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Working Paper

Alliance for jobs: Is Germany following in the path of competitive corporatism? By Reinhard Bispinck and Thorsten Schulten

WSI-Diskussionspapier, No. 84

Provided in Cooperation with:

The Institute of Economic and Social Research (WSI), Hans Böckler Foundation

Suggested Citation: Bispinck, Reinhard; Schulten, Thorsten (2000) : Alliance for jobs: Is Germany following in the path of competitive corporatism? By Reinhard Bispinck and Thorsten Schulten, WSI-Diskussionspapier, No. 84, Hans-Böckler-Stiftung, Wirtschafts- und Sozialwissenschaftliches Institut (WSI), Düsseldorf

This Version is available at:

<https://hdl.handle.net/10419/50467>

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WSI

Alliance for Jobs – is Germany following the Path of "Competitive Corporatism"?

by Reinhard Bispinck and Thorsten Schulten

WSI Discussion Paper No. 84

Düsseldorf, April 2000

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1. German Capitalism in the 1990s: >From "German model" to "German disease"?

Until the early 1990s German capitalism was widely regarded as a successful "model" combining strong economic performance with a relatively high level of welfare and a comparably low level of social inequality (Streeck 1997). Since then, however, the international image of German capitalism has changed dramatically to the worst. At the end of the 1990s there seemed to be a broad consensus within both the political and the academic community that the German model is faced by a fundamental crisis which for some observers has already entered the stage of a "German disease" (Scharpf 1998).

The notion of a crisis, of course, becomes most evident when Germany's persistently high mass unemployment is regarded. During the 1990s the number of officially registered unemployed doubled from less than two million in 1990 to more than four million in 1999 (*see Table 1*). Obviously, this tremendous increase in unemployment was partly caused by the way German unification was organised. Following the German Monetary Union in June 1990, the previously quite well protected east German economy had to perform under free world market conditions from one day to another. As a result within little more than one year the number of unemployed east Germans rose from almost zero to more than one million. Since then the level of unemployment has even further increased so that at the end of the 1990s nearly every fifth employee in east Germany was officially registered as unemployed.

Table 1: Unemployment in Germany in the 1990s (annual average)

Year	Germany		West Germany		East Germany	
	Number of unemployed (million)	Rate of unemployment*	Number of unemployed (million)	Rate of unemployment*	Number of unemployed (million)	Rate of unemployment*
1990	-	-	1.883	7.2%	-	-
1991	2.602	7.3%	1.689	6.3%	0.912	10.3%
1992	2.979	8.5%	1.808	6.6%	1.170	14.8%
1993	3.419	9.8%	2.270	8.2%	1.149	15.8%
1994	3.698	10.6%	2.556	9.2%	1.142	16.0%
1995	3.612	10.4%	2.565	9.3%	1.047	14.9%
1996	3.965	11.5%	2.796	10.1%	1.169	16.7%
1997	4.384	12.7%	3.021	11.0%	1.364	19.5%
1998	4.279	12.3%	2.904	10.5%	1.375	19.5%
1999	4.099	11.7%	2.756	9.9%	1.344	19.0%

* Rate of employment as defined by the German Federal Employment Service (= % of all employees);

Source: Federal Employment Service

For a short period the west German economy profited strongly from a "unification boom" which also led to a temporary decrease of the western unemployment figures. In 1992/93, however, after west Germany entered in its deepest recession since 1945, unemployment

started to rise again and reached its peak level of more than three million unemployed in 1997. Thereafter west Germany again saw a slight reduction in unemployment down to 2.8 million in 1999.

The extraordinary weakness of Germany's employment performance becomes even more obvious when compared to other European countries (*see Table 2*). In 1991 Germany's rate of unemployment was still one of the lowest in the European Union and even lower than in the United States. There were only four EU countries with a lower rate that time. In the second half of the 1990s, however, the situation changed fundamentally. Although Germany's rate of unemployment was still slightly below the EU average, there were now nine EU countries which had a lower level of unemployment. Since the mid-1990 Germany has been the only EU country with a negative balance sheet in the creation of employment while all other EU countries have been able to increase their number of employees.

Comparing Germany's overall macroeconomic performance with those of other EU countries there are some strong indicators which give reasons for its negative employment record. First of all, Germany's high unemployment obviously caused its very weak overall economic growth. In the second half of the 1990s Germany saw the second slowest increase in GDP (behind Italy) as well as even the slowest increase in total investment (*see Table 2*). The problem was of particular importance in east Germany. After a short catching-up period with growth rates around 9% in the first half of the 1990s, east German GDP growth rates declined continuously and since 1997 have also been below GDP growth rates in west Germany.

In looking for explanations for this weak growth performance the dominant economic discourse in Germany during the 1990s was the so-called "*Standortdebatte*" which questioned Germany's competitiveness as an attractive location for economic activities. Following the debates on the crisis of the "German model" almost all basic institutions of German capitalism were under attack for no longer fitting into the new "constraints" of a globally integrated economy (for an overview see: Flecker & Schulten 1999). In particular, Germany's labour market institutions as, for example, the sectoral multi-employer bargaining system became increasingly accused of forcing up labour costs and providing rigid working conditions (Bispinck & Schulten 1998).

Considering the macroeconomic data there is, however, no evidence that the weak growth performance caused in lack of Germany's competitiveness. On the contrary, from the mid-1990s Germany saw one of the fastest drops in real unit labour costs in Europe (*see Table 2*). Moreover, in the second half of the 1990s Germany had seen again an above average increase in export of goods, after it was affected by a temporary decline in export growth rates as a result of the German unification. While the export industries continued to be the backbone of Germany's economy, its major weakness was the strong lack of internal demand. Since the mid-1990s both private and government consumption has shown the lowest growth rates in the European Union.

Since the macroeconomic performance gives a relatively clear picture on the causes of Germany's high unemployment there are nevertheless many different proposals on how to overcome the unemployment calamity. These proposals do not only mirror different theoretical and political viewpoints but also reflects different interests of the involved social actors. The

Table 2. German macroeconomic performance in comparison to other EU countries and the USA in the 1990s (in %)*

	Gross domestic product		Total investment		Private consumption		Government consumption		Export of goods		Real unit labour costs**		Total employment		Number of unemployed***		
	1991-95	1996-01	1991-95	1996-01	1991-95	1996-01	1991-95	1996-01	1991-95	1996-01	1991-95	1996-01	1991-95	1996-01	1991	1991-95	1996-01
B	1.5	2.4	-0.1	3.4	1.4	2.1	1.5	1.7	4.8	4.2	0.2	-0.8	-0.4	1.2	6.6	8.5	8.8
DK	2.6	2.4	2.9	4.4	3.1	2.4	2.1	1.9	4.4	3.8	-1.1	-0.1	-0.5	0.9	8.4	8.6	5.2
D	2.0	1.8	1.8	1.7	2.3	1.7	1.9	0.5	3.6	6.6	-0.2	-1.0	-0.2	-0.1	5.6	7.3	9.0
EL	1.2	3.4	-0.2	9.0	1.8	2.6	0.5	0.9	3.6	3.9	-2.3	-0.2	0.6	1.1	7.0	8.3	9.4
E	1.3	3.5	-0.7	7.1	1.1	3.3	2.7	1.7	11.5	8.9	-0.8	-0.4	-0.5	2.7	16.4	20.9	17.3
F	1.1	2.4	-1.2	3.8	0.7	2.1	2.3	1.5	5.9	5.4	-0.5	-0.5	-0.2	1.0	9.5	11.1	11.3
IRL	4.6	8.0	2.4	14.0	3.1	7.1	2.6	4.4	13.2	13.4	-1.1	-2.3	1.9	4.0	14.8	14.5	7.7
I	1.3	1.6	-1.2	3.3	0.9	1.9	-0.2	0.9	7.3	2.7	-1.7	-1.0	-0.8	0.6	8.8	10.1	11.5
L	5.4	5.1	6.3	3.7	2.3	3.1	2.7	3.0	3.9	6.3	-0.6	-1.1	2.7	3.7	1.7	2.5	2.6
NL	2.1	3.3	1.0	4.6	2.2	3.7	1.2	2.2	4.6	6.1	-0.3	-0.3	1.1	2.4	5.8	6.4	3.9
A	1.9	2.2	2.7	3.4	2.2	1.9	1.9	1.0	4.0	7.8	-0.2	-0.9	0.4	0.5	3.4	3.7	4.2
P	1.8	3.4	2.0	7.5	2.6	3.8	3.3	2.4	6.1	7.7	0.0	0.0	-0.6	1.4	4.0	5.6	5.4
FIN	-0.5	4.5	-9.5	8.6	-0.9	3.6	-0.5	1.5	7.7	8.0	-2.0	-0.5	-3.8	1.9	6.7	13.3	11.2
S	0.5	2.6	-4.9	5.4	-0.2	2.5	0.3	0.7	7.5	6.8	-1.5	1.2	-2.2	0.8	3.1	7.2	8.0
UK	1.6	2.8	-0.5	6.6	1.2	3.6	1.1	1.9	5.0	5.2	-0.9	0.6	-0.7	1.4	8.8	9.5	6.4
EU 15	1.5	2.5	-0.2	4.3	1.4	2.5	1.5	1.3	5.7	5.9	-0.8	-0.5	-0.4	1.0	8.1	10.0	9.5
EU 11	1.5	2.4	0.0	3.8	1.4	2.3	1.6	1.2	5.8	6.0	-0.7	-0.8	-0.3	0.9	8.2	10.2	10.3
USA	2.4	3.6	4.1	7.3	2.6	3.5	-0.2	1.5	7.7	6.8	-0.4	0.3	1.3	1.6	6.8	6.6	4.7

* Percentage change on preceding year, data for 1999-01 based on a forecast by the European Commission in autumn 1999

** Nominal Unit labour costs divided by GDP price deflator

*** Percentage of civilian labour force, EUROSTAT definition, (data for 1991: European Economy No. 68 (1999), Table 3, pp. 112-113.)

Source: European Commission, European Economy, Supplement A Economic Trends, No 10/11, October/November 1999

latter becomes clear, when analysing the different attempts to establish an Alliance for Jobs (*Bündnis für Arbeit*) as a new form of macro-corporatism in Germany in the 1990s.

2. First attempt at an Alliance for Jobs - The failure of the "Zwickel-initiative"

The first attempt at an Alliance for Jobs goes back to an initiative of the president of the German metalworkers' union IG Metall, Klaus Zwickel.¹ Against the back-drop of the deepest recession post war Germany had ever experienced Zwickel launched his proposal for an Alliance for Jobs at the IG Metall's Trade Union Conference in November 1995 (Zwickel 1995). In detail the proposal offered a new agreement on payments which aimed merely to keep pay increases in pace with inflation and to enable companies to recruit long-term unemployed over a fixed initial period at lower rates. In return the federal government was to make a binding commitment not to reduce unemployment benefit and welfare payments for the unemployed. Furthermore, the employers in metalworking industry were to guarantee that over the next three years they would not announce redundancies for economic reasons and would create a precisely defined number of new jobs and training places.

Although the "Zwickel-initiative" was originally intended primarily for the metal industry, it quickly became a national issue. The idea of having a national employment pact bringing together government, employers' and business federations and the trade unions and aiming at joint initiatives for the reduction of unemployment generally received a very positive reception from the German public. Among the trade unions and employers, however, the reactions to the Zwickel proposal were much more ambiguous. Within the trade unions there was some scepticism because the Zwickel proposal seemed to accept the view that wage restraint would create employment. Nevertheless, all sectoral unions supported the idea of an Alliance for Jobs, so that the German Trade Union Confederation DGB (*Deutscher Gewerkschaftsbund*) took over the basic concept. On the employers side the reactions were even more controversial. Regarding the Zwickel proposal the employers' association declared that they would not be able to give binding promises for the creation of new employment. Given the generally positive reaction amongst the public, the employers were nevertheless forced to take a positive attitude to an national employment pact.

The former conservative-liberal federal government took up the proposal and put it on the agenda of the so-called "Chancellor's Talks" (*Kanzlergespräche*), which for several years had already served as a forum for informal - and non-binding - exchanges of political opinion between the government, the trade unions and the employers' federations. In January 1996, the *Kanzlergespräche*, under participation of leading business and trade union representatives, led to a document entitled "Alliance for Jobs and the Preservation of Production Sites" (*"Bündnis für Arbeit und Standortsicherung"*) which included a broad list of areas where action should be taken in order to reduce unemployment as, for example, improvement of framework conditions for job-creating investment, promotion of new businesses, consolidation of public budgets, social security reform, developing new areas of employment, changing the tax system and better promotion of research and innovation as well as vocational and fur-

¹ For a more detailed analysis on the first attempt for an Alliance for Jobs see: Bispinck 1997.

ther training. The document also includes a number of concrete measures related to collective bargaining such as working time accounts, overtime reduction in order to create jobs, increase of temporary and part time employment, specific clauses for long-term unemployed and performance related pay. Finally, all parties involved agreed on the overall aim to halve German unemployment by the year 2000.

The practical application of the Alliance's proposals, however, made little progress neither in collective bargaining nor in the political arena. In April 1996 the conservative-liberal federal government finally concluded a so-called "package of cuts" (*Sparpaket*) containing numerous changes for the worse in the areas of social policy and labour law such as, among others, a relaxation of dismissal protection in small companies, an extension of the maximum duration of temporary employment from 18 to 24 months and a reduction of the statutory level of continued payment of remuneration in the event of illness from 100% to 80% of the former income. The trade unions saw these measures as an open attack and refused to take any further part in the "Chancellor's Talks" with which the first attempt at a national Alliance for Jobs definitively failed.

As a result of the failure of the first attempt at an Alliance for Jobs the overall political climate in Germany became much more conflict-oriented. Under the motto "For Jobs and Social Justice" the German trade unions started a broad political campaign aiming at the withdrawal of the changes made by the conservative-liberal government to the worst in labour market and social policy and calling for a fundamental change in economic and social policy (DGB 1997). Accompanied by several demonstrations and (spontaneous) industrial action the unions were able to defend the 100% continued payment of remuneration in the event of illness in most collective agreement areas.

Against the background of still increasing unemployment, however, the debates on the idea of a national social pact continued. In May 1997, the conservative-liberal federal government formed together with representatives of peak-level employers' and business federations and the DGB a regional "Employment Alliance" for east Germany aiming at the creation of 100,000 new jobs per year in the east (Schulten et. al. 1999). While this initiative was openly rejected by various sectoral trade unions, it disappeared only a few months later when it became obvious that east German unemployment figures had continued to rise.

3. Under a new social-democratic government: The second attempt at an Alliance for Jobs

Despite the failure of the "Zwickel-initiative" the unions continued to argue in favour of the idea of a new social pact at national level and hoped that the general elections in autumn 1998 would bring a change in government. The opposition social-democratic party SPD accused the conservative government of being responsible for the failure of the Alliances and announced that it would start a new initiative for a national pact as soon as it came to power (Lafontaine 1997). Later on the SPD put the demand for a new Alliance for Jobs at the centre of its election programme. Finally, the victory of the SPD in the general elections in September 1998 set the stage for a new attempt at establishing a national employment pact.

3.1. The foundation of the new Alliance for Jobs and its institutional structure

The new federal government formed by a coalition of the SPD and the Alliance 90/The Greens gave the foundation of a new Alliance for Jobs a top priority. Only a few weeks after the new "red-green" coalition came into power, on 7 December 1998 it invited leading business and trade union representatives to talk on the establishment of a new tripartite social pact at national level. The results of that meeting were set out in a joint declaration which has become the foundation document of a new Alliance for Jobs, Vocational Training and Competitiveness" (*Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit*).

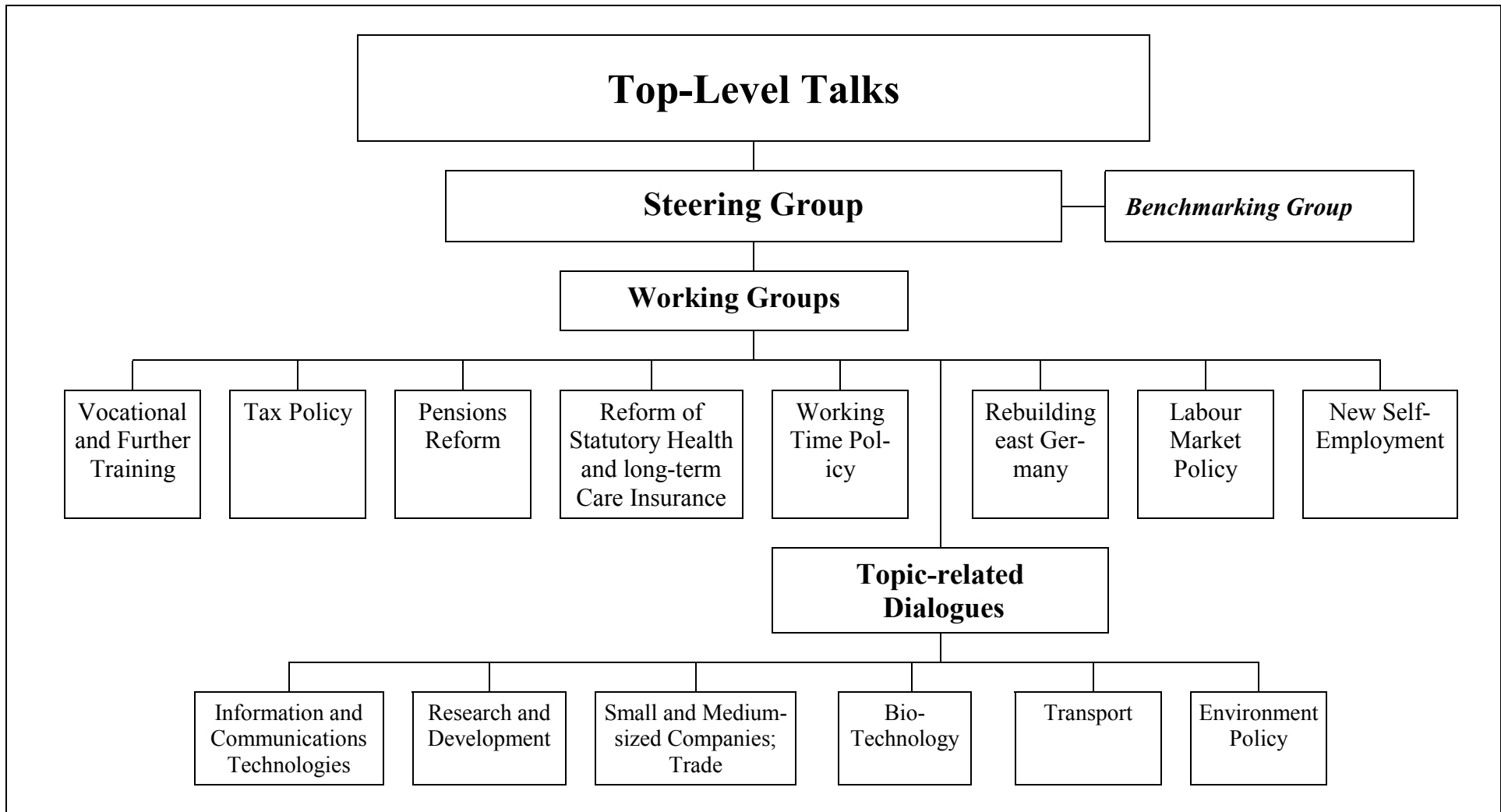
According to that document all parties involved agreed that the overcoming of high unemployment requires "*sustained cooperation between the state, trade unions and the business community*" (Bündnis für Arbeit 1998). The Alliance for Jobs, therefore, should be built up "*on a long-term basis and as a process of communication which is intended to develop mutual trust and to address differing interests and different points of view*". From the beginning the Alliance have been seen as a dynamic process, which should principally be open for all political issues related to employment. Thus, at their first meeting the parties involved agreed on some major common objectives and determined a broad range of topics for the Alliance's agenda (see chapter 5.).

Regarding the institutional structure of the new Alliance the parties involved decided to establish a comprehensive arrangement of various tripartite working and discussion groups (see Figure 1). The most important political institution of the Alliance are the so-called "top-level talks" which are held between leading representatives of all three parties (see Table 3). Usually, these talks takes place under the chair of the German Chancellor who is accompanied by five further ministers. The business delegation is composed of the president of the German peak employers' associations (BDA), as well as the presidents of the peak business associations representing German Industries (BDI), German Craft (ZHD) and the Chambers of Commerce (DIHT). Finally, trade unions are represented by the presidents of the two confederations (DGB and DAG) as well as by the presidents of the three largest sectoral trade unions (IG Metall, IG BCE and ÖTV).

Table 3: Participating organisations in the top-level talks of the Alliance for Jobs

Federal government	Business and employers' association	Trade unions
<ol style="list-style-type: none"> 1. Chancellor 2. Ministry of Finance 3. Ministry of Economics 4. Ministry of Labour 5. Ministry of Health 6. Ministry for the Chancellor 	<ol style="list-style-type: none"> 1. Bundesvereinigung der Deutschen Arbeitgeberverbände, (BDA) 2. Bundesvereinigung der deutschen Industrie, (BDI) 3. Deutscher Industrie- und Handelstag, (DIHT) 4. Zentralverband des deutschen Handwerks, (ZHD) 	<ol style="list-style-type: none"> 1. Deutscher Gewerkschaftsbund, DGB 2. IG Metall 3. IG Bergbau, Chemie, Energie (IG BCE) 4. Gewerkschaft Öffentliche Dienste, Transport und Verkehr, (ÖTV) 5. Deutsche Angestellten-gewerkschaft, (DAG)

Figure 1. Institutional Structure of the Alliance for Jobs, Training and Competitiveness



Source: Böckler zum Bündnis, No. 1 (February 2000), p. 4

So far, "top-level talks" have always been held when a joint statement or initiative of the Alliance seemed to be possible.² In between a tripartite "steering group" coordinates the overall activities within the Alliances and prepares the documents for the top-level talks. Moreover, two types of tripartite institutions were established under the roof of the Alliance. First, there are so-called "working groups" which were established under the chair of a minister or a leading state secretary for those political areas which are seen as most relevant for employment and where major structural reforms are planned, such as, for example, in tax policy, training, social security systems, labour market policy etc. In addition to that, so-called "topic-related dialogues" were set up for those areas which are reputed as having large potentials for the creation of new employment, such as, for example, in information and communication or bio-technologies. At the beginning of 2000 the Alliance enclosed eighth "working groups" and six "topic-related dialogues" (see Figure 1), while further groups might be created in the future.

Finally, the Alliance includes a so-called "benchmarking group" which under the chair of the Minister for the Chancellor brings together representatives from the federal government and from social sciences including the employers' and trade unions' research institutes.³ The task of this "benchmarking group" is to support the Alliance's steering group on currently relevant topics and to provide corresponding socio-economic data. Furthermore, it should elaborate a study on "Benchmarking Germany" which should analyse the overall performance of Germany's socio-economic institutions from an international comparative perspective.

3.2. Alliances for Jobs at a lower level

It is the declared aim of the new Alliance to complement the national social pact by similar initiatives at lower level (Bündnis für Arbeit 1998). In recent years Germany has seen indeed numerous attempts at the establishment of an Alliances for Jobs at regional, local and company level (Schulten et. al. 1999).

3.2.1. Alliances for Job" at regional level

In the meantime, almost all German federal states (*Bundesländer*) have created their own alliances. Many of these regional alliances were set up in 1995/96 and were directly inspired by the debates at national level. After the failure of the first attempt at a national alliance almost all regional alliances also disappeared with a few exceptions as, for example the Bavarian pact, which has continued to exist since 1996. Following the new national Alliance in December 1998 most of the regional pacts became re-established. In practice, however, these regional alliances show significant differences in their meaning and substance. While some

² Since the foundation of the new Alliance in December 1998 five rounds of top-level talks were held so far (until March 2000).

³ The core of the "benchmarking group" is the so-called "group of professors" which includes Wolfgang Streeck from the Max-Planck Institute for Social Sciences and Rolf Heinze from the University of Bochum as "independent" professors as well as Heide Pfarr, head of the trade union-related *Wirtschafts- und Sozialwissenschaftliches Institut (WSI) within the Hans Böckler Foundation*, and Gerhard Fels, head of the employer-related *Institut der Deutschen Wirtschaft*. Moreover, parts of the academic staff which supports the "Benchmarking Group" are financed by the *Bertelsmann Foundation*.

federal states developed a comprehensive set of new institutions, often similar to those at national level, others just continued their old labour market and industry policies by using the new label of an Alliances for Jobs.

3.2.2. Employment pacts at company level

The term Alliance for Jobs has also become widely used for various initiatives at company level between management and works councils. Although these employment pacts differ widely on scope and substance, there seems to be a similar pattern behind these arrangements which is that employees make concessions on payments or working conditions in exchange for a limited job guarantee given by the employer (Seifert 1999). There exist, however, rather different opinions on the political meaning of these Alliances for Jobs at establishment level. While the employers have an overall positive view and see these initiatives as the core of a cooperative employment strategy, the evaluations made by the trade unions are much more ambiguous. On the one hand some of these employment pacts might contribute to the prevention of a plant closure or a relocation of production. On the other hand, there are many examples where employers forced their employees to accept social and financial concessions which even contravene valid collective agreements. Thus, a new form of "wildcat-cooperation" has been emerged at company-level which has become a major challenge for the German system of sectoral bargaining.

4. Role and substance of the Alliance for Jobs - different conceptions of the parties involved

It has been one of the special features of the German social pact that in contrast to most other European countries the original initiative was not taken by the state but by the trade unions. Under the conditions of a primarily employer-oriented conservative-liberal government the idea of an national Alliance was seen as an opportunity for the unions to come into a political offensive and to strengthen their influence on the governmental policy. The failure of the first attempt at a national alliance, however, showed that major parts of the conservative-liberal political class and the business community favoured following their programme of a neoliberal transformation of the German model and took into account that this could provoke strong trade union resistance and lead to a more conflict-oriented political climate.

After the new red-green government came into power the political framework conditions changed fundamentally. It was now the state who took the initiative for a second attempt at an Alliance for Jobs. In contrast to its predecessor the new red-green government followed the idea that a necessary modernisation of the German model could only be reached in consensus and with support of the two major labour market parties. The Alliances for Jobs, therefore, was hoped to become the central arena for launching new political reform projects (Esser & Schroeder 1999). Within the foundation document of the new Alliance all parties involved actually agreed that "*swift and comprehensive reforms are essential to attaining a sustained increase in employment and to improving the dynamic strength of the economy*" (Bündnis für Arbeit 1998). When it comes to the determination of the content of these reforms, however, it becomes very obvious that all three parties, the federal government, the employers and the

trade unions have basically different conceptions on role and substance of a national social pact in Germany.

4.1. Two alternative conceptions within the new red-green government

When the new red-green government came to power it combined two alternative conceptions for a new socio-economic policy which mainly reflects the existence of two political lines with the SPD. Roughly speaking one could distinguish the "New Centre" ("*Neue Mitte*") and the "New Keynesian" Social Democrats (see Table 4).⁴ The "New Centre" Social Democrats might be seen as the German version of those parts within the European Social Democracy who are searching for a new "Third Way" between neoliberalism and the traditional social democracy.⁵ Regarding their socio-economic conceptions the "New Centre" Social Democrats have a primarily microeconomic orientation which call for new "left supply-side economics" aiming the overall improvement of competitiveness. Since the "New Centre" Social Democrats have fully accept the existing monetaristic macroeconomic regime in Europe, they see budget consolidation as the primary task of the state which let only little room for an active employment-promoting fiscal policy. The creation of new employment could, therefore, only be reached by some structural reforms of the labour market, the social security system and the tax system aiming at an overall reduction of labour costs and corporate taxes and a higher differentiation of income levels. Regarding the European-level "New Centre" Social Democrats have taken a rather sceptical view on the possibilities of a "Europeanisation" of economic policy. Instead, they follow the concept of an increasing national "regime competition" in Europe which should be moderate at European level through modern benchmarking methods and the diffusion of "best practices".

To sum up, the "New Centre" Social Democrats have taken over many ideas and elements of traditional neoliberalism. However, one of the main difference to a "pure" neoliberal strategy is that the "New Centre" Social Democrats see the needs for a social consensus between the organised labour market parties in order to enforce structural reforms of the German model. In contrast to the neoliberales, the "New Centre" Social Democrats do not want to destroy the corporatist institutions but, on the contrary, try to expend them. Within this new political constellation of an "embedded neoliberalism" (van Apeldoorn 1999), the Alliance for Jobs gets a

⁴ Within the new government the two strongest opponents of these two lines were the former Minister of the Chancellor, *Bodo Hombach*, and the former Minister of Finance, *Oskar Lafontaine*. Both presented political "best-sellers" with popular versions of their conceptions (Hombach 1998; Lafontaine & Müller 1998; Lafontaine 1999). Apart from that the two lines were also represented by some influential intellectuals and scientific institutes. Among others, the "New Centre" Social Democrats were very much influenced by the so-called "Manager-circle" of the SPD-oriented Friedrich-Ebert-Stiftung (Böckels et. al. 1998) as well as by the two presidents of the Max-Planck-Institute for Social Science, *Wolfgang Streeck* and *Fritz Scharpf* (see for example Streeck & Heinze 1999). The "New Keynesian" Social Democrats have got lot of their intellectual support in particular from the Deutsche Institut für Wirtschaftsforschung (DIW 1998) in Berlin and namely from the former senior researcher at the DIW and former state secretary in the Ministry of Finance, *Heiner Flassbeck* (see for example Flassbeck & Spiecker 1998).

⁵ Indeed, the "New Centre" Social Democrats have been influence significantly by the debates on "New Labour" within the British Labour Party, as, in particular, the joint paper of Tony Blair and Gerhard Schröder (1999) indicates, which has become widely debated in Germany. In contrast to that, the "New Keynesian" Social Democrats have shown much more sympathies for the policy of the French Jospin-Government (Lafontaine 1999).

crucial role in organising social acceptance. Thereby, a new form of macro-corporatism has emerged which has been described best as "competitive corporatism" (Rhodes 1998).

Table 4. Two alternative conceptions of socio-economic policy within the new social-democratic led-government

	"New Centre" Social Democrats	"New Keynesian" Social Democrats
Overall orientation of economic policy	<ul style="list-style-type: none"> • Primarily microeconomic orientation • "Left" supply-side economics for improvement of competitiveness 	<ul style="list-style-type: none"> • Primarily macroeconomic orientation • Policy mix of supply-side and demand-side economics
Primary tasks to create employment	<ul style="list-style-type: none"> • Structural reforms of the labour market, the social security system and the tax system aiming an overall reduction of labour costs, social security contributions and corporate taxes 	<ul style="list-style-type: none"> • Creation of a new growth regime by a better coordination of macroeconomic policies and the promotion of real investments and the improvement of internal demand
Role of wage policy	<ul style="list-style-type: none"> • Moderate wage increases and higher differentiation of wage levels 	<ul style="list-style-type: none"> • Productivity-oriented increases in real wages
Primary task of fiscal policy	<ul style="list-style-type: none"> • Budget consolidation 	<ul style="list-style-type: none"> • "Anti-cyclical" fiscal policy
Role of the European level	<ul style="list-style-type: none"> • Moderation of national regime competition • Sceptical about Europeanisation of economic policy • Strict interpretation of the "stability pact" and full acceptance of the monetaristic EMU regime • Benchmarking and best practices 	<ul style="list-style-type: none"> • Coordination of monetary, fiscal, tax and wage policy at European level • Promotion of a European Employment Pact • Reform of the EMU regime into the direction of the US. Federal Reserve • Re-regulation of international financial markets
Role of the Alliance for Jobs	<ul style="list-style-type: none"> • "<i>Competitive corporatism</i>": Social acceptance for cost-cutting strategies and structural reforms shaped by the aim of higher competitiveness 	<ul style="list-style-type: none"> • "<i>Euro-Corporatism</i>": Organising co-operative macroeconomic policy at national and European level

Considering the "New Keynesian" Social Democrats, first of all, they have argued for a more fundamental criticism of neoliberal conceptions. The reasons for the high unemployment in Germany are, therefore, not primarily seen in the structures and institutions of the German model but mainly in "false" macroeconomic politics which caused in neoliberalism as the hegemonic ideology. The "New Keynesian" Social Democrats, however, have not simply argued to go back to the traditional social democratic policy of "deficit-spending" but claimed for a modern "policy mix" of supply-side and demand side economics. The core of the "New Keynesians" concept is the macroeconomic coordination of monetary, fiscal and wage policy in order to promote economic growth and employment. Since monetary policy has a crucial role in that, the "New Keynesian" Social Democrats aimed to overcome the pure monetaristic orientation of the European Central Bank and to follow more the example of the US. Federal Reserve.

Regarding the new macroeconomic framework conditions within the European Monetary Union the development of a real European economic policy plays a crucial role for the con-

ceptions of the "New Keynesian" Social Democrats. Consequently the latter were the driving force behind the initiative for a "European Employment Pact", which was concluded under the German EU-Presidency in June 1999. The core of this new European Employment Pact was the establishment of a new "Macroeconomic Dialogue" as a joint forum of representatives of the national government, the European Commission, the European Parliament, the European trade union and employers' organisations and of the European Central Bank. Within the conception of the "New Keynesian" Social Democrats an Alliance for Jobs has to deal with macroeconomic policies in the first place. Since the monetary policy has to be included in such an Alliance, it would be essential to combine national social pacts with a new form of "Euro-Corporatism".

As both the "New Centre" and the "New Keynesian" approach have been analysed as ideal-typical stereotypes, in practice the politics of the new red-green government were, of course, much more inconsistent and were often based, at least in first few months, on compromises between the two alternative conceptions. The political support for the "New Keynesian" approach was, however, from the beginning much weaker than for the "New Centre" conception. Moreover, the strong criticism on the new government, as it has been brought forward in particular by the German business community, has concentrated mainly on the "New Keynesian" representatives. Finally, the resignation of Oskar Lafontaine as Minister of Finance in spring 1999 marks a major U-turn in the socio-economic policy of the red-green government whereby the "New Keynesian" approach has lost to a great extent its influence (Hickel 1999).

4.2. Conceptions of business and trade unions

Since the "Zwickel-initiative" in 1995 the German employers' and business organisations have always taken a more reserved attitude towards a national Alliance for Jobs (Schulten 2000b). Moreover, significant parts of the German business community has agreed with the neoliberal critics on corporatism, who see the Alliance as an institution in which powerful labour market organisations act only in the interest of their own organisational purpose and, at the same time, block the necessary reforms for a strengthening of the "market forces" (see for example Berthold & Hank 1999). If at all these critics have spoken for employment pacts at company level which are seen as the only suitable way of promoting competitiveness and employment.

When the new red-green government came to power it was heavily criticised by large parts of German business right from the beginning. The president of the BDA, for example, called the new government's programme an Alliance against Jobs which "could never become a basis for an alliance with German business" (*Handelsblatt*, 21 October 1998). Since there were strong public expectations regarding a new national social pact, the German employers' and business organisations were not able to reject the governments initiative for a new Alliance. Instead, the business representatives started to use their participation within the Alliance as a source of political pressure on the government and tried to determine the Alliance's agenda. In autumn 1998 the BDA presented its own concept for an Alliance for Jobs and *Competitiveness*" (authors italics) which mainly includes three elements (Hundt 1998). Firstly, the peak employers' association demanded a fundamental reform of tax policy aiming at a substantial

tax reduction for business. Secondly, they argue for a fundamental reform of the social security system in order to reduce employers' non wage labour costs. Thirdly, the employers wanted to use the Alliance to oblige the trade unions on a policy of wage restraint.

As the "Zwickel-initiative" has demonstrated, the trade unions originally favoured a conception for a national Alliance which should be based on a "political exchange" according to which the unions would make concessions on wages and working conditions in exchange for the creation of a precisely defined new number of jobs which should be guaranteed by the employers. Since it became clear that the employers' associations were neither willing nor able to give such an employment guarantee within a social pact at national level, the trade unions started to see the Alliance more as a national forum at which they could present their own conceptions for social and economic policy in order to strengthen their influence on the government. In October 1998, the DGB presented policy paper for a "New Alliance for Jobs, Vocational Training and *Social Justice*" (authors italics) which contains a broad catalogue of topics for tripartite talks based on the following seven fundamental guidelines (DGB 1998):

- "a fair and solidaristic distribution of income and work;
- innovative and modern companies in industries and services;
- a socially acceptable and employment-creating environmental and energy policy;
- a "future-oriented" vocational and continuing training system;
- a functioning welfare state and a fair tax system;
- a fair distribution of wealth; and
- a social and employment-oriented process of European integration"

The trade unions conception for the creation of new employment, which has been further developed in a more recent document (DGB 2000) mainly based on two pillars: The first pillar is the promotion of economic growth whereby the unions follow partially the concepts of the "New Keynesian" Social Democrats with a particularly strong emphasis on social justice and a fair distribution of wealth. However, there are also significant parts within the unions who are more closely to the "New Centre" Social Democrats and follows the arguments for a better employment performance through the improvement of competitiveness. Nevertheless, a majority within the unions believe that better growth performance alone would not be sufficient to reach full employment and, therefore, argue for a second pillar which is the redistribution of work through various forms of working time reduction. The latter has also become the union's political focus within the Alliance.

5. Alliance for Jobs - main policy fields

The Alliance for Jobs has already covered a broad spectrum of policy fields, many of which have been dealt with within tripartite bodies for a long time. In Germany, especially labour market policy, social policy and vocational training policy have traditionally been regulated and controlled by corporatist institutions. Some of the tripartite activities in these policy fields have now been taken over under the roof of the Alliance while others continue without any explicit link to Germany's social pact. The Alliance has shown some new impact, in particular, in the area of collective bargaining policy which has been the most striking topic so far.

Besides that, the Alliance has had some influence on vocational training and, with less importance, on tax policy.

5.1.. Collective bargaining policy

5.1.1. Debates on an "employment-oriented" collective bargaining policy

From the beginning the most controversial question within the Alliance for Jobs was whether or not it should deal with collective bargaining policy⁶. On the one hand all parties involved agreed that the Alliance has to respect the principle of collective bargaining autonomy and, therefore, can not conclude binding decisions for the collective bargaining parties. On the other hand both employers and trade unions put topics on the Alliance's agenda which were directly related to collective bargaining. The core of the ongoing conflict, however, has been the issue of wage policy. For the employers it was always the primary aim to reach a framework agreement within the Alliances which recommends a long-term oriented policy of wage restraint. In contrast to that the unions originally refused even to discuss on wage developments and threatened to leave the Alliance in the event that the employers insisted on talking about wages. Since the unions came forward with their own proposals on working time policy and early retirement, however, they could no longer avoid wage policy becoming, at least indirectly, a prominent issue within the Alliance's debates on an "employment-oriented" collective bargaining policy.

The first joint declaration of the Alliance from December 1998 mentioned collective bargaining policy only in a very general and vague way. Among many other objectives the declaration simply called for a "*collective bargaining policy conducive to promoting employment*" (Bündnis für Arbeit 1998). Furthermore, during the second round of top-level talks in February 1999 the Alliance agreed to discuss a set of macroeconomic data including growth, inflation and productivity developments as well as profits and investments which de facto frame collective bargaining. The employers went even one step further and proposed to set up a new body within the framework of the Alliance similar to the Dutch "*Stichting van der Arbeid*" which should elaborate annual recommendations for the collective bargaining parties and should function as a new mediation institution (Hundt 1999). The unions, however, rejected that proposal and declared that they would neither accept the Alliance getting any mediation function in negotiations nor setting up "wage guidelines" for collective bargaining.

Moreover, in the third round of top-level talks in July 1999 DGB and BDA presented a joint declaration as a contribution to the Alliance, which contains common viewpoints on various principles for future collective bargaining policy. According to this statement both parties agreed on the following goals (BDA & DGB 1999):

- a "collective bargaining policy which is reliable in the medium and long term",
- "a differentiated and flexible working time policy and a different distribution of work", including "an employment-creating reduction of overtime", the use of working time "corridors" and annualised working time arrangements; the use of yearly and/or life-long work-

⁶ For a more detailed analysis of the role of collective bargaining policy for the Alliance for Jobs see: Bispinck and Schulten 1999.

ing time accounts, the creation of more part-time work and an improved utilisation of partial retirement;

- the improvement of company-related pension schemes;
- the priority use of "increases in productivity for employment promotion";
- the promotion of performance-related payments;
- a continuation of the reform of sectoral collective bargaining system, with an extension of "opening clauses" and collectively agreed "corridors" in order to allow more company-related regulation.

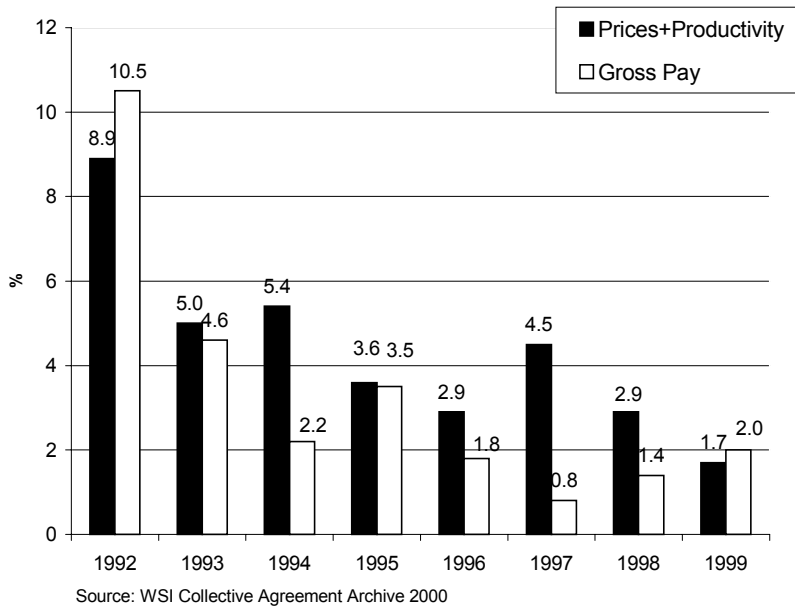
The BDA/DGB declaration tried to compromise both the employers and trade unions perceptions of an "employment-oriented" bargaining policy. Despite that, employers and trade unions continued to have strong conflicting ideas of what an "employment-oriented" collective bargaining policy would mean for the practice of the forthcoming bargaining rounds.

5.1.2. Does wage restraint promote employment?

Within the Alliance for Jobs the employers' associations pushed strongly for the position that only long-term oriented agreements which determined a sustainable policy of wage restraint could have at least a positive impact on employment. Thereby, the employers were supported by large parts of Germany's mainstream neoliberal economists as, for example, the German Council of Economic Experts (*Sachverständigenrat*) who for many years have recommended wage increases below the so-called "cost-neutral margin of distribution" (*kostenneutraler Verteilungsspielraum*), which is the sum of increases in prices and productivity (*Sachverständigenrat* 1999).

Considering Germany's collective bargaining results in the 1990s, however, the relation between wages and employment seemed to be almost the opposite of what neoliberal economists presumed. After strong increases in payments at the beginning of the 1990s as a result of the German unification boom and the catching-up of east German payments, since 1993 Germany has almost continuously followed a policy of wage restraint with pay increases often (far) below the sum of increases in prices and productivity (*see Figure 2 and Table 5*). Thereby, the effective gross pay increases were below the collectively agreed increases of basic pay. The latter caused in a significant "negative wage drift" which might have many reasons such as, for example, a reduction of company payments above the collectively agreed rate (*übertarifliche Zahlungen*), a reduction of overtime or a decline in the collective bargaining coverage.

Figure 2: Use of "cost-neutral margin of distribution" 1992-1999
(in % to previous year)



Although pay increases had usually not exceeded the "cost-neutral margin of distribution", from 1992 Germany saw a continuing decline in the volume of employees' working hours with only a slight increase at the end of the 1990s. Wage restraint, therefore, did not only fail to promote employment, it probably even exacerbated the unemployment problem through a significant weakening of consumer demand.

Table 5. Increases in prices, productivity payments and employment in Germany 1992–1999 (in % to previous year)

Year	Prices for living costs	Labour productivity per persons engaged	Collectively agreed increases in basic pay	Gross pay increases per employee	Use of "cost-neutral" distributive margin*	Volume of employees' working hours
1992	5,0	3,9	11,0	10.5	1,6	0.6
1993	4,5	0,5	6,5	4.6	-0,4	-2.9
1994	2,7	2,7	2,9	2.2	-3,2	-1.3
1995	1,7	1,8	4,6	3.5	0,0	-1.8
1996	1,4	1,5	2,4	1.9	-1,0	-1.9
1997	1,9	2,3	1,5	0.8	-3,4	-1,3
1998	1,0	1,8	1,8	1.5	-1,3	0.8
1999**	0,6	1,1	3,0	2.0	+0,3	0.4

* Differences between sum of increase in prices and productivity (column 2+3) and gross pay increase (column 7); ** Provisional data

Sources: Federal Statistical Office; German Bundesbank, WSI Collective Agreement Archive, IAB-Arbeitsvolumensrechnung.

5.1.3. Trade union initiatives for early retirement

In contrast to the employers' focus on wage policy for the trade unions an "employment-oriented collective bargaining policy" has always been associated with a better distribution of work through working time reductions. Thus, for them the Alliance has been defined as a "test of whether or not a redistribution of work is possible with consensus" (Lang 2000). In the meantime, the unions put various working time issues on the Alliance's agenda, among which the issues of early retirement became the most controversially debated one.

In autumn 1998 the German metalworkers' union IG Metall presented a new concept for "early retirement at 60" in order to improve the job opportunities for younger workers. The existing partial and early retirement schemes have been relatively unattractive, since employees often have to accept significant losses in their pension rights. IG Metall, therefore, proposed the establishment of a special "collective bargaining fund" (*Tariffond*) financed jointly by the employers and the employees, of which losses in pension rights for workers on early retirement should be compensated.

Although many employers were in favour of an improved early retirement scheme as an opportunity to reduce their workforce, the employers' association sharply rejected the concept of IG Metall as being too expensive and too bureaucratic. Instead, the employers pleaded for the conclusion of new "flexible" early retirement schemes at company level. Overall, they reject the approach of early retirement as an useful instrument to promote employment. Critics of the IG Metall concept came also from within the unions. The mining, chemicals and energy workers' union IG BCE, for example, made clear that it would prefer an improvement of the existing legislation on partial retirement (*Altersteilzeit*) which should be added by a sector-specific partial compensation payments for losses in pension rights. Other union representatives questioned more fundamentally the political focus on early retirement in collective bargaining. They criticised that the proposed early retirement concepts favour a certain generation of mainly male workers with a long-term work contract while, in particular, younger and female workers with more precarious employment conditions could not gain from those concepts. Moreover, the focus on early retirement has been criticised for blockading other trade union working time initiatives, for example, a demand for further reduction of weekly working time. All in all, the unions had no joint strategy for an early retirement initiative in collective bargaining.

Despite the controversies on early retirement the Alliance parties agreed on several changes within the Partial Retirement Act. The new act will ease the use of partial retirement in small and medium-sized companies and will extend the period of statutory financial support from 5 to 6 years. Furthermore, the new act includes a provision which permits the use partial retirement also for part-time employees. The overall duration of the act have been extended from 2004 to 2009. These improvements gave indirect incentives to the collective bargaining parties to incorporate the new legal possibilities into their collective agreements.

5.1.4. Alliance's final statement on an "employment-oriented" collective bargaining policy

After both employers and trade union representatives had threatened to leave the Alliance for the case that their collective bargaining concepts would not be recognised, a compromise paper on collective bargaining policy was finally concluded during the fifth-round of top-level talks in January 2000 (Bündnis für Arbeit 2000). According to that document the Alliance recommends "*a longer-term and employment-oriented collective bargaining policy at the forthcoming 2000 bargaining round*", whereby the "*available distributive margin should be based on productivity growth and should be primarily used for job-creating agreements*." In addition, the joint statement called to find "*new ways for job-creating early retirement on acceptable terms for the persons concerned and without additional costs for the statutory pension scheme*." Thereby, the collective bargaining parties aim to "*find sector- and company-specific settlements*" while the government agrees to improve the legal framework conditions for early and partial retirement.

The German Chancellor Schröder called the new document on collective bargaining policy a "breakthrough" for the work of the Alliance, since it was the first time that in the run-up to a collective bargaining round employers' associations and trade unions had agreed on a concrete distributive margin at national level. The following disputes with the beginning 2000 bargaining round, however, made clear that the Alliance's document was largely based on an insubstantial compromise while trade unions and employers' association continue to have rather different views on an employment-oriented bargaining policy (Schulten 2000a). Immediately after the conclusion of the Alliance's statement on collective bargaining policy, IG Metall presented its claims for the current bargaining round of up to 5.5% increases which should finance both pay increases and the introduction of early retirement at 60. The metalworkers' union justified its demands on the grounds of an assumed increase in prices of 1.5%, a predicted increase in national productivity of 3.5% and the high profits within the metalworking industry. In the following weeks, many other sectoral trade unions also set out their bargaining claims, mostly for increases of between 4% and 5.5%. The employers' associations, however, sharply criticised the unions' demands as being "in flagrant contradiction" of the Alliance's recent statement. Since the Alliance had limited the distributive margin to the increase in productivity, for the employers the negotiable margin in current collective bargaining has been at best 2.6%, which was the figure for productivity growth predicted by the Council of Economic Experts in autumn 1999 (Sachverständigenrat 1999).

While the original positions of the collective bargaining parties have seemed to indicate conflictual negotiations, the 2000 bargaining round has proved to be a rather peaceful one which led to new collective agreements in an unusually short period of time. To the surprise of most observers the first major agreements for the chemical and the metal industry were reached already after only a few negotiation rounds at the end of March 2000. Moreover, the agreements provide relatively moderate pay increases and improvements to partial retirement schemes while convening a relatively long duration of up to 24 months (*see Table 6*).

Table 6. Collective agreements in chemical and metal industry in 2000

Issue	Chemical industry	Metal industry
Pay increase	2.2% from June 2000; 2.0% from June 2001 to February 2002	3.0% from May 2000; 2.1% from May 2001 to February 2002; 330 DEM flat-rate payment für March/April 2000
Pay increase calculated on an annual basis	2000: 2.2% 2001: 2.1%	2000: 2.5% 2001: 1.7%
Partial retirement	From the age of 55 for up to 6 years; compensation for pension losses up to 36,000 DEM	From the age of 57 for up to 6 years; compensation for pension losses up to 21,600 DEM
Additional pension scheme	Increase of annual payment from 936 to 1,200 DEM	Annual payment of 624 DEM (as before)

Source: WSI Collective Agreement Archive 2000

A particular role within the 2000 bargaining round was played by the chemical workers' trade union IG BCE which was the only major union to refer explicitly in its bargaining claims to the Alliance's recommendations. After the IG BCE had already started the negotiations three months before the expiry date of its current one, it concluded the first major agreement and, therewith, took over the "wage leader" function which has usually been filled by the metalworkers' trade union IG Metall. In the preamble to the new chemical agreement it has explicitly stated, that "*both bargaining parties will further strengthen the competitiveness and investments in the German chemical industry*" and ,therefore, will "*jointly follow a long-term collective bargaining policy in the spirit of the German Alliance*" (IG BCE & BACV 2000). Since the chemical agreement received very positive reactions in the German public it puts indirectly an enormous pressure on the negotiations in metalworking. Finally, one week after the chemical deal, IG Metall also concluded an agreement in which they accepted very moderate wage increases and gave up their original model of early retirement at 60 in favour of an improved partial retirement scheme.

The provisions of the new metalworking agreement, however, caused some loud criticism from parts of the IG Metall membership, especially from those working in the highly profitable companies in the south-west of Germany (*Stuttgarter Nachrichten*, 5 April 2000). The focus of their criticism was not the failure of IG Metall's model on early retirement but the very moderate level of wage increases which were seen as inappropriate in relation to the overall excellent business situation. Considering an estimated "cost-neutral margin of distribution" of at least 4% in 2000 both the chemical and the metalworking agreement will definitively fail that margin. Calculated on an annual basis pay increases in 2000 will be between 2.2% in chemicals and 2.5% in metalworking, while the corresponding figures for 2001 will be 2.1% and 1.7%.

5.1.5. The impact of the Alliance on collective bargaining policy

After more than one year of discussions collective bargaining policy has become the most prominent issue within the Alliance. In contrast to the overall public expectations, the agreements of the 2000 bargaining round in chemicals and metalworking have proved that the Alliance can have a real political influence on the bargaining outcome. This might be positive news, in particular, for the employers' associations, since the Alliance has a clearly pacifying affect on the trade unions' capabilities to run their own pay claims. Moreover, some commentators have already seen the emergence of a "new area in German collective bargaining policy" (*Financial Times Deutschland*, 29 March 1999).

Although such an assessment might be an exaggeration, which also reflects some "wishful-thinking", the future impact of the Alliance on collective bargaining policy will depend to a large extent on whether or not the unions will continue to subordinate their bargaining claims under nationally defined targets. In contrast to many other European countries, however, Germany has never been able to practise a functioning income policy for a longer period of time (Streeck 1994). On the one hand, there are structural limitations coming from the principle of collective bargaining autonomy which could not be abolished without a major social conflict. Besides the current chemical and metalworking agreements, it seem to be, nevertheless, rather doubtful if there is a real political substance for a long-term national agreement on collective bargaining policy: The content of the current political exchange; which is pay restraint in return for certain partial retirement, will definitively not be sufficient in the long run. Moreover, a continuation of the collective bargaining policy of the 1990s, where pay increases lag clearly behind the overall economic development, would cause even more dissatisfaction within the trade union membership and further increase their organisational problems.

5.2. Promotion of employment through the extension of a low wage sector?

Besides the Scandinavian countries and the Netherlands, Germany has one of the lowest levels of wage dispersion among the European countries, caused by its specific collective bargaining system. In recent years there have been many discussions on whether or not Germany needs to have a higher degree of wage differentiation in order to create new jobs, especially for low qualified employees, in the low wage sector. The proposals made in these discussions have varied between a direct reduction of collectively agreed payments and the introduction of a state-subsidised low wage sector. While a direct reduction of payments and the establishment of an extended low wage sector seems to be politically unacceptable for the moment, the debates currently concentrates more on the different models for public wage subsidies. Within the Alliance for Jobs, there has been a controversial debate on a proposal made by the "benchmarking group" which proposed a system of reducing public subsidies for the contributions to social security for all jobs with a monthly payment between 1,500 to 2,500 DEM (Arbeitsgruppe Benchmarking 1999; Streeck & Heinze 1999).

The economic justification behind the concepts for a state subsidised low wage sector is based mainly on two arguments (Bäcker 1999). Firstly, it follows the basic neo-classical assumption that companies will only hire an employee if marginal productivity is higher than marginal labour costs. Respectively, reduced wages would give incentives to hire employees with

lower qualifications and productivity. Secondly, a state subsidised wage sector is assumed to create incentives for unemployed to take on a low paid job instead of being on public welfare.

In contrast to that, however, there were also a lot of critical positions which challenged the arguments for an extended low wage sector being favourable for employment. First of all, it was questioned whether a relatively low wage differentiation and relatively high pay levels have been responsible for the above average unemployment of low qualified employees. International comparisons have shown that the labour market performance correlates neither positively nor negatively with the level of wage differentiation (Bosch 1999). Thus, under the conditions of high unemployment high skilled employees usually lever out low qualified employees on the labour market. In that event, a reduction of labour costs would lead to a further replacement of employees but not to an increase of the overall labour demand. Moreover, since public subsidies for a low wage sector would produce many undesirable deadweights that companies would be encouraged to change normal jobs into public subsidised ones, and the net effect for the creation of additional employment would be rather limited. Finally, a state-subsidised low wage sector produced enormous public financial burdens. Different calculations have arrived at a sum of between 15 and 24 billion DEM, depending on the type and extension of the subsidy model, which would only create between 60,000 – 140,000 additional jobs (Buslei & Steiner 2000).

From the trade union point of view one major aspect of concern has been the fact that a state subsidised low wage sector would directly or indirectly produce enormous pressure on the existing collectively agreed pay structure (Bispinck 1999). Since the unions would probably lose the legitimacy to claim for wage increases in a subsidised area, these wage groups could hardly be an issue of regular collective bargaining. Furthermore, in particular, the unions in the service sector pointed out that in many services low paid jobs are already widespread without any positive effects on employment (Wiethold 1999). In contrast to that, the employers had always argued that the above average unemployment level of low-qualified employees is caused by Germany's high wages and social security payments. The peak employers' association BDA came forward with its own concept for a "combination income" ("Kombi-Lohnmodell") which combines reduced collectively agreed pay with a reduced deduction of income from welfare payments. To make this system work, the BDA demands a freeze in the amount of social assistance and the introduction of new low-wage grades into collective agreements, which might be between 20% and 30% below average existing pay levels (Bäcker & Hanesch 1997).

Although the parties involved in the Alliance have rather different positions on the concept of a state-subsidised low wage sector, in December 1999 they agreed to test two different subsidy models in four selected regions in west and east Germany for a limited period of three years. These regional pilot trials are to be monitored by state, employers and trade union representatives and are to be scientifically evaluated (Bündnis für Arbeit 1999).

5.3. Vocational and further training

In comparison to most of the other European countries Germany's younger employees have been faced for along time with a relatively favourable training and labour market situation.

The unemployment rate of younger employees has always been clearly below the European average and the German vocational training system has had internationally an excellent reputation. In recent years, however, the situation has changed to the worst, as, for example, an increasing number of young persons were not able to find a vocational training place. It was, therefore, one of the first political initiatives of the new red-green government to relaunch an "Action-Programme to reduce youth-unemployment" which aimed at training, qualification- and job-opportunities for 100,000 young employees.

As already the official title of the "Alliance for Jobs, *Training* and Competitiveness" indicates, from the beginning the issue of training was given a high relevance. Thus, the foundation document of the Alliance from December 1998 formulated the aim that "*a training place should be available for every willing and able young person in Germany*" (Bündnis für Arbeit 1998). It was further agreed that all parties involved would support the implementation of the government's action programme as well as the development of further initiatives for the improvement of training possibilities. Regarding the latter the Alliance established a special working group on "vocational and further training".

The prominent role of training within the Alliance has to do with the fact, that the German training system has always been regulated by corporatist institutions, so that trade unions and employers' association have already long experiences in dealing with that issues. Both parties are jointly responsible for regulating content and implementation of the so-called "dual system" of vocational training which combines on-the-job training with education in vocational schools. To a certain extent they can stipulate the content and certification of the training programmes and participate in the process of skill formation. Furthermore, trade unions and employers' associations are members of the governing bodies of the Federal Employment Service through which they have a direct influence on further training schemes as part of an active labour market policy.

The issue of training is probably the only important policy field in which the Alliance has reached some real results so far (see: Bündnis für Arbeit 1999c):

- In February 1999 the business associations agreed that against the background of the demographic development additional in-service career training opportunities were needed and agreed to create at least 10,000 additional career training places in 1999.
- In July 1999 the Alliance agreed on a so-called "consensus on career training" (*Ausbildungskonsens*) which stipulates "*that applicants registered at labour offices as not having been placed for career training as of 30 September will be offered a training opportunity in the field of their choice at a location close to home as possible under regional circumstances*" (Bündnis für Arbeit 1999a). In addition to that, regional conferences on vocational training should be held twice a year in order to evaluate the regional training situation and to mobilise additional apprenticeships.
- Furthermore, all parties involved have agreed on a considerable need for the training of additional skilled personnel in information and communications technologies and, therefore, have demanded to increase the volume of career training in new information technology professions from 15,000 to 40,000 over a period of three years.

- In October 1999 the Alliance's working group on training agreed on guidelines for a structural modernisation of vocational training system which aim a modernisation of skill formation based on the principle of employability.
- Finally, in February 2000 the Alliance's working group on training adopted a joint declaration on the future development of further training und lifelong learning. All parties involved have aimed at a higher rate of participation in further training, in particular of those groups of employees who have no professional qualification.

Despite these joint agreements some issues have remained which are still debated and are more controversial. The trade unions have criticised the employers for not fully keeping their commitment on the creation of new training places. If the employers continue to miss the targets of the Alliance the unions will come back to their earlier demand for an alternative system of inter-company funding of vocational training whereby every company has to pay a certain sum to a vocational training fund.

In spring 2000 there has been a further controversy on the government's intention to introduce a "green-card" for 20,000 foreign specialist in information technologies. While the employers have supported this initiative and even demanded its expansion also to other professions, the unions have insisted on more vocational and further training for information technology professions as it was agreed in the Alliance (Scheele 2000).

5.4. Tax and fiscal policy

A more fundamental reform of tax and fiscal policy was from the beginning one of the major tasks of the new "red-green" government. Regarding tax policy, a reform of the income tax should reduce the tax burdens of employees and their families in order to strengthen purchasing power and to produce more social justice in the system of taxation. In addition to that, a corporate tax reform should produce a sustainable tax relief for small and medium sized enterprises. Finally, the introduction of a new "Eco-tax" should increase the taxes on energy consumption, while the additional revenues of that tax should be reduced for a reduction of non wage labour costs. Regarding fiscal policy the new "red-green" government aimed at a policy of budget consolidation which at the same time "corresponds with the cyclical situation and safeguards a high as possible level of future-oriented public investments" (SPD & Alliance 90/The Greens 1998).

The displacement of more Keynesian-oriented positions within the German government in 1999, however, has led to some significant changes in the focus and content of fiscal and tax policy (Hickel 1999). While budget consolidation became the most outstanding issue of fiscal policy, the corporate tax reform has been widened with new tax relief measures which favour, in particular, larger corporations and shareholders (Hickel 2000). The most important measures regarding tax and fiscal policy were as follows (*see also Table 7*):

- *Eco-tax*: taxes on electricity, mineral oil and fuel have been raised in exchange for a reduction of social security contributions to the statutory pension system. Further increase in the Eco-taxes and reductions of social security contributions are planned in the forthcoming years.

- *Income tax*: between 1998 and 2005 there should be a step-by-step reduction of income tax leading to a decrease of the basic tax rate from 25.9 % to 15 % and of the top tax rate from 53 to 45 %. The basic tax-free allowance will be increased step-by step from DEM 12,300 to DEM 14,000.
- *Corporate tax*: the taxation will be reduced from 40% to 25% for retained profits and from 30% to 25% for distributed profits. The tax cuts should partially be compensated by a broader corporate tax basis and a reduction of depreciation possibilities.
- *Relief for corporations and shareholders*: The taxation on profits out of speculation will be cut in half while the existing taxation on profits made by sales of company-shares will be abolished.
- *Budget consolidation*: The government aims to bring down annual public deficits to zero by 2006. The state ratio (*Staatsquote*) should be reduced from 48.5 % in 1999 to 45 % in 2003. The latter implies a cut in the federal budget of DEM 30 billion whereby the largest parts should be financed by cuts in social expenses as, for example, through a cut in the increase of pensions and unemployment allowances.

Table 7. Balance sheet of the "Tax reform 2000"

Corporate tax reform	
Tax relief for corporations	+ DEM 17.5 billions
Tax relief for non incorporated companies	+ DEM 15.0 billions
Gross tax relief	= DEM 32.5 billions
New tax burdens by reduction of depreciation possibilities	- DEM 24.2 billions
Net tax relief for companies	= DEM 8.3 billions
Income tax reform	+ DEM 34.2 billions
Total net tax relief	= DEM 42.5 billions

Source: Minister of Finance

The role of the Alliances for Jobs regarding tax and fiscal policy was mainly to organise support for the governmental programmes. In its first joint declaration the Alliance expressed its support for the "*implementation of the reform of the corporate tax system ... in particular to ease tax burdens in small and medium-sized business*", as well as for a "*sustained reduction in statutory non wage labour costs*" (Bündnis für Arbeit 1998). Thus, a special working group on "tax policy" was established within the Alliance in order to discuss the details of a tax reform. In a further statement the Alliance has explicitly welcomed "*the direction shown by the German government's plan for corporate tax reform*" and has supported the plan of cutting corporate taxes as "*appropriate to promote investment activity in general and on particular to increase Germany's attractiveness as a place for international direct investments*" (Bündnis für Arbeit 1999a).

The government was able to organise a support in principle for its fiscal and tax policy, although both employers and trade unions have sharply criticised certain elements of the reform

packages. While the employers have welcomed the idea of corporate tax cuts as a major instrument to improve competitiveness they have criticised, in particular, the "Eco-tax" as an additional burden to German business. In fact they were able to reach some special reductions in energy taxes for energy intensive industries. The trade unions have criticised, in particular, the social imbalances of the government's budget consolidation plan. Furthermore, they have warned that the combination of strict budget consolidation and net tax relief could lead to a further cut in public investments causing negative macroeconomic affects. Finally, the unions have sharply criticised the governments plan for abolishing taxes on sales profits from capital shares which only favours the large banks and corporations. Since both employers and employees, however, are gaining from the tax reforms, none of them would go so far to question the principle direction of Germany's tax and fiscal policy.

6. Germany's social pact: competitive corporatism and beyond?

Following the foundation of the Alliance for Jobs in December 1998 Germany saw the establishment of new macro-corporatist institutions which were primarily hoped to make a major contribution to the reduction of unemployment. Moreover, the new social-democratic led German government has declared the establishment of a national social pact as one of its core political projects in order to create a new institutional basis for some fundamental reforms of the German model. Indeed, after more than one year the Alliance has already shown a high number of activities in different policy fields. So far, however, none of these activities seem to have had a significant affect on the labour market nor have they led to perceptible changes in the principle direction of German socio-economic politics. Right from the beginning, therefore, the Alliance was accompanied by controversial debates on whether a national social pact is a suitable way to enforce employment-creating measures. While the public debates have been very much influenced by short-term political sentiments and have turned permanently from praising the Alliance's positive potentials to prophesying its final decline, the parties within the Alliance, as in particular the German government, have always emphasised that the national social pact has to be seen as a continuous process which needs its time and will show its positive effects on employment rather in a mid- and long-term perspective (Steinmeier 1999).

Besides that, some more fundamental criticism has been brought forward which focuses on possible structural blockades for a successful corporatism within the German institutional model. One of the main arguments coming from an institutional perspective is that in Germany the labour market organisations are structurally "too strong" and the state is structurally "too weak" which make it rather difficult (Hassel 2000) or almost impossible (Berthold & Hank 1999) to promote structural reforms within a national corporatist Alliance. On the contrary these critics see a clear danger that the labour market parties would use the Alliance mainly for a blockade of political changes while the state has only the alternative to give up its own political projects or to impose them without consensus of the labour market parties. This kind of criticism usually focuses in particular on the German trade unions. The latter have very much the image of following old-fashioned political concepts and have been sharply criticised "for running the risk of missing the only possible subject for a national em-

ployment pact in the 1990s" which is a "fundamental revision of the existing labour market institutions" (Streeck 1999b, p. 2-3).

There is, of course, some evidence in the institutional analysis of the German social pact, since both employers and trade unions are using the threat of a withdrawal from the Alliance to pressure the government for their own political purposes. The outcome of a national social pact, however, depends not only on the institutional framework conditions but is also a result of social conflicts and political hegemony. When it comes to the question of an adequate agenda for the Alliance most institutional analysis has a rather deterministic and one-sided view. Following the "given constraints" of a globalised economy, there seem to be no doubts that "the reduction of labour costs, the flexibilisation of labour markets and the improvement of incentives to accept a job" have to be the "main topics" of every national employment pact (Streeck 1999b, p.3). Moreover, the fact, that most social pacts in Europe focus on the issue of labour market and welfare state reforms in order to reduce overall labour costs, seems to indicate that Germany has to follow the same pattern.

6.1. Supply-side corporatism and the absence of the macroeconomic dimension

Considering the formal agenda of the German Alliance it is actually not so much different from that in other European countries. The main topics, which have been defined from the beginning as common aims, were the reform of the tax system in order to reduce taxes, the reform of social security system in order to reduce non-wage labour costs, the improvement of vocational and further training as well as the differentiation and flexibilisation of labour markets. Even collective bargaining and wage policy, which originally caused strong controversial debates, have become a central issue within the Alliance. All initiatives, however, have focused almost exclusively on the supply-side of the economy and were driven by the overall aim of improving competitiveness. Accepting the assumption that the improvement of competitiveness is the crucial element for promoting employment, the German social pact becomes an example for a new form of "supply-side" or "competitive corporatism" (Rhodes 1998) at which major the task is to integrate the trade unions and to widen social acceptance for a predominately neoliberal agenda.

Under the political hegemony of the "New Centre" Social Democrats the German government has lost an alternative economic conception which would mark a U-turn in comparison to the economic policy of its predecessors. Moreover, after a majority of Social Democrats have said goodbye to Keynesianism they principally have lost an economic theory which is based on the idea of a macroeconomic intervention into market relations (Heise 1999). Instead, they now have politically limited themselves to a mixture of neoliberalism and Schumpeterian supply-side economics. From a more critical perspective the fact that the social democrats have "no economic theory which is critical to capitalism" has been described their "Achilles heel" which makes them "wide open to simple business definitions of the public interest because ... [they have] no other reference point" (Hutton 1999, p.99). The same is true for the current form of social pacts in Europe. In contrast to the classical "social corporatism" of the 1960s and 1970s, the new "competitive corporatism" of the 1990s has mainly been driven by busi-

ness interests while trade unions went into a political defensive and had to subordinate their interests under the goal of competitiveness. The new content of the "political exchange" within corporatist arrangements has reflected this fundamental change in power relations: "While in the past the trade unions were more or less able to select what they wanted to get in return for their support, today the unions have little more to win than the fact that they continue to be part of the game" (Streeck 1999b, p.5). Since "New Centre" Social Democrats see the content of modern socio-economic policy basically determined by international market constraints, for them "competitive corporatism" is the only thinkable form of a political regulation based on a cooperative approach between the state and the labour market parties. Consequently, a failure of "competitive corporatism" would lead inevitably to a more radical version of neoliberalism as was the case with Thatcherism in the United Kingdom during the 1980s (Streeck 1999b, p. 6).

The concept of "competitive corporatism", however, is not only dubious in terms of its ideological content, because it simply follows the "pensée unique" within mainstream neoliberal economic thinking that politics has lost its capacities for market-modifying or market-correcting interventions. Moreover, since the new German social pact has mainly dealt with supply-side economics so far, it runs the risk of missing the major reason of Germany's high unemployment which is not at all the lack of competitiveness but essentially the lack of internal and public demand caused by a monetaristic macroeconomic regime. The contention that there is no alternative to "competitive corporatism" has finally been disproved by alternative approaches in recent German history associated with "New Keynesianism". Although the "New Keynesian" approach has been strongly combated by German business and has often been discredited as "Vulgar-Keynesianism" (Streeck 1999b), it nevertheless offers an alternative view of a national social pact which is complemented by a national "macroeconomic dialogue" aiming at a non-inflationary but at the same time also expansive and employment-oriented cooperation of fiscal, monetary and wage policy (Hein & Heise 1999).

6.2. Social pacts: enforcing national competition or strengthening European coordination?

One of the most problematic aspects of "competitive corporatism" is the fact that it basically follows a pure nationalistic strategy. The concept simply transfers the microeconomic logic of competition between companies to a macro-level which leads to the idea of a "competition between states" or "regime competition". Thus, the level of employment and overall social wealth depends on the level of national competitiveness which has to be permanently improved. The agenda of the social pacts follows exactly these targets, since it focuses mainly on cost-cutting strategies aiming at institutional reforms which allow a substantial reduction of taxes, wages and social security contributions. While such a strategy might function well as a niche strategy of, in particular, smaller countries it cannot work at all if all European states enter into the race of "best bad practices". Under the conditions of the European Monetary Union permanent reductions of taxes and labour costs are equivalent to real depreciations which might set in motion a deflationary spiral and could destabilise the whole macroeconomic system (Flassbeck 1999).

From a European perspective the concept of "competitive corporatism" is deeply based on a beggar-thy neighbour policy which aims at national benefits at the expense of other countries. Hence, it is highly questionable if existing social pacts in Europe have really contributed to an increase in employment or have simply led to a redistribution of unemployment among European states. A policy of strong wage restraint, for example, which has always been the prime aim within social pacts, could only have positive effects on employment, if the improved price competitiveness leads to a significant promotion of exports which is able to overcompensate the losses of internal demand. The effects of such wage dumping strategies are, however, always limited since sooner or later it will provoke similar counteractions in other countries. Given the real wage developments in Europe one can observe that in most countries real wage increases have been more or less constantly below the increases in productivity since the 1980s. The shift from a former "productivity-oriented" towards a "competition-driven" wage policy has already started a European downward competition which has led to a permanent fall in the wage share of national income with a massive redistribution from labour to profit income (Schulten 1998). A continuation of that process under the conditions of EMU, however, would bring incalculable risks not only for the economic and social stability but finally also for the political integration of Europe as a whole.

The alternative to a negative scenario of downward competition would be an intensified coordination of macroeconomic policy at European level. Such an alternative approach of a new "Euro-Keynesianism" would need at least three political and institutional requirements. The first is the macroeconomic coordination at national level which overcomes the one-sided orientation of "competitive corporatism" with a greater emphasis on the development of internal private and public demand. The second is a European coordination within the different policy fields. The existing Europeanisation of monetary policy by the European Central Bank has to be complemented through a European coordination of wages policy by the collective bargaining parties and a European coordination of fiscal and tax policy by the national governments. Thirdly, the Europeanisation of economic policy has to be completed by a macroeconomic dialogue at European level, which means that the currently existing "secret society" of back room talks between representatives of European peak organisations becomes an open forum for politicising debates on European economic policy and its responsibility for employment and social cohesion.

The realisation of a new "Euro-Keynesianism" would finally require a more fundamental reorientation of socio-economic policy both at national and European level. In that context the existing national social pacts in Europe might be proved to be a major blockade for a renewal of economic policy in Europe. The latter is true in particular for the areas of tax and wage policy. Considering, for example, the current European race on tax cuts the national governments are permanently weakening their ability to provide an employment-creating economic policy. In the area of wage policy the national commitment of trade unions towards a competition-oriented policy of wage restraint systematically undermines the recent efforts of European trade unions to coordinate national collective bargaining and to develop a new concept for solidaristic wage policy in Europe (Schulten & Bispinck 1999).

6.3. Beyond competitive corporatism

Since the intention of the Alliance for Jobs is a more fundamental modernisation of German capitalism, it aims at a revision of socio-economic institutions which have traditionally represented a certain balance of power relations and have marked in their material substance a particular "distributional compromise" (*Verteilungskompromiss*) based on political redistribution of market results (Hengsbach & Möhring-Hesse 1999). Hence, the necessity for a change of the German model is not in the first place caused by new anonymous market constraints but by a significant change in power relations whereby large parts of German business and politics are questioning the existing mode of redistribution. The logic behind the concept of "competitive corporatism", thereby, is based on a fundamental revision of social solidarity: "In trying to adopt to the new economic circumstances, national communities seek to defend their solidarity, less through protection and redistribution than through joint competitive and productive success - through politics, not against markets, but within and with them, gradually replacing protective and redistribute with competitive and productive solidarity" (Streeck 1999a, p.5).

It is in many respects doubtful, if the conception of "competitive solidarity" could become a stable base for a new social model. First of all, it makes the society's ability of acting in a solidaristic way totally dependent on its competitive success. There is, however, no evidence for the neoliberal idea that a globalised free market system would lead to an overall positive-sum game. On the contrary, increasing international competition is even leading to a polarisation of winners and losers, whereby often the first have gained at the expenses of the latter. On reflection, therefore, "competitive solidarity" seems to be based to a large extent on an externalisation of costs to other countries. Secondly, the conception of "competitive solidarity" simply accepts a further polarisation of income levels and wealth, since income becomes directly related to individual economic performance while "social cohesion is sought, not through equal outcomes, but through equal opportunity" (Streeck 1999a, p.9). Thirdly, "competitive solidarity" does not deny the idea of redistribution at all. The core of this conception is actually a political taboo for a redistribution of capital income through higher corporate taxes, wages etc. On the other hand, as most social pacts in Europe indicate, there is a strong tendency for a redistribution from labour to capital income, for example, through wage restraint or reduction of corporate taxes. Therefore, "competitive corporatism" might be better interpreted as an institutionalisation of redistribution in favour of capital.

Considering the given social power relations and political hegemony in Europe it is of course difficult to imagine what might be an alternative conception for social pact which goes beyond "competitive corporatism". Rather than denying the idea of a "redistribute solidarity", it would require a modernisation of the old social democratic principles such as redistribution, universalistic welfare and macroeconomic regulation. In order to re-conceptualise social democracy the "first condition for any successful social democratic regime" would be "an international economic architecture that permits countries to forge and sustain their own unique social contracts" (Hutton 1999, p.101). Thus, social pacts in Europe have to overcome their nationalistic bias and have to develop an integrated strategy for a cooperative macroeconomic policy at national and European level. But the issue of a fair redistribution of income and wealth, as well as of employment and overall individual opportunities has to become the core

at the agenda of a renewed form of "social corporatism" (Hengsbach & Möhring-Hesse 1999; Schmitthenner 1999).

The developments after the election of a new social democratic-led government in Germany have shown that attempts at an alternative socio-economic approach have provoked strong resistance, in particular, from German business. Moreover, the short history of the Alliance for Jobs made obvious that in most policy fields the parties involved have rather different conceptions leading to joint declarations, often based only on insubstantial compromises. The latter makes also clear, that any ideas of a new "consensus model" are misleading, since social pacts continue to work on the basis of "antagonistic cooperation" reflecting different interests and certain power relations. Considering this, the further development of Germany's social pact will not at least depend on the question of how the trade unions will further define their role within the Alliance. If they simply follow the path of "competitive corporatism" and become the junior partners within national competitive alliances they might be accepted within the cartel of political and economic elite as a "modern organisation". At the same time they would, however, run the risk to lose their status as an autonomous political actor and would give up their aim of influencing the principle direction of socio-economic developments. The alternative would be to consider the Alliance as an important political arena in which the unions have to bring in their own political agenda for a new social contract beyond "competitive corporatism". The success of such an alternative strategy, however, seems to depend more than ever on the unions ability to act not only as a corporatist organisation but as a social movement.

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