrian economy. This paper explains German-Austrian differences in the performance and resilience of corporatist governance in the face of European integration in terms of (i) the organizational differences between German and Austrian corporatism (sectoral concentration versus vertical centralization and little horizontal flexibilization); (ii) the long term policy strategies employed by labor unions in either system (co-determination versus macro-level policy influence); and (iii) by the different responses chosen by corporatist actors in Germany and Austria (internal organizational reforms verus becoming modernization brokers).

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This paper compares the institutional responses of the Austrian and German social partnerships to European economic integration. Although both economies face similar international constraints, the small Austrian economy, with its high level of import penetration, would *prima facie* appear far more vulnerable to external economic pressures than the German behemoth. Yet, for reasons to be explored here, the German social partnership is undergoing a major systemic crisis in the 1990s, whereas Austrian corporatism has been able to strengthen its position relative to the 1980s. The central argument is that Germany's brand of corporatist governance is curiously "mis-specified" or "sub-optimal" in light of what economic integration requires.

Scholars have argued extensively about the impact of Europeanization and globalization. Some have claimed that the former is indistinguishable from the latter in the sense that they both are synonymous with deregulation (Majone 1996; Verdier and Breen 1999), while others have suggested that these effects compound (Streeck and Schmitter 1991; Scharpf 1996; Chase 1998) or, alternatively, mitigate against one another (Verdier and Breen, 1999).[1] Regardless of the overall implications of Europeanization, four specific aspects of European integration have commonly been associated with affecting labor market organization:

1. Decentralization, deregulation and de-statization. In the wake of implementing the Single European Act (SEA), EU directives and guidelines deregulated European goods, capital and labor markets, changed the ownership structures of public enterprises, and forced open quasi-monopolistic market segments. As a result, previously protected areas with high levels of unionization and fairly stable bargaining relationships such as public utilities, telecommunication, and transportation were broken up. Cross-border competition in the services, import penetration, and capital mobility have additionally strained inter-and intra-associational cohesion.

2. The decline of sovereignty. The establishment of the single market has resulted in the curtailment of competencies in economic policy making and their subsequent transfer from local institutions to the supranational level. Areas in which the domestic labor market associations have found their legal powers curbed include price control, foreign trade, transportation, competitiveness, agriculture and economic subsidies.

3. Supplying a new ideology. The EU has functioned as a catalyst for the spread of neo-liberal value orientations among political elites and business leaders. Among the elites in continental Europe, traditional concerns for social cohesion have been largely replaced by the promises of a free market environment, greater economic efficiency and lower costs to consumers.

4. The effects associated with Economic and Monetary Union (EMU). Complying with the EMU convergence criteria has forced governments to abandon explicit demand management and expansive social policies which frequently served to buffer labor market organization and facilitated inter-

associational compromising. As a result of EMU, labor market associations that were used to operating in an environment in which the national bank reacted directly to wage bargaining (thereby reinforcing bargaining coordination), now have to adjust to a monetary union in which the European Central Bank is likely to respond to a broad set of uncoordinated wage bargains across the continent.

It should be noted that the above developments have impacted corporatist organization throughout Europe fairly evenly. They are, therefore, not an adequate explanation for the performance differences in German and Austrian corporatism. Instead, these are far more likely to be rooted in the different models of market organization and economic governance, as well as in the contrasting strategies pursued by the labor market associations in either country.

Comparing Germany and Austria. Despite obvious differences in economic size and complexity, the German and Austrian social partnerships have been routinely treated by the neocorporatist literature as closely related models of economic organization (Katzenstein, 1976; 1984; Lehmbruch, 1984; 1985). The labels "social" and "autonomous" corporatism have been applied to both. As such, they represent systems in which the overall economic and social framework is determined primarily by consensus, often far beyond conventional tripartite cooperative agreements between labor, business and the government. The dominant role of employer and employee organizations is legitimated by government by not intervening in the negotiations themselves, and by subsequently incorporating decisions by the social partners into public policy (Aiginger, 1994). In so doing both the German and Austrian governace systems have delivered steady real wage increases, low inflation and a high level of social stability, even when faced with severe international constraints.

Both economies have comparable organizational characteristics (Rhine capitalist, sector coordinated – David Soskice's 1990) rooted in a similar cultural context (valuing consensus and cohesion) and common historical background (enlightened absolutism, *Rechtsstaatlichkeit*, a brief and shaky inter-war democracy and the Nazi-Labor Front). Moreover their economies are also highly integrated with respect to one another. Austria is Germany's fifth largest trading partner, while nearly half of Austria's trade is with its northern neighbor. In addition, the Austrian Schilling has been pegged to the German Mark since the early 1970s, so that in effect Austrian interest rates have been largely determined by the German Bundesbank.

In terms of European integration the important difference between Germany and Austria is their date of entry into the European Union. While Germany was a signatory of the Treaty of Rome and a dominant force in shaping the New Europe, Austria only joined in 1995 in the EU's most recent expansion. The Soviet veto of Austria's bid for membership in 1959 restricted Austrian commitments to the European Community to two free trade agreements that were concluded in 1972. Nevertheless, the Austrian government tried to coordinate its customs and trade policy closely with that of the Common Market,

Germany thus appeared to have the advantage of economic size, continuity and "incumbency," while Austria's somewhat sudden and belated decision (not even seriously considered until the mid-1980s) to join the single market and EMU implied more radical economic adjustments, amounting to an economic shock therapy of sorts. Comparatively, Austrian economic organization, with its large quasi-monopolistic market segments, its many public enterprises, its opaque corporatist institutions, and its secretive decision making processes seemed far less equipped to absorb the exogenous pressures and profound changes encountered in the process of economic liberalization, modernization, and Europeanization. In fact, scholars of Austro-corporatism predicted the inevitable disorganization, if not imminent collapse, of associative governance in Austria (Pelinka, 1981; Talos, 1985; Crepaz, 1994). Surprisingly however, in the 1990s the Austrian social partnership underwent a process of skillful adaptation, and organized decentralization, thus strengthening its position (Chaloupek, 1995; Traxler, 1992; 1996; Heinisch, 1999), while German associative governance is in a state of rapid decentralization.

Segmented and dependent in their performance on the surrounding social structure, markets are permanently forced to resist the interventions of the pluralist state. Some have argued that economic efficiency dictates only two options of managing economically suboptimal interests: either the neoliberal elimination of such interests, or their corporatist instrumentalization to exploit market segmentation (Traxler 1995ab, 1996) leading to the conclusion that stricter variants of either neoliberalism or corporatism have distinct advantages over more mixed types (Calmfors and Driffill 1988).[2] The German industrial relations system is, however, neither sufficiently neoliberal to develop flexible US-style labor and capital markets, nor is it, like the Austrian system, sufficiently centralized to take advantage of corporatism's ability to help translate, absorb, and distribute economic and social pressures created by international economic transformations. Thus, it is my argument here that the German-Austrian differences in the performance and resilience of corporatist governance, when coping with the pressures of economic integration, can be explained in terms of (i) the organizational differences between German and Austrian corporatism; (ii) the long term policy strategies employed by labor unions in either system; and (iii) by the different responses chosen by corporatist actors in Germany and Austria.

The Origins of Regime Formation: Joint Governance versus Order and Stability

Important substantive differences in Austrian and German neocorporatism date back to the origin of their regime formation immediately after World War II. Both nations were facing similar problems in the sense that inflation had to be kept under control, the resumption of labor militancy had to be avoided, the shattered economies had to be rebuilt with little or no capital, and a national model of political and social cohesion had to be created. While both the German and Austria models embraced consensus and stability, they differed in one crucial respect. For Germans, consensus implied a consensus on the outcome of bargaining processes, requiring an often torturous search for solutions acceptable to both sides in each bargaining round. Since there was little faith in the other side holding up its end of the bargain, the German model required, thus, a rigid legal framework to enforce negotiated outcomes. For Austrians, consensus meant an agreement on the process of bargaining itself. Consensual bargaining is seen as a process of giving and taking over many rounds with the possibility of delivering return concessions at a later stage. This implies high trust relations and thus requires a less explicit and also less rigid legal enforcement mechanism.

Austria: Consensus on process. In the absence of capital or capitalists, Austria's postwar political culture emerged in response to a general desire for national unity and for bringing Allied occupation to a close. These policies required a model of political organization that ensured a high degree of national cohesion. The old system of federally chartered "chambers," such as the Federal Economic Chamber (*BWK*) or the Chamber of Labor (*BAK*), were resurrected as a means of bringing together the various social and economic actors (Pankert, 1987).

Initially, Austrian industrial relations were characterized by militancy and fragmentation. A series of wage pushing strikes in 1946 and an escalating inflationary cycle, which threatened to get out of control once European Recovery Program funds were released, demanded immediate attention (Kindley, 1996). With the government's power severely constrained[3] by the presence of occupying forces, there was an urgent need for business and labor to establish some form of cooperation (Talos, 1993). By collaborating on the Currency Act of 1947, the Austrian Trade Union Federation (*ÖGB*) and the *BWK*, the all-important employers' association, demonstrated that both sides were able "to control dissenters and forge a new cooperative coalition" (Kindley, 1996: 64). Following a process of integration and internal centralization on the part of both the unions and Federal Economic Chamber, five consecutive price-wage agreements were signed between 1947 and 1951. Anchoring unpopular decisions in the consensual framework of the social partnership minimized the political cost to policy makers, which were, in turn, expected to provide a supportive and favorable policy framework to facilitate inter-associational compromising (Talos, 1985; Pelinka, 1993). In 1957 a joint committee on prices and wages, dubbed the Parity Commission, was established, which was to became the permanent formula making the short-lived price-wage-agreements obsolete.

Germany: Consensus on outcome. From the outset, German market organization after WWII had to cope with a more complex pattern of cultural and political cleavages than that of Austria. Northern Germany's strong liberal–Protestant culture and the predominance of the private sector, especially that of Germany's industrial giants, provided an initial context markedly different from that of Austria after the war. Believing that market competition and liberalization are the best guarantors of political liberty, Germany's post-war economics minister, Ludwig Erhard, suddenly eliminated all wage and price controls and abolished all food rationing in 1948 (Katzenstein, 1987).The West German government, however, was forced to rely on an umbrella group of the business associations to control the allocation of raw materials and investment planning. This shift to the "self-administration" of business was a political defeat for Erhard, thwarting his goal of the deconcentration of industry. The number of legal cartels had increased from 14 in 1887 to over 6000 by the end of World War II. Because of the culpability of German industry in Hitler's war machine, both the Western allies and the German labor movement had strongly favored the breakup of the traditional German industrial structures, which coincided also with Erhard's belief in free market competition. However, the growing importance of German industry in the budding Cold War and the fierce resistance by German business interests meant that Germany retained a form of market organization in which economic concentration was quietly embraced.

From the outset business was able to establish itself as the dominant force. It managed to consolidate its power throughout the 1950s, a decade of rapid economic growth. A pliant labor force willing to forgo real wage gains commensurate with productivity gains and tax policies that favored investment over consumption helped bolster Germany's speedy recovery. In the Dusseldorf Program of 1963, the German union movement, abandoning all Marxist positions, committed itself to a reformist ideology.

German law constrains union strategies by a highly-developed series of legal regulations on which the entire German industrial relations system is based (e.g., the Collective Bargaining Law of 1949, the Works Council law of 1952, amended in 1972, the decisions by Labor Courts, etc.). In comparison to Austria, the primary mission of the German social partnership is not coordination and joint policy formation. Instead, corporatist governance is to contribute to the stability and orderliness of German industrial relations. Thus, unions were barred from the shop floor until 1972 and court rulings were rendered in the spirit of preserving the "factory community," implying substantial risks and responsibilities for workers.

Generally, the law divides the representation of workers by distinguishing between representation within firms, handled by elected works councils, and representation outside firms. The latter function is performed by the trade unions, whose task is the collective and solidaristic representation of labor in sectoral collective bargaining. In their wage strategy, the unions are constrained by the principle of "social appropriateness" (Katzenstein, 1987: 141). Strikes must correspond to "the normative order of society as well as to the principles of labor law," which, as Katzenstein (1987) points out, courts have interpreted "in a conservative fashion" (:141). The works councils are bound by "trustful cooperation" with management and subject to a "peace obligation" that makes it illegal to organize strikes and demonstrations. Although German labor law has equipped works councils with considerable formal responsibilities, their power depends largely on the success of the unions in achieving certain collective bargaining objectives (e.g., vacation allowances, length of workweek, schemes for job evaluation, etc.).

Summing up, the Austrian and German governance systems developed in response to a specific national and international context after World War II. Despite a shared history of antagonistic labor relations, authoritarian rule, devastation and foreign occupation, both nations derived decidedly different lessons from those experiences. Austro-corporatism developed into a model of joint governance, in which, as Scharpf calls it, "joint mistakes [are] jointly corrected." (Scharpf, 1991: 56). The German approach, by contrast, has aimed primarily at order and stability in industrial relations. Each system values consensus, which in Austria is established through joint responsibility. In Germany consensus is determined by searching for the minimally-acceptable position between the social partners. In Austria's high-trust labor relations consensus lies primarily in the process of interest group negotiations itself. This is a constant give-and-take over many rounds, each of which may demand uneven tradeoffs that are bound to cancel out over the long run through return-favors. In the German low-trust model the outcome of each round weighs much more heavily, thus requiring compromises acceptable to both sides. Such "antagonistic cooperation" (Scharpf, 1991: 117) implies necessarily an often bitter struggle for compromise and is more likely to produce solutions that are sub-optimal from the standpoint of economic efficiency (see Table 1 -- appendix).

German-Austrian Differences in Organization and Strategy

The evolution of the Austrian and German social partnerships in the decades following World War II resulted in important differences in organization, strategies and objectives. While the German social partnership evolved around the sectoral level, Austro-corporatist organization embraced the micro/firm-, meso branch-, and macro/national-level. In terms of strategies, German unionism tried to strengthen labor's influence at the plant level, while Austrian labor associations sought to expand their roles at the level of national policy making (see Table 1).

German Corporatist Organization: Trapped at the sectoral level. By protecting the bargaining relationship in Germany's industrial sectors, German law intended to protect the bargaining position of German unions. In short, the extensive juridification of German labor relations reflects an effort to stabilize[4] the cooperative relationship between unequal partners (Lehmbruch, 1985).[5] In time, however, the unions have become prisoners of their sectoral confines. They were robbed of their flexibility and are, thus, unable to shift bargaining venues downward to the micro-level, if necessary, without simultaneously losing power in the process. How did this come about?

From a comparative perspective, it is noteworthy that German unions have been forced to operate in a political environment considerably more hostile to their objectives than that of Austria. Even when the

German Social Democracy was relatively dominant in the 1970s, it was never hegemonic as in Austria and had to rely on its small coalition partner FDP with its explicit liberal and pro-business orientation. Unlike Austria, where all relevant political and social interests could either be brought into the corporatist system or effectively suppressed (at least until the 1980s), German corporatism, and here particularly the unions, remained vulnerable to attacks from the Right, the (new) Left and the Greens as well as the Liberals. In economic terms, German unions always had to cope with the policies of a powerful central bank beyond the control of even those governments sympathetic to the unions' cause. Moreover, codetermination had not, as was hoped, shifted economic power significantly to labor. Instead, it had such a stabilizing effect on labor relations that critics charged it represented the integration and cooption of labor (Streeck, quoted in Katzenstein 1987:146).[6]

In both Germany and Austria the organization of industrial relations in the Nazi era (Labor Front) contributed to the creation of a unified trade union movement. In Germany, the old divisions between Socialist, Christian and Liberal unions were eliminated in favor of originally 17 unions organized along industry lines and united under the umbrella of the German Trade Union Federation (*DGB*). In reality, however, the *DGB's* power is limited by the relative strength of its affiliates and by the fact that it cannot interfere in collective bargaining -- an all important difference to the Austrian Trade Union Organization (*ÖGB*).

While Austrian affiliates are subdivision of *ÖGB* with no legal personality of their own, German branch unions routinely engage in political activities of their own. Because of their large membership and financial contributions, some affiliates (e.g., the Industry Union of Metal Workers, *IG Metall*) carry such enormous weight that they routinely overshadow and upstage the umbrella organization. Moreover, the *DGB* is not the only peak association of labor. A much smaller labor organization is the German Employees Union (*DAG*) representing a vastly declining membership of white-collar employees. A third and, increasingly, more powerful union is the German Federation of Civil Servants *(DBB)*, whose members have a somewhat diminished status under German law (i.e., legal restrictions on industrial action).

The collective political interests of the German business community are formally represented by employers' associations organized along regional and functional lines (e.g., local and regional Chambers of

Industry). These are united at the federal level through so called peak associations. The leaders of peak business associations -- the Federation of German Industry (*BDI*), the Federation of German Employers (*BDA*), and to a lesser extent the Diet of German Industry and Commerce (*DIHT*) -- collaborate in national pressure group politics, a process facilitated by an overlapping membership in top organs and (a rapidly declining) inter-elite consensus (Edlinger, 1986). Together with the *DIHT*, the three associations have a joint budget of DM3.5 billion and represent some 1500 sub-associations.

Traditionally, a large majority of German businesses supported the centralized system of sectoral collective bargaining (Silvia, 1997). Using the full-time experts of the association as negotiators was not only more cost-effective to companies, but also provided a collective defense against union tactics and removed most industrial conflicts from the firm-level. Moreover, the so called "convoy principle" assured that wage and benefit increases were linked to firms with average performance, thus rewarding particularly productive and profitable companies. By permitting labor ministers to issue a "declaration of general applicability" for collective bargaining agreements, German labor law made it traditionally rather difficult for individual firms to undercut agreements negotiated by employers' associations.

Austro-Corporatist Organization: Vertical integration with little horizontal formalization. Among the most remarkable features of Austro-corporatism are (Haas-Lassnig, 1990) (i) the relative informality of consensus building and decision making, essentially through "gentlemen's agreements"; (ii) the confidentiality (if not secrecy) of negotiations; (iii) the flexibility of positions displayed; and (iv) the range of issues debated.

In the Austrian social partnership there is an inter-organizational concentration among four big associations and government as well as an intra-organizational aggregation of interests within each organization's domain. In industrial relations the important associations are the Trade Union Federation (*ÖGB*), a private law body with voluntary membership, the Chamber of Labor (*BAK*) and the Federal Economic Chamber (*BWK*; since 1992 *WKÖ*). The latter two are public-law organizations with compulsory membership and quasi-governmental jurisdiction. The Association of Austrian Industrialists (*VÖI*) is a separate association for large firms, which offers a distinct but a complementary forum to the *BWK*. The latter is dominated by (more protectionist) small-and medium size companies, since for internal decision-making it follows the principle of "one-person-one-vote," regardless of company size.

Comparative analyses show that Austrian associations have nearly unrivaled organizational power when compared with corresponding interest organizations elsewhere. Compulsory membership in the chambers and the unitary structure of the trade union organization produces extraordinarily high density ratios (100% in their domains) and comprehensiveness scores (for *BWK* and *VÖI* see Van Waarden, 1995: 74-85; for *ÖGB* see Traxler, 1995a: 170, 174). A consensual political climate and administrative culture as well as the monopoly to provide important selective goods (legal consulting) further contribute to the controlling capacity of Austrian associations.

Van Waarden (1995: 55) rates the Austrian Federal Economic Chamber (*BWK*), Austria's predominant business association, the most comprehensive of its kind, both in terms of tasks and sectors of the economy covered. With some exceptions (certain groups of self-employed professionals such as lawyers, engineers, architects, etc.), the *BWK* represents most business interests, whether industrial or non-industrial, large or small. Functionally, it is an employers' association, a trade association and a regulatory agency, whose nine regional and 80 local units play a central role in vocational training and have jurisdiction over member businesses. The *BWK* also engages in collective bargaining. In the crucial sectors of metalworking, the chemical industry and construction, sections of the *BWK* are the only Austrian employers' association. The *BWK*'s massive institutional development can be gauged also by its extraordinary level of bureaucratization. With a budget of about $40 million and 4,665 staff employees, it has resources equal to those of many similar associations in Europe combined (Van Waarden, 1995). Moreover, Austria's usually small and mid-sized companies live their political lives in the obscurity of Chamber politics. The leading German corporations with their public relations and legal and research staffs on the other hand can bypass corporatist interest mediation by making their voices heard both in the corridors of political power and in the general public. German policy makers frequently consult with leading industrialists (Edlinger, 1986), which provides individual companies with a political clout that in Austria is enjoyed only by the social partners. Unlike their Austrian cousins, German chambers of industry have only regional importance and pale in comparison to the Austrian Federal Economic Chamber (Lehmbruch and Schmitter, 1982).

With their 1.5 million members, the Austrian trade unions cover more than 40% of the labor force but represent 100% of private and public sector employees. This is because the union federation, *ÖGB*, alone has the monopoly of representing labor in collective bargaining arrangements. These govern virtually the entire economy. Collective bargaining agreements, signed usually for an entire branch of the economy, are negotiated on the workers' side by the branch trade unions of the *ÖGB*. Agreements allow for firm-specific adjustments, approved, as in Germany, by elected work councils. These are usually (but not necessarily) made up of union representatives. Traditionally, final accordation took place in the Parity Commission, which defined an intricate collective bargaining system in which individual union wage claims were fed through the central union umbrella. The unions' wage demands were then presented as an integrated proposal to the Subcommittee for Wages, ensuring that wage increases were more or less equal across the board. The activities of the trade unions have always been complemented by the Chamber of Labor (*BAK*) which enjoys quasi-governmental jurisdiction in areas such as work organization, work safety and consumer protection.

Summing up, despite superficial similarities between the Austrian and the German model, the fundamental difference is that the latter has given up on upward interest concentration in return for extensive sectoral corporatist organization and codetermination at the plant level. The upward orientation of Austro-corporatism makes it possible to resolve deadlocks between labor market partners by shifting the issue upward to a larger domain, in which new tradeoffs and concessions become possible. Because of their legal role and their organizational development, Austrian associations have extraordinary controlling capacity over members and are thus better equipped to forge a compromise and to deliver on agreements. Austro-corporatism is characterized by a high degree of vertical integration (well-defined institutionalized hierarchies) but little horizontal formalization. In Germany legal barriers, judicial arbitration and clearly defined juridical responsibilities frequently prevent both cross-sectoral interest aggregation and upward concentration. Especially critical is the *DGB*'s inability to engage in collective bargaining. Aside from relative deficits in both internal and external centralization, German union strategies are additionally constrained by the absence of "closed shops," by the well-institutionalized system of work councils. While the Austrian system has similar features, institutional safeguards (i.e., the interconnectedness between unions and works councils) and generally less emphasis on firm-specific governance (i.e., codetermination) have retained most of the power with the union's central decision making organs.

<u>German Union Strategies and Objectives: Sowing the seeds of decentralization.</u> The major policy

objective of German unions after the war was to gain access to the boardrooms of management, initially to prevent big business, once and for all, from supporting anti-democratic policies (Katzenstein, 1987:131). Codetermination represented a nearly thirty-year struggle by the unions and was legislated in several stages (the initial law of 1951, the Works Council Act of 1952, the Works Legislation Act of 1972 and the Codetermination Act of 1976). Yet, even in its final version, provisions in the law ensured that in cases of a tie between members of the supervisory board, decisions are defacto resolved in the interest of the shareholders. As a result, neither unions nor business were satisfied with the outcome of this prolonged and bitter process of political bargaining. The final blow to industrial relations based on mutual trust came in 1977 when 29 employer groups decided to challenge the constitutionality of the codetermination law passed only a year earlier. The unions felt betrayed. If not even this central issue of German post-war unionism, which was guaranteed, as it seemed, by an act of the Bundestag, was safe from counter-strikes, how much faith could unions put into agreements reached with the employers?

In the 1980s German unemployment rates rose so dramatically that reducing the work week to 35-hours became the new overriding goal of union policy (Katzenstein, 1987: 135). Following the full mobilization of the rank-and-file membership during a six-week strike, the unions ultimately prevailed. Against the resistance of the reigning CDU/CSU/FDP coalition, business finally accepted a 38.5-hour work week (Katzenstein, 1987).

Yet, in retrospect it seems puzzling that the unions fought so vigorously for codetermination and work-time reduction, for both policy issues have created a fertile ground for company unions and expanded the role of the works councils at the expense of Germany's industry unions. Moreover, collective bargaining has directed the anti-labor sentiments of employers at the unions and away from the works councils, who are required by law to be cooperative. At the plant level, workers and management often place the good of their plant above the interest of larger economic units. Thus, divisions between a privileged and an under-privileged labor force emerge, which turns the collective conception pursued by the unions on its head. By operating at a distance from the firm-level, the German unions have also become overly committed to more general and somewhat abstract issues. Specifically, the German Trade Union Federation (*DGB*), bereft of significant organizational clout and unable to participate in collective bargaining, has routinely engaged in various causes of dubious mass-appeal (e.g., support for the Sandinistas of Nicaragua); critics have referred to the *DGB* in this context "as a feel-good supermarket for the righteous" (Silvia and Markovits, 1995: 83). In short, German union strategies that on the surface seemed to strengthen the role of labor proved to result in Pyrrhic victories by undermining the relationship with business and by strengthening rival labor organizations at the company level.

Austro-Corporatist Strategies and Objectives: Expanding the influence in public policy. In both Germany and Austria the role of social partnership far exceeds the sphere of labor relations. In both countries, the social partners are consulted by legislators and government. In Germany, however, such consultation is normally limited to interest representation along sectoral specialization (Lehmbruch, 1985). For example, in Germany's wine industry, legislation and policy implementation is subject to reviews by the *Weinbeirat*, an advisory council which involves wine producers, wine dealers, consumers and state administrators but does not include unions or other industrial associations that are not directly affected by new laws or new policies.

In short, while all major regulatory processes in Germany involve, at least formally, the major social partners, they do not have an absolute right to be consulted as is the case in Austria (Lehmbruch 1985: 95). Created in 1963, the Council for Economic and Social Questions expanded the influence of the Austrian social partnership to virtually all matters of domestic policy from education to employment, from the environment to transportation. Corporatist actors and organizations as well as their culture of consensus pervade all political institutions. The Austrian economist Ewald Nowotny estimates that the social partners interact regularly in some 90 governmental committees as well as in no fewer than 223 advisory councils and subcommittees (*Profil*, 31 October 1994; see also Talos, 1993). Meetings in the Parity Commission and the informal four-presidents' caucus serve as a forum for resolving inter-associational conflicts and for developing joint strategies (Kindley, 1996).

The social partnership has the right to take legal initiatives, must be consulted by government prior to submitting draft legislation, and routinely exercises influence on other political actors through inter-elite contacts and the practice of *Personalunion*: Under this procedure leading corporatist functionaries routinely hold top positions in political parties, are appointed to ministerial posts, and carry legislative mandates. The social partners can, therefore, affect the legislative process both at the pre-parliamentary and parliamentary level. They are also responsible for the nation's self-governing employment-based social insurance systems, which form the core of the welfare state (Talos and Wöster, 1994: 105-136). As a result, the Austrian social partnership has enjoyed enormous political leverage at macro-level. Its support was especially indispensable for the government's social and economic policy, specifically Austria's hard currency policy. In return, Austrian labor market associations expected the government to expand corollary social programs and pursue explicit demand management (Austro-Keynesianim) to facilitate inter-associational compromising.

While the social partnership is largely autonomous from the government in matters of collective bargaining and work organization, the formulation of macroeconomic and social policy objectives involves a trilateral relationship between labor, business and the government. The social partnership derives its political legitimacy in the public policy domain from its ability to successfully resolve class antagonisms in the core domain. In turn, the social partners are able to monopolize interest representation and interest resolution in the core domain of industrial relations precisely because of their overwhelming political significance in public policy. In short, the roles of the social partnership in both domains are mutually reinforcing.

Summing up, while Austrian corporatism has always attempted to maximize and instrumentalize interest concentration at the highest possible level, and has expanded its role in public policy, the German model resembles essentially the classical sectoral model. Lastly, the informality of Austrian inter-social partner relations has also no real equivalent in the German model (see Table 1).

Social Corporatism and European Integration

Organized economic interests, from farm lobbies and labor unions to small business organizations, regarded European integration always as a mixed blessing. While the agricultural sector felt the effects of European integration much earlier and more directly, German labor unions initially saw the Common Market as an asset for the country's strong export economy. Moreover, numerous impediments to true cross-border factor mobility, specifically the fact that large segments of the domestic market remained closed to foreign competition, served to protect market organization well into the 1980s. Lastly, it seemed plainly unthinkable to many that venerable flagships of German industry could simply pack up and relocate abroad.

The German unions' apprehension about the European Community began to grow in the 1970s with the steady rise in unemployment. Simultaneously, it became increasingly important to "civilize" European labor relations based to the German model. As a result the German unions pushed hard for some sort of European social partnership and especially for co-determination at the European level. These efforts intensified with the rising tide of neo-liberal economics in the 1980s. From then on, European integration not only represented a danger through increasing competition and import penetration but it posed a more "sinister threat" in the form of an imported ideology based on an alien disorganizational logic.

Since the 1970s employers had found themselves engaged in a struggle against a Community directive that would have made German-style co-determination mandatory for all large European enterprises. Business interests were able to decide this battle decisively and definitively in their favor when the European Community embarked on the single market initiative. The price for the willingness of business to forego national protection, was the concession that in the New Europe firms were to be significantly less subject to institutional deregulation (Streeck and Schmitter, 1991). In short, the launch of the single market initiative and the 1992 compromise meant that the European labor movement and, especially, the German unions, having the most at stake, had essentially lost this struggle.

> As Streeck and Schmitter (1991) observe "...[T]he project of European integration became finally and formally bound up with a deregulation project. While 1992 is all about sovereignty, it is about sovereignty vis-a-vis Europe's external environment, not its domestic economy. Indeed part and parcel of the pooling of sovereignties under the Single European Act and of the political deals that made it possible is a redefinition of the relationship between the Community's "domestic" [sic] institutions and "the market" [sic] under which the latter stands to gain unprecedented freedom from intervention by the former." (:16)

<u>The German context at launch of the single market initiative.</u> By the mid-1980s the German economic model began to show increasing signs of strain, as the conditions of maintaining an institutionalized high-wage economy had defacto eroded: With increasing foreign (especially Japanese) competition, the German domination of the world-wide product niche market for quality-competitive goods was no longer assured. New management and production techniques (lean production) gradually surpassed German-style knowledge production and diffusion as well as German management, work organization and skill formation.[7] The stability and order, around which German labor market cooperation was centered proved disadvantageous at a time when the world market increasingly demanded flexibility and mobility. As a result, German technological

leadership and innovation suffered, with product cycles, especially in the critical car industry, falling behind those of Germany's competitors (Streeck, 1997). In short, the German model of protecting high wages by artificially constraining the supply of labor was no longer practicable.

For some time, German social and education policy -- generous unemployment, health and retirement benefits; structural impediments for women to enter the workforce, extensive apprenticeship training; long duration of university programs -- had served to restrict the volume of labor to fit the demand in quality markets. The limited domestic low-wage service economy was mainly served by imported foreign labor. By losing its hold on the world-wide high-quality market, the supply of labor increasingly outstripped demand, thereby pushing up German unemployment rates. Finally, German reunification created a supply-shock of workers whose wages far exceeded their productivity, and who could therefore no longer be absorbed. This, in turn, triggered the collapse of employment in the 1993 recession (Streeck, 1997). Moreover, Germany's social system that had traditionally absorbed excess labor, thereby stabilizing corporatist industrial relations, was pushed to its fiscal limits. To remain competitive the German high-wage economy had required continuous supportive and directive public or corporatist (quasi-public) intervention, which made it necessary to restrict the mobility of production factors across the border. By the mid-1990s, almost all of Germany's leading corporations had redirected a substantial part of corporate investment and out-sourcing away from Germany to other countries in Europe and overseas -- measures which were subsequently used rather bluntly as a means to pressure unions in wage negotiations. Between 1988 and 1992 the German industry's direct investment abroad jumped from 9.8% to 29.3%.[8] Today German corporations invest about 10 times as much abroad as foreigners invest in Germany.

<u>The Austrian context at the lauch of the single market initiative</u>. In Austria, the prosperity of the 1970s had helped shift the political weight to the (new) middle-class, which embraced a new liberal renaissance, valuing individual choice and personal advancement (Vogler, 1993). As a result Austrian corporatist governance in the 1980s began show symptoms of a multiple crisis marked by a decline in economic effectiveness and political legitimacy (Plasser and Ulram, 1995: 394). Political scandals and corporatism's quasi-governmental power along with its opaque decision-making process fueled widespread public criticism (Pelinka, 1996; Talos, 1996) and a decline in voter participation in corporatist elections (for

a detailed statistical analysis refer to Plasser and Ulram, 1996; Karlhofer, 1993).

Simultaneously, the two large political camps, the Social Democrats (SPÖ) and Conservatives (ÖVP), whose support since 1945 had been the prerequisite for the frictionless cooperation between business and labor, began to disintegrate. The fragmentation of the Austrian political landscape, the emergence of new political parties (Greens, Liberals, New Right) critical of the corporatist agenda, and the resurgence of Austrian parliamentarism (Crepaz, 1994) became substantial threats to social partner stability. The new political realities not only made policy solutions by a broad consensus more difficult, but also forced the governing SPÖ-ÖVP coalition to coopt issues, ranging from the environment to economic liberalization -- a political agenda traditionally antithetical to corporatist interests.

Between 1984 and 1987 economic growth slowed to 1.8 percent, simultaneously, Austria's large state-owned industrial sector[9] (45% of the economy) experienced massive structural problems (Luif, 1995). Austria's large public economy had helped sustain Austro-corporatism on political, economic, organizational and normative grounds. By 1990, most industrial assets in the publicly controlled sector were privatized, with about one-third ending up in foreign, mostly German, hands (Christl, 1990).

Increased budgetary pressures -- a problem which Germany essentially faced only after reunification -- made it harder for the government to help maintain a favorable (Keynesian) policy context (Lechner, Reiter and Wilk, 1993: 213-215).[10] Austro-corporatism was most successful as long as it was able to maintain the *logic of exchange*, that is (i) tradeoffs were mutual and simultaneous (contemporary time horizon); (ii) there were mainly gains to be distributed (distributive in substance); and (iii) the relationship between the social partners was more or less equal (symmetrical power relationship) (Fach and Gierszewski, 1995). As these conditions eroded in the 1980s, the social partnership was becoming less effective and found itself increasingly sidelined by Austria's rapidly changing political landscape.

Membership in the European community was initially regarded with great scepticism by the social partners, specifically by labor and agricultural associations. Also, economic forecasts were initially inconclusive about whether EU membership would generate additional GNP growth. What convinced the social partners to support accession to the European Community was the fact that Austria was entirely dependent on foreign trade (Luif, 1995). Sensing growing competitive pressures from Germany, Austrian businesses felt that an economic future could only be assured on the basis of equal economic opportunities. The Austrian trade union leadership also sensed that much needed impulses for economic restructuring, new foreign investment, new job growth, and lower consumer prices would only be possible if Austria participated more fully in the European market.

Specific Effects of Economic Integration on Corporatist Organization

The single most important effect of European economic and monetary union on labor market organization was the growing inability of national institutions to restrict the cross-border mobility of production factors. Not only was it increasingly impossible to constrain the available national labor supply to preserve both wage levels and employment rates, but economic integration had direct effects on corporatist organization itself. Import penetration, international competition and innovation had their most devastating impact on sectoral organization by eroding specifically the demarcation lines between industrial sectors along which collective bargaining had been institutionalized. This, in turn, wreaked havoc with the organizational structures of labor market associations such as the branch unions, which have been trying to respond through bargaining cartels, mergers, takeovers and invading each other's territory (Streeck and Visser, 1997). To the extent that German corporatism is organized nearly exclusively in terms of sectors, it is far more vulnerable to sectoral disorganization than Austro-corporatism whose organizational scope comprises also the micro- and macro-level (Heinisch, 1999).

Disorganization comprises four related dimensions (Traxler, 1995a: 3): (i) disorganization in the narrow sense which refers to a gradual weakening of the organizing capacity of employers' organizations and unions (e.g., decline in membership, a decrease in inter-, and intra-associational cohesion); (ii) decentralization, which is indicated by the shift from multi-employer bargaining at the sectoral or central level to single-employer bargaining (e.g., house contracts, special arrangements outside sectoral or centralized collective bargaining); and (iii) deregulation, which implies the erosion of rules created by collective bargaining arrangements or legislation as a result of the market process (e.g., the elimination or transfer of legal and administrative ordering mechanisms to the European level); and (iv) the spread of a disorganizational logic among political and economic elites resulting in a decline in the necessary normative, political and fiscal support for inter-associational compromising.

Corporatist disorganization in Germany and Austria. In the 1990s economic decision-making in German industry has been increasingly shifted to the plant level, thereby strengthening firm-specific governance at the expense of sector-level cooperation. Simultaneously, German corporatism has seen an increase in inter- and intra-associational friction. Examples abound, especially in Germany's important metal sector. When large manufacturing firms spun off their data processing departments in the 1990s, the Metal Workers' Union (*IG Metall*) absorbed data processing and software production into its domain, which brought it into conflict with the Union of Trade, Banking and Insurance. In 1996, *IG Metall* announced first merger plans with the Textile Union, a small affiliate of only 216,288 members, and then with the Union of Wood and Furniture Workers. The latter had only 170,908 members left at the time. The rationale given was similar in both cases: textile workers supplied car seats for the German auto industry, and wood workers produced panels for the upscale Mercedes-Benz models (Streeck and Visser, 1997).

In other cases, unions added areas to their domain with no connection to their traditional territory whatsoever. This happened usually when firms organized by these unions entered entirely new areas of operation. For example, by offering telephone services, the German railways began drawing the Railway Union into this rapidly growing and heavily contested industry. Domain overlaps, which have existed from early on in Germany (e.g., *IG Chemie, Papier*(!), *Keramik and IG Druck und Papier*(!), invite takeovers or poaching as domains are increasingly crowded and their territorial boundaries are in flux. The merger wave in Germany began in 1995, when leather workers agreed to join chemical workers. The new conglomerate union merged with the Miner's Union in 1997, forming together the third largest branch union with approximately one million members.

Austrian labor market associations face similar internal problems. There too, an increasing cleavage between the traditional internal branch differentiation of the economic and occupational structure has arisen in the course of modernization. Parallel to the process of union mergers in Germany, the Austrian Union of Metal-Mining-Energy (210,000 members) has announced a merger with the Union of Textile-Clothing-Garment (20,000 members) by the year 2000.

The changing labor market continues to change occupational roles in ways that make the traditional status differences between different classes of workers obsolete, especially between blue and white-collar workers or between private sector employees and civil servants. Even more than German labor relations, Austro-corporatism represents a historically evolved system of stratification allocating differentiated entitlements, selective perks and privileges (*wohlerworbene Rechte*) to different groups. Adjusting such status differences and equalizing retirement benefits across occupational groups has resulted in major squabbles between the three most powerful *ÖGB*-affiliates, the Unions of White Collar Employees (*GPA*), Public Sector Employees (*GÖD*), and the Metal Workers Unions (*GMBE*).

Industrial restructuring and membership disaffection in Germany and Austria have resulted in a significant decline in union membership. Since 1991 over 9 million members have left the *DGB* (-20.5%). In some areas, such as leather (-44%), agriculture/forestry (-37%), and textiles (-37%), the losses were excessively high. Except for the Police Union (-1%), each of the 16 branch unions experienced a decrease in membership of over 15%. The three largest unions, Metal Workers, Chemical Workers and Public Transportation lost between 17 and 20% of their members between 1991 and 1996.

The size of affiliates not only determines the distribution of power among branch unions, a declining membership has also created demographic problems (dominance of older skilled male workers) and financial difficulties; these were made more severe in Germany by mismanagement and embezzlement scandals in troubled union enterprises (see Silvia and Markovits, 1995: 67). In 1990, many German labor leaders hoped that unification would help restore the unions' financial fortunes by absorbing millions of former East German workers, including especially record numbers of women and young people. This strategy, however, was doomed from the start. Although German unions had recruited 3.6 million new members, massive labor shedding as a result of industrial restructuring reduced the labor force in the East by over 50%, causing total union membership to fall below 9.8 million by 1995 (Silvia and Markovits, 1995). The layoffs in the East reduced membership dues significantly, and the unions' costly recruitment campaign in the East turned into a financial nightmare for individual unions, such as *IG Metall*[11] and the *DGB*, which receive a fixed share of their affiliates' dues (Silvia and Markovits, 1995: 68).

Austrian trade unions, which, unlike the Austrian Chamber of Labor, must rely on voluntary membership, have experienced a similar drop in overall membership. Union density declined to about 42%

in 1996 from 49% in 1985 and 60% in 1970.[12] These losses are indicators of both member disaffection and Austria's continued industrial restructuring. Hardest-hit were the branch unions in the textile sector (1990-96: -41.9%), chemical industry (-23.3%), food industry (-17.7%) and metal industry (-12.2%). The only branch unions to experience an increase in membership have been public sector affiliates (the Postal Workers' Union with 80,000 (+1%) members and Communal Employees' Union with 177,637 (+2.8%) members).

The internal redistribution of power among the branch unions has also weakened the umbrella organization *ÖGB*. The three largest unions, the Metal Workers' Union (*MBE* 1996: 210,000 members), the Union of Public Sector Employees (*GÖD* 1996: 229,445) and Union of White Collar Employees (*GPA* 1996: 315,000 members), increasingly dominate *ÖGB's* economic and social agenda.

Changes in the economic structure also affect the employers' association by eroding the internal differentiation of the Austrian *BWK*. As Traxler (1995c) observes, "the demarcation problem spills over to collective bargaining, since a firm's shift from one branch subunit to another within the *BWK* always almost implies corresponding changes in the employer bargaining unit" (: 275). It should be noted that, when switching subunits, firms are frequently motivated by differences in the standard rates offered so that shifts mostly occur to subunits with lower rates.

Nevertheless, Austrian business interests in collective bargaining are still relatively unified in the *BWK*. The position of German employers, on the other hand, is increasingly fragmented (Silvia, 1997: 188). From the employers' perspective, the benefits of pattern bargaining traditionally outweighed the difficulties posed by Germany's bifurcated industrial structure. German employers' associations consist typically of smaller suppliers and larger assemblers (Silvia, 1997: 190). Decelerating productivity growth, labor cost compression, and rising import penetration have made unifying member interests more difficult, especially over uniform minimum compensation in the contested metal industry (Silvia, 1997; Thelen 1995). Larger companies such as the industrial giants Mercedes-Benz, BASF, Bayer and Hoechst pressured their associations to accept more generous pattern agreements in the early 1990s to prevent work-stoppages during the brief post-unification boom. Buying labor peace became increasingly difficult for the smaller firms, especially when the large assemblers began to cut costs by squeezing their suppliers. As a result of ensuing performance gaps, a substantial number of companies began to opt out of employers' associations.

Simultaneously, associations representing smaller and family-owned businesses demanded the creation of "bargaining corridors" or "bargaining menus" (Silvia, 1997). As a result, the organizational density of the important metalworking industry dropped form 57.9% in 1989 to 42.8% in 1993 (Silvia, 1997).

What had been made difficult by tradition, and specifically by the third clause of Section 7 of the Plant Constitution Law -- that is, to open up, at the plant-level, issues already settled by collective bargaining -- was made possible by German reunification. Many companies survived the deindustrialization of Eastern Germany by purposefully undercutting the going collective bargaining rates. Hardship and opening clauses built into the agreements increased the flexibility of firms to adjust to local circumstances (Mahnkopf, 1994; Koch, 1995; Thelen, 1995). Eventually this practice migrated westward, strengthening plant-level bargaining between works councils and management at the expense of branch unions.

This is perhaps the clearest example of how the unions' earlier effort to strengthen the works councils is now contributing to the decentralization of sectors. Already in 1984, an agreement had been reached in the metalworking industry to adopt the 38.2 work week, which was to be implemented through factory councils. It created a new basis for more decentralized bargaining, for which reunification became the catalyst resulting in the wholesale erosion of conventional sectoral collective bargaining. Recent examples include the sparkplug manufacturer Beru (pays wages only for 35 hours for a defacto 37 hour week); engine manufacturer Dietz (postponed indefinitely the agree-upon introduction of the 35 hour week); BMW and the machine tool manufacturer Babcock-Borsig (introduced their own working time model (*Arbeitszeitkonten-Modell*);[13] and the tire manufacturer Pirelli (introduced three-shift weekend work for its German plant citing competitiveness problems with other European sites). In other instances, large German manufacturers concluded generous "house contracts" with the branch unions themselves, such as Volkswagen with *IG Metall* in 1993.

"[By shifting] the balance within the dual system [of bargaining] toward the plant-level" (Thelen, 1991: 155), German industrial relations underwent a two-step process of decentralization: time flexibility in the 1980s and wage flexibility in the 1990s. Now unions are forced to decide between "time or money" (*Der Spiegel* 4, 1996); that is, they are expected to agree to (i) wage corridors (i.e., allowing companies to modify pay and working conditions based on sector-wide agreements); (ii) wages below the current agreement levels; (iii) wage support from state transfers; or (iv) longer working time.

In Austria too, sectoral disorganization and growing import penetration[14] have placed a particular strain on the internal cohesiveness of the Federal Economic Chamber, which continues to be dominated by small-sized protectionist businesses. Growing pressures toward market liberalization and threats by the Austrian Industrialists' Association to become a full-blown rival organization to the *BWK* have prompted a less protectionist stance by Austrian business. This was supported by labor, which had seen protectionist small business interests in the *BWK* as chief reasons behind the high prices for consumer goods and services. "At the level of inter-organizational concentration, this means that both export-oriented, anti-protectionist business groups and the government require the support of the labor representatives in order to realize modernization policies" (Traxler, 1995c: 273) -- a marked difference from the German case.

Summing up, since the launch of the single market initiative mounting pressure toward greater flexibilization induced a process of sectoral decentralization in German and Austrian corporatism. As a result, bargaining has shifted to lower levels. Both the goals and capacity of coordination have become more restricted in the process. Compounded by the catalyst of unification, especially German industrial relations have seen a rising tide in defections from collective bargaining arrangements (see Table 1).

Corporatist Response Strategies

Labor associations have not passively endured external and internal pressures toward disorganization. Moreover, the decline of corporatist governance and policy influence was not a uniform process. Instead, the varied nature of these pressures, with periods of corporatist erosion and consolidation, allowed for the possibility of an institutional learning process to adapt to the changed economic and political environment. The difference between Germany and Austria in both the efforts and success of such reforms has been considerable. In Germany, reforms have aimed mainly at mending the internal organizational problems, while Austrian counter-strategies have gone beyond the intra-associational level by targeting the social partnership as a whole (see Table 1).

<u>The German approach.</u> The German unions were particularly hard hit, and have tried to respond with a series of reforms, culminating in the "*DGB* reform-congress" of 1996. Initially, the unions had tried to solve their financial difficulties through union mergers and other measures of organizational consolidation (sharing

resources, offices and personnel among affiliates, reducing staff, etc.). Adopting a reform resolution at the 1990 Hamburg convention was a first (but insufficient) step by the *DGB*'s leadership towards greater internal democracy and a more diverse membership (Silvia and Markovits, 1995: 75). Subsequently, the 1993-consolidation plan was developed, calling for staff reductions by 13% as well as decreases in the number of *DGB* offices and executive board members (Bastian, 1995). Following the *Klausur* meeting in January 1992, a time table was approved for a programmatic and organizational reform. Other proposals went further, calling for "joint systems of collective bargaining" (ibid.: 74).

There have also been efforts to strengthen the central authority of the German trade union structure at the expense of affiliate unions. Larger unions, however, have been reluctant to give up power, especially since every constituent union has formally the same voting strength on all-union boards. The unions have also improved their public relations management, warning Germans of the social consequences of wholesale deregulation and liberalization. Specifically, the *IG Metall* and Public Transport Workers' Unions managed to mobilize their membership by staging a series of strikes and protests in 1996. Fueled by increased public concerns about Germany's social climate and rising unemployment, the German chancellor invited the *DGB* leadership to a series of informal high-level consultations between the government and employers. Public statements by the chancellor, other government officials, and even some business leaders appeared to express, at least verbally, sympathy for the unions' position (*Der Standard*, 10 October, 1996).

The most ambitious project to reform corporatist governance in Germany was proposed by the head of *IG Metall*, Klaus Zwickel. He demanded nothing short of the resuscitation of the concerted action program. (*Konzertierte Aktion*). Lasting from 1966 through the early 1970s, this was the most ambitious and most highly formalized collaboration of the social partners in Germany to date (see Hancock, 1989; Scharpf, 1991; Katzenstein, 1987). In a plan dubbed "Alliance for Work," Zwickel and his staff proposed "writing into law the logic of political exchange [between labor and capital]" *(Frankfurter Rundschau,* 13 November 1996). Accordingly, the productivity increases of corporations made possible by flexibility concessions of labor are to be used to provide additional employment. Even observers sympathetic to unions have pointed out that Zwickel's plan is economically impracticable and unrealistic -- firms are unlikely to give up their gains as a result of greater flexibility by hiring more workers, thereby reducing productivity and profitability once more.

Even during the most favorable conditions (i.e., full-employment, effective unions, social-democratic dominance, restricted factor mobility, national regulatory competence, the normative priority of social equality and consensus) the concerted action program was relatively short-lived. None of these stability conditions apply today, and even many social democrats and union officials have accepted the logic of the market as the main regulatory mechanism. Moreover, as Bodo Zeuner (1996) points out, concerted action (as well as the Austrian-style social partnership) requires both *Konsensusbereitschaft* (willingness to achieve consensus) and *Verpflichtungsfähigkeit* (capacity to make and keep commitments) on both sides. Today even the unions, whose relatively weaker position would indicate superficially a greater interest in an agreement with business, would not be able to deliver on both accounts. From the perspective of business, a concerted action alliance with labor is clearly not in their self-interest, especially when it is obvious that labor is no longer capable of a comprehensive consensus and commitment (Zeuner, 1996).

None of the reforms adopted by unions so far have resolved any of the principal problems of labor, such as the gradual loss of power vis-a-vis business and the sliding slope toward plant-level bargaining. It appears that organizational reforms and programmatic changes alone are insufficient under current conditions -- at least as long as the system is formally specified in terms of sectoral cooperation. Since union bargaining rights are still based on domain demarcations and adjudicated in this fashion by labor courts, labor market associations are constantly forced to defend or redefine industrial sectors which are simultaneously undermined by the deregulation of labor and capital markets.

In Germany's system of antagonistic cooperation, the antagonisms have increased at the expense of cooperation. It is now almost routine that bargaining rounds are overshadowed by the threat of a breakdown in negotiations. While union officials ominously hint at their willingness to call for work stoppages, business leaders openly threaten to cut jobs or to relocate industries abroad -- this tactic is used vis-a-vis both unions and the government. In the 1999 bargaining round in the all-important metal sector, in which the unions still enjoy considerable clout, an imminent strike was narrowly averted only by means of an extraordinary arbitration procedure. Through the mediation of an appointed outside arbiter, the employers and unions reached a longer-than-usual 14-month contract in February 1999 under which the 840,000 workers in the south western parts of Germany would, among other benefits, receive a wage increase of 3.2% starting March 1,

1999. No sooner was the bargaining round concluded, when the employers publically expressed their dissatisfaction with the results as well as with the arbitration procedure itself.

The President of the employers' association *Gesamtmetall,* Werner Stumpfe, quickly pointed out that the settlement achieved "does not send a signal beyond the [the south west]" (*Der Standard,* February 18, 1999). It was precisely this growing regionalization of wage bargaining that the unions have been so determined to avoid. For this reason the unions had spent considerable political capital in persuading the German public not to allow the creation of a lower-wage economy eastern Germany. As *IG Metall* officials admit, however, with four million Germans out of work, the unions now have little choice but to agree both to longer duration agreements and to increasingly divergent regional bargaining agreements even in western Germany (*Der Standard* February, 18, 1999).

Barely two months later another conflict arose in Germany's metal sector, when *IG Metall,* negotiating on behalf of some 100,000 Volkswagen-workers, rejected the offer made by the employers. Citing international competition, Volkswagen managers were willing to agree only to a 2.5% wage increase . As a result, the two parties were so far apart that the negotiations initially had to be suspended. The unions felt that Volkswagen's offer was substantially (0.7%) below what the employers had conceded in the February collective bargaining agreement (*Der Standard* March16, 1999).

The decision by *IG Metall* in 1993 to enter into a bargaining relationship with Volkswagen that was outside traditional sectoral bargaining now meant that the unions would have to settle for less than what was the going rate in the metal sector. In short, both the creeping regionalization of bargaining and the continuation of special house contracts with large manufactures are just the most recent indication of continued decentralization. Neither the reform efforts of unions, nor the fact that the German metal sector, and, especially, the car industry have experienced several years of substantial growth have reversed the trend toward disorganization. This is an ominous sign for German market organization because the metal sets the standard for wage bargaining elsewhere and also features Germany's most powerful and best-organized branch union.

The Austrian approach. In Austria too, labor market associations have had fairly little success in reforming the organizational and programmatic aspects of associations (Karlhofer, 1993). For example, efforts to concentrate sector affiliates have not resolved the problems of growing disparities between white and blue collar unions in terms of financial resources (Traxler, 1992). Likewise, the unions have to contend with the problem that larger enterprises are becoming more autonomous in relation to their associations. By strengthening their relations with local works councils, these firms are weakening the links to the unions at the branch level (Guger, 1993; Traxler, 1995c: 274).

As elsewhere, private sector unions in Austria have been unable to arrest their decline in membership. Yet, organizational reforms in Austrian associations have aimed at preserving, adapting and also redefining the social partnership as a whole. Although criticized as lacking in substance (Pelinka, 1996; Talos, 1996), the new Social Partner Agreement of 1992 tried to branch out into non-traditional issue areas to attract new political support. By making specific references to the role of Austro-corporatism in environmental policy, European integration, and economic competitiveness, the new corporatist agenda has intended to change the "rustbelt image" of this aging Austrian institution. Subsequent organizational reforms in favor of greater transparency and accountability signaled the social partners' heightened sensibility to internal and public criticism.[15] Under pressure from the government, the chambers reluctantly organized votes on compulsory membership to defray criticisms about lacking internal democracy (Pelinka, 1996). Moreover, the chambers have expanded the provision of specific services (mostly legal and financial consulting) to members in an effort to shore up support (Smekal and Fink, 1996).

Throughout these reforms the social partners have been careful to preserve as many of the substantive sources of social partner strength as possible. They have retained their monopoly of interest representation and successfully defended most of their constitutional rights and regulatory functions that do not violate EU norms. Important decisions are still made through relatively informal and confidential gentlemen's agreements. Lately, the chambers appear to have successfully derailed efforts to abolish compulsory membership. In terms of informal political leverage, the social partners, particularly the trade unions, have managed to preserve their inter-elite links to the government, the legislature, and political parties (see also Pelinka, 1993).[16]

Despite the erosion of sectoral demarcation, the organizational structures of the Austrian social partnership have remained relatively in tact. In the core area of industrial relations a series of social partner agreements has brought about a process of organized decentralization and flexibilization. The coordinating function of the mighty Parity Commission has been taken over by inter-associational concertation on the part of business and by agreements on behalf of the entire metal sector, which then set the going rate for other bargaining rounds. New sectoral agreements empower firms to apply flexibly the working time reductions fixed in sectoral agreements (see also Traxler, 1992). In 1993 the collective agreement on flexible wages eventually opened the door for wage flexibility. Most importantly perhaps, all these changes were achieved virtually without work stoppages or labor unrest.

Despite EU membership, in areas such as business licencing and work organization, deregulation has remained limited. There, the trend is moving more toward standardizing and simplifying rather than reducing regulatory procedures -- for example, consolidating the 150 licenced trades into 50-70 such occupational groups. Generally speaking, organization and regulation in Austria continue to be the strategies to increase the competitive position of industry (Traxler, 1995b).

Aside from organizational and programmatic reforms, Austro-corporatism also took advantage of the increasing political weakness of the government and leading political parties by recasting itself as indispensable modernization brokers. The social partners helped supply important public goods ("supply side corporatism") in the form of economic coordination and upgrading, by contributing to economic restructuring and, most importantly, by mitigating and refracting some of the pressure generated by economic integration.

In terms of effective economic coordination, the social partners can point to their incomes policy. By jointly supporting Austria's hard currency policy (stable exchange rates between the Austrian Schilling and the German Mark) and by consistently orienting Austrian nominal medium and long range wage increases to German wages, the social partners ensured that Austria's integration into the European Monetary Union was absorbed fairly well by the social and economic system. Under this policy wages have kept pace with productivity, as real wages have increased on average by 3.1% per year from 1960 until well into the 1990s. The considerable appreciation of the Austrian schilling and the resulting increase in buying power have not been achieved at the expense of the competitive position of Austrian industry. The record of low inflation, as well as gradual and modest real wage increases coupled with relatively low unemployment reflect both the importance of central coordination and macro-level flexibility over long time periods.

In terms of human capital investment and upgrading, Austria was able to maintain its extensive vocational training and apprenticeship programs even in a period of economic liberalization. Based on a series of agreements between the social partners and the government (e.g., the recent agreement on the flexibilization of apprenticeship programs), such programs continue to provide a guaranteed workplace with mandatory school attendance for most non-college-bound over-16-year-olds. Macro-level coordination was critical in achieving an effective and transparent balance of costs between firms that provide training programs and those that do not, between regions and firms have structural advantages and those that do not. Coordination was required to ensure broad access to upgrading (as opposed to company-specific in-house training) and to develope appropriate qualification criteria.

New cooperative efforts between the social partners and regional governments have successfully aimed both at creating attractive locations for foreign investment (cf. "Standortattraktivität" -- Chaloupek 1995: 19) and regional economic restructuring. This refers specifically to the social partners' role in helping create regional industry clusters specializing in high value-added niche segments of the automobile production and machine tool industry. The key to success was forging a cooperation between many small and medium-size firms; forming public-private partnerships; administering the pooling of resources; making venture capital available in the absence of venture capitalist; organizing employee training programs; coordinating cost sharing schemes for regional restructuring; and providing legal, financial and technical consulting – a series of recent studies has extensively documented the development of these clusters and the role of the social partners; see: Steiner, 1996; Aiginger, Geldner, Pender ,1998; *Strategisches Programm Oberösterreich 2000*, 1998).

The most important policy task of the social partnership in the 1990s was helping Austria manage its accession to the European Union. Joining the European Union required a psychological leap from Austria's cherished self-imposed isolation and permanent neutrality. It also meant overcoming the widespread scepticism concerning market-liberalization shared by organized labor and small business circles alike. This included concerns that Austrian companies were easy prey for foreign, notably German, takeovers, as well as fears that Austria's high social and environmental standards would suffer as a result of EU membership.

The Maastricht convergence criteria for EMU membership made it also quite clear that, if Austria were to join, a series of unpopular fiscal austerity measures would have to be implemented. Moreover, Austria was to undertake this step into the EU at a time when most of Europe was in economic recession and when the economic and social indicators in many EU member countries appeared far worse than those in Austria.

The Austrian social partners would become instrumental in persuading the public that EU membership was necessary if Austria wanted to maintain its economic prosperity. The Austrian business associations endorsed EU membership in 1987 after commissioning a study on the impact of accession on Austria's status of permanent neutrality (Karlhofer and Talos, 1996: 55). In December 1988 the *ÖGB* adopted its "*Europa-Memorandum,*" in which the unions expressed their conditional support. Two months later the Chamber of Labor followed suit.

By endorsing the government's decision to seek EC membership the social partners became players by securing for themselves a seat at the negotiating table. The unions and protectionist business interest could have easily capitalized on the fact that the Austrian public continued to have substantial reservations about Brussels, nurtured also by the anti-EU position of the Freedom Party and the Greens. Only a prolonged advertising campaign by the government and the social partners, in which the Association of Austrian Industrialists alone enlisted some 1200 companies in its "we vote for Europe campaign" and in which the social partners distributed hundreds of thousands of brochures, flyers and pins, ensured a 66% majority in favor of EU membership in Austria's referendum on accession in 1994. This would have been impossible without the organizational capacity and the high level of centralization of Austro-corporatism, which enabled the leadership to overcome internal opposition and allowed the associations to reach hundreds of thousands of Austrian employees at the plant level.

The next EU-related crisis was triggered when the Austrian government was debating the second austerity package (*Sparpaket II*) needed to meet the fiscal requirements for EMU. The deadlock and subsequent collapse of the coalition government in 1995, allowed the social partnership to assume the role of a preeminent arbiter by "ordering the government to a national crisis summit" (*Wiener Zeitung*; February1995; *Die Presse*, 25 February 1995). Media reactions and poll results clearly showed the social partners to have emerged from the budget debacle strengthened rather than weakened.Austrian media generally compared the performance of the interest groups favorably ("well-functioning institution," "providing stability," "capable of delivering") with that of the government ("unstable," "debacle" -- see the press survey in *Wirtschaftswoche,* 19 October 1995).

Economic integration, the opening up of Eastern Europe, and the neoliberal public discourse heightened people's anxieties about economic security, social peace, and political stability.[17] The combination of increased social need, greater economic competition and declining resources intensified both latent xenophobic feelings and material concerns. This was implicitly a boon for institutions representing continuity and stability, especially in a period when other political institutions had weakened – as indicated by the decline in electoral support for the governing coalition, or the decline in social democratic party membership, which, incidently, far exceeds the decline in union membership. To the extent that change became unavoidable, the public clearly preferred it to be channeled through the established mechanisms of interest representation and conflict resolution. Moreover, by realizing that many of the major policy issues of the 1990s entailed lose-lose choices, policy makers actively courted the support of the social partners in order to minimize the potential political cost.

As a result, public support for Austro-corporatism has been growing relative to the 1980s and has remained fairly stable during the 1990s. The percentage of people viewing the social partnership as "an advantage for the country" rose steadily after 1988 (61%) reaching 68% in 1994 (SWS, 1994), with largest increases among young and non-traditional voters (greens, liberals). More than a quarter of Austrians (27%) surveyed in 1995, wanted to see the social partners' involvement in public policy expanded. Even on the contentious issue of compulsory *BAK* membership, 59% of respondents felt that the advantages outweighed the disadvantages (SWS, 1994). Among Austrian institutions corporatism has remained clearly one of the most stable and most trusted institutions. Ranking second (*ÖGB*), fifth (*BAK*) and eighth (*BWK*) in public polls on trustworthiness in 1995, corporatist organizations far out perform the government (ninth), political parties (11th), or even the Catholic church (tenth) (SWS-Poll, 1995).

Summing up, by helping to stabilize Austria's social and political climate, Austro-corporatism became primarily a facilitator and conduit of external pressures. These were refracted by the social partners through attempts to achieve a symbiosis between what the country's economic integration requires and what is politically possible. In Austria such a symbiosis is often dubbed an Austrian solution: a constant give-and-take on a multitude of issues including store-opening hours, the regulation of social security deductions for temporary jobs (*Werkverträge*), vocational training programs, and numerous other ones. In many ways corporatism helped many Austrians overcome their considerable skepticism concerning modernization and internationalization. In contrast to Germany, corporatist reforms in Austria were not merely programmatic and organizational but also systemic. By supplying important regulatory frameworks, by providing comprehensive training programs, and by functioning as a catalyst for public-private partnerships, the social partnership produces indispensable collective goods which are inadequately provided by opportunistic market conditions[23] and which the political system finds increasingly difficult to deliver. In short, the Austrian social partnership has undergone a transformation to what I called elsewhere "modernization brokers" (Heinisch, 1999), or what Traxler (1995a) has referred to as transition from demand-side to supply-side corporatism (see Table 1). Moreover, unlike German corporatism, the Austrian social partnership could largely evade breakdowns at the sectoral level by shifting negotiations downward when dealing with the flexibilization of industrial relations, or by moving them upward when macro-level policy coordination was required.

Conclusion

Both the Austrian and German industrial relations systems have evolved to ensure a high degree of national cohesion since the Second World War. In Germany, the relative weakness of labor vis-a-vis business, coupled with a fragmented political environment and a dominant independent central bank, resulted in a model of economic governance characterized by a high degree of juridification. Clearly defined juridical responsibilities, legal barriers, and judicial arbitration have aimed primarily at maintaining order and stability in inter-associational cooperation, institutionalized along sectoral lines. Austro-corporatism, by contrast, has evolved as a system typified by a high degree of vertical integration and centralization with well-defined institutionalized hierarchies but little horizontal formalization. Bargaining venues can thus be moved fairly flexibly between the sub-sectoral and the macro-level, while a degree of organizational cohesion can still be maintained. Moreover, the Austrian model is built around joint governance over many rounds with iterated mutual tradeoffs over time and along several possible levels (plant-, meso-, macro-level). The German governance model has taken a different direction. With collective bargaining restricted to the branch-level and shorter time-horizons, labor has been pursuing plant-level codetermination. This, however, has shifted power increasingly to the system of the works councils.

In the wake of launching the single market, the German governance model is sub-optimal as it offers little resistance to the disorganizing and decentralizing pressures created by increasingly deregulated markets. Specifically, factor mobility has begun eroding the sectoral demarcations, while decision-making is moving to the smallest possible units. This is facilitated in Germany by the institutionalized high-trust relations between labor and management at the plant-level. Nevertheless, the juridical and organizational framework of German labor relations continues to be based on sectoral domain demarcations, thereby imposing economically inefficient rigidity, which economic actors increasingly seek to evade through defections.

Corporatist response strategies have varied. In Germany there has been little willingness (especially among employers) to strengthen corporatist governance as whole; the unions might be willing to do so but are increasingly less effective at industry-level accordation. As a result, reforms have aimed at addressing the internal organizational and programmatic problems of labor market associations. These efforts have failed to arrest the disorganization of German economic governance since its causes lie elsewhere. By aiming reforms at the social partnership as a whole, Austrian corporatism has been able to take advantage of its unique organizational features, such as vertical integration and horizontal flexibility. In the 1990s the social partners were able to build support by helping to coordinate and manage Austria's economic integration. While Austro-corporatism is weaker than in its heyday in the 1960s and 1970s, it still remains a dominant force in the Austrian political and economic system. On the other hand, the prospects for the German social partnership appear dim, as long as German corporatism remains locked in sectoral collective bargaining. As the sectoral domains disappear, so will corporatist governance.

Endnotes

1. Europeanization has also been viewed as an insurance policy against external market vicissitudes – see Equation 2 in Verdier and Breen, 1999.

2. See also the well-known U-curve model of Calmfors and Driffill (1988).

3. Partly because legislation and government policies were subject to the approval of Allied oversight. There were also lingering suspicions in the western provinces about the new national government in the Soviet dominated eastern Austria.

4. Examples are the laws governing industrial action (Arbeitskampfrecht), the institutionalized co-determination (Mitbestimmung) in company policy as well as all forms of judicial intervention and arbitration (Richterrecht).

5. An example are the union demands to establish a (parity-type) Federal Economic and Social Council ("Bundeswirtschafts-und Sozialrat," Lehmbruch, 1985:97, note 8). The intention seems to have been to create an

institutional substitute for the lacking balance of power due to the strategic disadvantage of the union position.

6. In 1970 a Commission on Codetermination concluded that codetermination "had a greater effect on pacifying labor than in instilling a sense of participation in employees, and while satisfying the unions it had not interfered with either the economic efficiency or technical efficiency of firms" (*Mitbestimmungskommission* 1970 in Katzenstein, 1987: 145).

7. Such as using managers whose background was engineering, or relying on skilled labor at the shop floor-level to gradually refine products

8. Source: "Transferstatistik des Bundeswirtschaftsministeriums" cited in *Der Spiegel* 20, January, 1992.

9. In 1978 36% of all property was still owned or controlled by the federal or local government and another 9% belonged to banks and cooperatives; many of which were themselves tied to political parties or interest groups.

10. The general political climate in the mid-1980s favoring business led to gains by the Conservatives in the 1986 elections. Subsequently, the new Social Democratic-Conservative coalition government abandoned the traditional policy emphasis on full employment in favor of greater fiscal restraint to reduce budget deficits.

11. For example, in 1993 *IG Metall* faced a DM 1 million deficit due to a net-loss of 248,000 members.

12. Union sources cited in *Kleine Zeitung*, August 11, 1997.

13. Using "comp-time" instead of pay to compensate for overtime work.

14. For example, from 1968 to 1992 the export share in the GNP rose from 25.7% in 1968 to 42% (Chaloupek, 1995:7).

15. Examples include expanding grassroots influence in *BAK*'s general assembly and making its internal financial allocation process more accountable. With the adoption of the new Chamber of Labor Law of 1992 also the unemployed have found a voice in the *BAK*, which also acts as an advocacy group for those employees whose retirement income will consist of payments by the national pension insurance (Smekal and Fink, 1995).

16. In the 1995-99 legislative period 32% of the social democratic members of Parliament were directly or indirectly tied to the trade unions or the Chamber of Labor. Twenty-three of the 52 conservative MPs were recruited from the Conservative party's labor wing, which has itself close inter-personal links to the *ÖGB*. The head of the *ÖGB* and other union leaders are key figures on the executive board of the governing social democratic party. Moreover, the former chairwoman of the powerful union of white collar employees was in charge of the powerful ministry of social affairs, while the minister of the economy was appointed from the ranks of the Economic Chamber. Interestingly, also Austria's minister of defense was recruited from Conservative Party's labor faction.

17. What editorials dubbed the "the fear of change" (*Profil*, 19 December 1995) was clearly born out in post-election opinion polls. Asked to state their main political concern 56% identified the "budget deficit and taxes" and 30% mentioned "social justice and concern for the underprivileged" as their first priority (IMAS-poll quoted in *Wirtschaftswoche* 20 November 1995). Welfare abuse (15%) and political scandals (15%) seemed to matter far less. When respondents were asked to rank specific election issues, "maintaining the social systems" ranked second (pension system) and fourth (welfare system), while post-materialist concerns had dropped to sixth (citizen rights) and 11th (environment).

Table 1: German-Austrian Differences in Coping with Economic Integration

Corporatist Governance	Germany	Austria
regime formation	emphasis on outcome	emphasis on process
organization	antagonistic cooperation concentrated at the sectoral level; extensive juridification prevents both cross-sectoral interest aggregation and upward concentration of bargaining	joint governance; vertical integration with well-defined institutionalized hierarchies, but little horizontal formalization; organization comprises firm-, sectoral-, and macro-level.
previous objectives and strategies	codetermination at the plant level, strengthening plant-level representation, work time reductions	support for government policies (hard currency policy), centralized wage/price bargaining, expanding corporatist influence at the macro level
effect of integration	erosion of sectoral demarcation lines; disorganization pressures	erosion of sectoral demarcation lines; disorganization pressures
response	internal organizational reforms: bargaining cartels, mergers, takeovers and poaching; programmatic reforms.	industrial relations: controlled flexibilization toward the plant level; macro-level: the social partners' transformation toward supply-side corporatism and the role of modernization broker.
result	rapid erosion of sectoral collective bargaining: defections, opening clauses special house contracts, increasing labor disputes, etc.	organized decentralization and flexibilization of work organization and wage bargaining; joint exploitation of market niches, upgrading.

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