Mutual Learning with Trade-Offs

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Comparative social scientists have never quite explained how economic and political practitioners and decision makers in different countries learn from each other. The question has gained policy relevance over the past two decades with the transformation of the assembly line and mass production, the rise of new service industries, and the globalization of most domestic economies. With Japan still recovering from its severest social and economic shock in the postwar period, it makes intuitive sense to shift our focus to the United States and Germany for cues. Both appear to be in better political economic shape than Japan in a variety of ways noted in this volume. Both countries have apparently intransigent and hardly insignificant shortcomings. Both because of and in spite of these problems, we believe than comparisons between the German and American models are especially illuminating.

The chapters in this book compare sectoral and firm-level adjustment processes, modes of innovation, and processes of change, focusing on examples of and possibilities for cross-border and cross-sectoral learning in Germany and the United States. In one way or another, each chapter also explores the proposition that the benefits of German coordinating institutions and of the United States’ more decentralized political economy each entail trade-offs that may be necessary and are certainly politically unpleasant.

Cross-border and cross-sectoral learning are as difficult to understand as to undertake. Piecemeal learning is hampered by the interconnectedness of political economic systems, with changes on one dimension necessarily affecting, and affected by, others. At the same time, the wholesale transfer of institutional systems is unlikely in the absence of major political displacement caused by war and occupation. Yet a substantial and growing body of empirical evidence has led to a
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loose scholarly consensus that considerable transfer of some sort is occurring across national borders generally, and especially between Germany and the United States. Certainly it is not the case that practices identified in one setting, such as the German apprenticeship training system or different types of “lean production,” are being quickly, easily, or completely lifted across national borders and copied. Instead, corporate actors, powerful individuals, policymakers, or policymaking bodies are engaged in iterative, experimental, and partial efforts at transferring and adapting certain concepts and practices. Institutional/organizational transfer takes a back seat to various dynamic, even volatile, processes of learning, compromise, adjustment, and innovation, usually among actors “on the ground” rather than in the context of national competitiveness policies. Therefore, what we can learn from previous work in this area is limited.

Indeed, much past research and theorizing in both countries has focused on how institutions can be transferred at the macro (national) level (Jacoby 1997). In the United States, such debates—for instance, about importing apprenticeship training institutions or works councils—have never gained a great deal of momentum, not least because of the obvious and numerous obstacles posed by the functioning of and relationship among U.S. banks, companies, workers, unions, and the environment in which they operate. In Germany, debates about the decentralization of industrial and employment relations and the deregulation of markets (including the labor markets) have continued to bump up against the strategic resistance of unions as well as large segments of the employer community, and more recently against the small but growing influence of the European Union’s social policy agenda. Meanwhile, however, individual actors are busy establishing new operations, managing joint ventures and collective interests, developing labor–management innovations, and learning from each other’s successes and failures.

A great deal has been written about the benefits to labor and business of Germany’s coordinated institutionalized system of employment relations (see, e.g., Wever 1995; Turner 1991). Yet one important unanswered question for Germans is how to minimize the constraining aspects of this system while maximizing the supportive aspects of national and sectoral institutional frameworks. For instance, can industry-wide coordination of employment relations, which takes some of
the costs of labor out of competition among employers, be combined with vigorous local innovations?

Germany’s framework institutions have been famous for addressing market failures which individual local actors may not want or be able to address, but which ultimately detract from the common good. The training system is the most obvious case in point. Can local U.S. actors make the practical distinction between the problematic (time-consuming) and the beneficial (cost-sharing) aspects of Germany’s framework institutions? Can the latter be supported in an environment that naturally bypasses or compensates for the former?

It is widely agreed that by international standards the Americans are especially good at rapidly developing and executing impressive innovations—from labor–management relations to the reorganization of production/service delivery or the training of managers—because of the diverse and decentralized nature of the country’s political economy. Not surprisingly, Germans are examining which aspects of the decentralized U.S. system spur innovation. What is undoubtedly more complicated is disentangling these from the forces that can inhibit innovation, or its diffusion across settings, or the diffusion of its social and economic benefits. How much and what kind of institutional framework do we need to avoid these problems, and what will it cost whom? Recent pressures in Germany to rein in public spending and lower unemployment, deriving in part from the consolidation of the European Union’s economic agenda, bring new urgency to this issue.

Finally, how much room is there for cross-sectoral learning, both among and within countries? Could innovations in interfirm cooperation in the German electronics sector and in more flexible employment relations (especially in the Neue Länder¹) help map out how local actors might accommodate changes in what is negotiated, by whom, and how? Could companies in the United States develop loose framework institutions for joint training programs that could avoid “poaching,”² lessen pressures for head-to-head competition, and ultimately produce more highly skilled workforces? Could such framework institutions be structured so as to adapt themselves to changing external pressures, as suggested by Thelen (1991)?
INSTITUTIONS, IDEAS, AND
THE IMPETUS FOR LEARNING

Mutual learning takes place at the intersection of institutions, ideas or cultures, and actors’ often competing strategies. Lessons reside in the great strengths and weaknesses of both countries in various political economic arenas. The authors of this volume share the view that significant mutual learning between the two countries will require careful consideration of the contexts that structure how actors think about and carry out the strategies they perceive to be available; of how actors can, at least in principle, change those institutions; and of what cross-national and subnational/cross-sectoral (or cross-case) comparisons imply about the malleability of institutions and actor strategies. Examining these areas has become increasingly important in recent years, because change, adjustment, and innovation—whether indigenous or transferred from abroad—have all taken on increasingly pressing relevance to political economies and therefore to policymakers and practitioners throughout the advanced capitalist countries.

Why should social actors in the United States and Germany be especially interested in learning from each other? Germany and the United States remain the two most powerful western economies and have over several decades been ranked the world’s number one and two exporters. Germany’s core economy remains sound, notwithstanding still-high unemployment in the east. Indeed, many of Germany’s problems can be traced directly to the still-astronomical costs of unification. The United States economy remains fundamentally robust, despite the slowdown that began near the end of the year 2000, and its low unemployment levels are the envy of many advanced capitalist countries.

But the 1980s and 1990s have exposed cracks in the foundations of Germany’s social market economy and of the more free market United States approach. Germany is experiencing far greater difficulties in integrating the eastern and western economies and societies than was anticipated at the time of unification in 1990. Official unemployment in eastern Germany remains well over the EU average (which is hovering between 8 and 12 percent), and social tensions have spawned politically disruptive and even frightening debates about underlying causes. Many employers insist the problems are chiefly related to high labor
costs and centralized bargaining. Yet studies have found significant organizational and managerial rigidities, which surely play into the slow pace of change that contributes to Germany’s competitiveness problems, especially in the service and high-technology sectors (Walgenbach 1993; Lane 1989). Similarly, it has become common to criticize the German economy for its lack of easily available venture capital and for various other innovation-inhibiting features of its financial system.

In the United States, macrolevel indicators of overall economic competitiveness have long been paralleled by extreme disparities in earnings and wealth. These disparities are starkly visible in certain regions, sectors, and subsectors, which remain extraordinarily underdeveloped by the standards of the advanced capitalist world. Inequality is perpetuated by and reflected in the fragmented nature of employment relations: well-paying union and nonunion jobs in strong manufacturing and service industries exist alongside extremely insecure, low-paying, mostly nonunion jobs in smaller, weaker companies and industries. Such inequalities would not arise in Germany because of the presence of strong, central coordinating institutions in the areas of employment relations and related aspects of the political economy. Closely linked to this patchwork quilt of work and employment in the United States is the extremely uneven quality of workers’ and managers’ skills, which has alarming implications for even medium-term national competitiveness.

Our focused comparisons of specific political economic domains in these two countries allows us to avoid what Hyman (1994, p. 1) calls “the crude juxtaposition of superficial and ill-digested data . . . or else a gauche imposition on national experience of preset taxonomies.” These chapters report on original research by scholars who share a loose, institutional analytical approach and an interest in understanding work and employment relationships in their political economic contexts. We focus on four contemporary arenas of political economic change: telecommunications deregulation and privatization, management development systems, supplier relations, and employment relations.

Much comparison—especially of the United States and Germany—has had an implicit bias toward one or another model. In the 1970s, it was fashionable among social scientists to argue that social
democratic institutions are good per se and that we should all learn from countries like Germany. In fact, of course, institutions will always constrain some actors while supporting others, and precisely which actors are constrained or supported changes over time. For example, in the 1930s and early 1940s, the United States employer community saw itself as benefiting from the Wagner Act, which governed union–management relations in most sectors. This act appeared to guarantee labor peace and far-ranging managerial prerogatives. Today, most employers and even some unionists are actively hostile to that legal framework. In 1952, German unions and employers were extremely anxious about the effects of the Works Constitution Act which regulated codetermination at the workplace by instituting the most powerful works councils in Europe. Currently, many German employers are positively inclined toward the councils and most unions see them as powerful allies at the point of production. In short, institutions per se are not good or bad, but the functions they perform for society and the economy at a given point in time certainly can be (see, for example, Dore 1973; Maurice, Sellier, and Sylvestre 1986; see also Berger and Piore 1980).

The idea of “best institutions” has its analog in that of “best practice,” according to which firm-level flexibility is good in and of itself, and which implies that everyone should learn from the United States. Throughout the 1980s, the business press promoted certain corporate practices as more or less context-independent solutions to common international pressures (see, for instance, Hamel and Prahalad 1994; Kotter and Heskett 1992; Womack, Jones, and Roos 1991). Since the collapse of the Soviet system, business consultants and scholars have broadened their prescriptions to encompass “best” economic institutions as well (Naisbitt 1997; Porter 1998). In greater or lesser measure, these works are premised on the notion that there are single best ways for corporations to organize work, production, and service delivery and, at least by implication, for societies to structure national economies.

In fact, however, learning is not about strategic choices of best practices. Even at the company level, learning is very conditional: Japanese-style lean production looks very different in Germany than it does in the United States. Institutions can constrain and/or support strategies and practices, but the reverse is true as well—strategies and
practices can also affect institutions. It remains as important to ask who has the power to exercise strategic choices as it does to determine how these choices can be exercised and how people think about them.

Finally, we need to add to our explanatory framework not just institutions, organizations, and the strategies and practices that make sense within the contexts they establish, but also the ways in which entrenched ideologies (often translated into strategies) may not reflect any natural interests of either employers or the collective representatives of labor. Differing ideas—for example, about best practice or appropriate ways of negotiating conflicting interests—can both energize learning by offering breadth and impede it when certain potentially constructive ideas are ruled out. This added dimension is so extraordinarily difficult to define that we do not attempt to do so. However, it can be discerned throughout the dynamics we analyze here. While it is the least developed dimension of our comparative studies, we certainly do not regard it as the least important.

THE CHAPTERS

Since the 1990s, social scientists have often placed Germany and the United States at more or less opposite ends of a conceptual continuum, with the institutionally coordinated German Social Market Economy and its employment relations system at one end and the U.S. political economy, with its decentralized system of labor–management relations, at the other. We try to play on the strengths of this heuristic without getting caught up in it, staying open to ways in which it may not fit the comparison. By pointing up strengths and weaknesses at each end, these chapters throw curves, possibly loops, into the conceptual continuum.

We develop the German-American comparison by placing employment relations side-by-side with related areas of political economic activity. This contextualization is unconventional. It does not systematically examine the role of the state or the historical development of institutions; neither does it offer traditional sectoral comparisons of employment relations. Therefore, we sacrifice some theoretical elegance, analytical precision, and breadth of comparison. However, we
gain something we believe is more important: a sometimes messy but empirically rich examination of key arenas of political economic change, each of which either directly or indirectly influences and reflects industrial and employment relations in the two countries. Taking four different points of departure, we focus on the intersection between the strategies and practices of employers, unions, and employer associations (among other actors) and the cultural and institutional frameworks within which they operate.

Chapter 2, by Rosemary Batt and Owen Darbishire, analyzes the deregulation and privatization of the telecommunications industries in the United States and Germany, emphasizing the interplay between organizational and institutional change and labor–management relations. Batt and Darbishire place the break-up of AT&T and the deregulation and privatization of Deutsche Telekom at opposite ends of a continuum. At the U.S. end of the continuum we see virtually no political constraints on private-sector strategies. In Germany, however, the Postal Workers Union succeeded in slowing organizational change and protecting workers in the process. In both cases, but especially in Germany, it is not clear that consumers have benefited substantially from the reorganization of the industry. However, it is clear that in Germany labor has not (yet?) become a “loser” in this transformation, while the U.S. change has resulted in mass layoffs and a weakening of the unions. Nevertheless, significant variations in labor–management relations and negotiations within this sector in the United States illustrate a relatively wide range of possible outcomes.

David Finegold and Brent Keltner’s chapter on management development (Chapter 3) draws attention to how the strengths of each country are mirrored by weaknesses in the other. The authors argue that the Germans are good at providing a high floor of technical competence in managerial development. They also show, however, that functional specialization and organizational rigidity are supported by narrowly defined university training curricula as well as management career paths. In the United States, by contrast, we find broadly skilled managers who are flexibly deployed in organizations. However, in smaller firms, the quality of management development (especially in technical areas) is highly uneven, and the “floor” of management skills is lower than in Germany. This chapter sheds light on the advantages and dis-
advantages of each country’s institutions and approaches to management as a field, and thus management development.

In Chapter 4, Steven Casper compares two efforts at mutual learning and innovation in the area of supplier relations. He analyzes the implementation of Japanese just-in-time (JIT) inventory systems in Germany and the United States and the significant implications for changing relationships among firms. In Germany, we learn just how cumbersome institutional change can be in the face of preexisting legal arrangements of corporate governance. In the United States, Casper shows the obstacles to the diffusion of innovations such as JIT in a setting in which corporate law allows private sector firms far greater latitude than in Germany. Both the concerted employer action in Germany and the company-by-company strategies in the United States have advantages and disadvantages, and here again, variations within each country suggest learning possibilities not just between the two countries but among industries and even firms within them.

Finally, in Chapter 5, Lowell Turner, Michael Fichter, and I examine contemporary employment relations in the two countries. Because employment relations are so deeply embedded in national and lower-level institutional structures, this chapter follows from the others and most clearly illustrates the interconnected nature of the various facets of the two political economies. We characterize Germany as struggling with a crisis of the “high road”: high wages, high-level skills, and high labor-value-added in a highly institutionalized labor market. The United States faces a crisis of the “low road,” with relatively stagnant wages, income inequality, continuing union decline, and highly fragmented and competing systems of employment relations embedded in an extremely diverse political economy. Given the very different nature of the problems facing the two countries, we suggest very different policy prescriptions for approaching those crises, based in large measure on the mirror image conceptualization noted earlier.

The political economic spheres of activity analyzed here either directly involve or are closely interwoven with the relationship between labor and employers. Batt and Darbishire, in their chapter on telecommunications, explicitly analyze the impact on labor–management relations of this sector’s reorganization. Finogold and Keltner’s chapter on management training systems in the two countries has indirect but critical importance for employment relations, because the way
managers are trained has a great deal to do with how organizations are run. How managers are trained can not be disentangled from the content and effectiveness of management’s labor and human resource strategies. Relations among employers, such as the supplier relations analyzed by Casper, tell us a great deal about the functioning of different versions of capitalism (e.g., the social market versus the free market variant). These differences have important implications for the scope of collective action in labor–management relations. Finally, the Turner, Fichter, and Wever analysis of employment relations in Chapter 5 explains how labor, management, and the employment relationship shape and reflect their political economic contexts.

**TRADE-OFFS**

Powerful social actors cannot afford to and/or do not want to wait for national political processes to solve urgent political economic problems; but they can benefit from the mutual learning process, and—as the chapters of this volume show—to some extent they do. Yet there remains much to be done. The German telecommunications industry still appears far too constrained by the nature and tenor of labor–management relations to meet customers’ needs. Institutional change, such as the introduction of JIT, is hampered by the legal arrangements of corporate governance. Functional specialization and organizational rigidity within firms are supported by narrowly defined university training curricula and management career paths. German employment relations severely tax many struggling companies in the eastern states and, increasingly, smaller companies in the west. The U.S. case also offers a mixed picture. As the JIT story illustrates, the lack of mechanisms in the United States for coordinating employers’ actions is not in their collective interest. Telecommunications deregulation has forced more rapid firm-level adjustment than has been possible in Germany, but the economy has also suffered from a lack of industry-wide coordination, which has in turn led to arguably unnecessary technological investments and to suboptimal outcomes for labor and customers. Especially in smaller U.S. firms, the uneven quality of management development (particularly in technical areas) results in substantial mea-
sure from the lack of coordinated skills and training standards above
the level of the individual firm. Perhaps the most glaring example of
the problems associated with a lack of institutional framework supports
is found in employment relations and the resulting stagnant wages,
income inequality, union decline, and associated social problems.

In many regards, the U.S.-German comparison suggests an analogy,
with the strengths of each country reflected in the weaknesses of the
other. While the U.S. economy is doing well by macroeconomic indi-
cators, the social costs of U.S.-style growth are significant. If the Ger-
man social fabric remains fairly stable, fears about competitiveness,
especially in the high-technology and service sectors, combined with
continuing high levels of unemployment, present the opposite picture:
social stability at high economic cost. There appears to be a trade-off
between the so-called employment miracle of the United States and the
relatively more even distribution of wealth and income (in part due to a
significant social wage) in the German social market economy.

We find evidence of trade-offs in each of the instances of political
economic change analyzed in this volume. As illustrated by Batt and
Darbishire, in the German telecommunications industry, workers con-
tinue to maintain high levels of employment. However, Deutsche Tele-
kom has been extremely slow to adopt new technologies and organi-
zational strategies, such that services long considered standard in the
United States remain limited or unavailable to German customers. On
the other hand, rapid technological and organizational change in the
United States have benefited (especially business) consumers while
entailing considerable wage and work-rule concessions and mass lay-
offs among the industry’s workers.

The trade-off with respect to management development systems in
the two countries leaves most German firms with technically compe-
tent but functionally specialized managers, as shown by Finegold and
Keltner. The high floor of technical competence appears to be gained
at the cost of the development of broadly skilled managers who could
be deployed cross-functionally in high-performance organizations (see,
for example, Applebaum and Batt 1994; Berg 1997). In the United
States, by contrast, high-performance innovation is common in compa-
nies with strong market positions, while smaller, less competitive firms
are left to choose from a labor market pool of managers with relatively
low skill levels, especially in the area of technical competence.
A similar contrast emerges in Casper’s analysis of supplier relations. Here again, German institutional rigidities, in this instance in the form of legal frameworks structuring interfirm relations, create barriers to innovations in how suppliers and final producers distribute the risks associated with the introduction of JIT. The relatively unconstrained nature of interfirm contracting relationships in the United States stands in marked contrast. However, the result in the United States is that weaker market players, in this case supplier firms, are to some extent forced to accept the terms of stronger final assemblers. While some U.S. assemblers have developed stable, long-term relations with suppliers that mitigate some of the effects of this imbalance of market power, many have not. Meanwhile, historically rooted legal frameworks in Germany work to protect suppliers at the expense of end producers to the extent that the former require on-site inspection of supplied parts at delivery—precisely the sort of time-consuming process that JIT is designed to avoid. As Casper points out, the familiar institutional rigidity/market flexibility trade-off holds in this arena as well. The coordinated innovation of new legal frameworks within trade associations in the German electronics industry (now apparently diffusing to other industries) represents an exception rather than a rule.

Finally, the trade-off appears as one between stability and innovation in Chapter 5 on employment relations. The segmented U.S. system, with multiple competing models of industrial, labor, and employment relations, is characterized by everything from internationally impressive innovations in labor–management partnerships to low-trust, low-skill, low-wage cases and industries. Strong market players can hire and retain skilled workers or train workers that they hire. They can also develop high-performance work organizations that capitalize on workers’ skills, including their ability to participate directly in management decision making, which in turn bolsters these companies’ overall competitiveness. Smaller and/or weaker companies, often lacking the resources to train workers adequately, and often confronting a labor pool of relatively unskilled workers (or workers whose skills do not match their needs), are generally unable to pursue what Turner, Fichter, and I call “high-road” employment strategies. This further weakens their overall market position. Workers may “win” if they are employed by “winning” companies or, in some cases, if they are represented by unions that can induce firms to pursue high-road strategies.
Undoubtedly some of these are unavoidable trade-offs between a socially negotiated and a more unilateral market-oriented approach to political economic change and adjustment. However, it does not follow that anything gained by mutual learning entails an equal and opposite loss. In the cases analyzed here, we find both necessary trade-offs and trade-offs that may simply reflect articles of ideological faith that are difficult to alter but are not in any way naturally determined. We hope that this book will help illustrate how these trade-offs can be finessed. To do so, actors in each country will have to pay closer attention to the difference between institutional constraints—ideologically unacceptable in the United States and increasingly onerous to some social actors in Germany—and institutional supports. Such supports provide at least the potential for balancing social and economic interests, as illustrated by Germany’s spectacular postwar economic miracle.

The Germans are probably at an advantage in that they already have in place a set of institutions that can contain debates about new and emerging issues of substantive change. For instance, regional collective bargaining among employer associations and large industrial unions provides a forum for renegotiating which issues will be hammered out between individual firms and their works councils and which will be negotiated at the meso-level. In the United States, local and regional actors in a few places have begun to create such institutions but these are as yet young and far from robust (Parker 1997). Yet in a different way, the United States is in a better position than Germany: Americans seem to have a peculiar talent for seeing the need for change, reorganizing and recombining resources (including human resources) to accommodate shifting contexts, and then remaining open and flexible. It remains to be seen which—if either—of these comparative fortés is more conducive to learning.

Notes
1. *Neue Länder* is the German term for the new states of the former East Germany.
2. Employers “poach” when they hire employees away from firms that have already invested in their training, thus effectively stealing their competitors’ investments in human resources.
References


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