

O P I N I O N

Germany's Unions – Ready for a Fresh Start?



The current crisis of the German Metalworkers' Union (IG Metall) has startled many observers at home and abroad. It appears as if the power of the German unions, which is quite significant by international standards, is beginning to erode. This could be a good opportunity to adopt a "new modesty" in the face of scandalously high unemployment rates.

The first act of the play: The IG Metall, formerly the most powerful single trade union in the world, goes down with all flags flying for the first time in an industrial dispute. Against all economic reason, the union had attempted to reduce the eastern German workweek of currently 38 hours by eight percent to the level of 35 hours as it is in effect in the western part of the country. Eventually, however, union leaders had to retreat and content themselves with an agreement delaying the implementation of their demands until 2009.

In the second act of the play, the historic surrender aggravates the fight over the direction of the union, particularly with a change in leadership coming up this fall. Previously made personnel decisions are being contested

while the current head of the IG Metall and his deputy, who is eager to succeed him in office, are staging a public showdown that leaves the audience with the impression of a badly hit IG Metall staggering into an uncertain future without a leader or a concept. In the end, the boss resigns. Although he does not leave without reiterating his call for reform, the pre-agreed personnel decisions are foreshadowing an adherence to traditionalism.

So where are the German unions headed? Their current power is based upon their bargaining autonomy, as symbolized by the industry-wide collective agreements, their integration in the decision-making structures on the firm level in the form of co-determination and works councils, and their notion of representing all union members politically. The legislators have not only transferred most of the responsibility for organizing the working world to the collective bargaining parties, but they have also accepted for quite some time that these institutions are striving to influence the political process on all levels.

But times have definitely changed. The modern working world has different rules, which leave no room for the unions' outdated friend and enemy concepts. The majority of workers are no longer subject to the traditional working-time scheme, and firms are increasingly introducing flexible wage models. At the same time, the aging of the working population dries up the union's supply of new blood. The trend towards individualization further reduces people's willingness to become organized and mobilized. The decline in membership and the damaged public reputation on the one hand, and the erosion of political influence on the other, are the consequences of a backward-looking union policy. This is most evident in the failure of union opposition against the government's Agenda 2010 reform proposals in Germany and the pension reform in France.

As a result, the institution of industry-wide collective agreements itself has moved to the center of the debate on labor market policy

reform. This form of agreement, which is already quite ineffective in eastern Germany due to a lack of acceptance, has further suffered from the IG Metall's defeat in the recent negotiations. This is despite the numerous advantages of industry-wide agreements, such as allowing firms to plan more reliably, saving the economic cost of firm-level wage determination, and increasing the chance that the negotiating parties give thought to the economy as a whole. Abandoning centralized wage negotiations would most likely result in more strikes.

How will the drama end? The script for the final act will mainly depend on the behavior of the unions themselves. They will have to summon the strength to get back on track and finally give adequate attention to the interests of those whose labor market prospects should be their main focus, namely the unemployed.

The unions are currently running the risk of disqualifying themselves as negotiating partners. The recent defeat of the IG Metall can hardly be expected to increase the employer associations' willingness to negotiate. Now is the time for the unions to completely modernize their structures, redesign their strategies, and adopt a policy based on economic reason. This would imply, for instance, a return to longer and more flexible working hours as well as lower minimum wages for low-skilled workers. Industry-wide collective agreements will only be able to survive if opening clauses allow individual firms to opt out under certain circumstances, and if the agreements are no longer legally extended to non-organized firms. This would allow for more innovation and creativity in a far too rigid system. The ball is now in the unions' backcourt. What they need is a key player who knows how to handle it.

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