**Notes**

Thelen, K., & Kume, I. (2006). Coordination as a political problem in coordinated market economies. *Governance*, *19*(1), 11-42.

Purpose: to examine differences in how employer coordination has been organized in Sweden, Germany, and Japan in the area of industrial relations.

Argument: intensification of cooperation between labor and management in some firms and industries (that the “varieties of capitalism” literature correctly emphasizes) has paradoxically had deeply destabilizing collateral effects that have undermined these systems as they were traditionally constituted.

***Introduction***

According to the recent generation of the Varieties of Capitalism (VOC) literature, industrial relations depend not only upon labor organization and strength, but also on the capacity of employers to coordinate among themselves.

The VOC perspective is premised on a distinction between “coordinated” versus “liberal” market economies.

Some argue that globalization and deregulation will lead to convergence – all capitalist systems will become liberal.

The VOC literature suggests that—far from convergence—we should see continued diversity and indeed even stronger divergence between the liberal market economies and coordinated market economies.

Employers in the developed democracies will seek to confront new market challenges by building on and deepening previous sources of comparative institutional advantage.

* Employers in the United States and United Kingdom – will seek deregulation,
* Employers in Germany, Sweden, and Japan – will hold to traditional arrangements, because the strategies they have developed in the market rely on a high degree of labor cooperation, strong worker investment in skill acquisition, and peaceful plant relations.

The basic logic: because employers have organized their competitive strategies around these institutions, and especially because these institutions now act as crucial supports for these strategies, employers will not abandon them in the face of new market pressures.

***Problems with the VOC Framework and the Concept of Employer Coordination in Particular***

Do institutions resist deregulation thanks to employers’ own interest?

Alternative explanations: institutional inertia, successful union strategies.

Significant tensions in Sweden, Germany (declining union membership) and Japan (departure from seniority wages and lifetime employment). Thus, not only “coordination”, but also struggles.

Employer coordination as a *political problem*.

Contemporary market conditions do not just activate new conflicts *between labor and capital* (as is widely known and theorized); they also activate new tensions and strains *among firms and industries* that are differently situated in domestic and international markets.  
  
Argument: intensification of cooperation between labor and management in some firms and industries (that the VOC literature correctly emphasizes) has paradoxically had deeply *destabilizing* collateral effects.

***Coordination as a Political Process: Case Studies***

**Germany**

Recent trend: organizational disarray in the Association of German Metalworking firms (Gesamtmetall) and its union counterpart (IG Metall), which together have played the key flagship role in Germany’s de facto system of pattern bargaining over most of the postwar period.

Firms calling for greater flexibility to adapt central bargains to the needs of individual firms.

1960s: collective bargaining was covering 80% of all firms accounting for 90% of all workers.

Union organization in Germany is rather low, especially compared to Sweden, hovering around 30% of all workers for most of the postwar period, as against Swedish unions’ 80%.

However, employers have traditionally been extremely well organized, and this has stabilized encompassing bargaining because contracts signed by the employer associations cover all workers in the member firms, regardless of their status as union members or not.

The system has traditionally rested on a deal between the country’s large export firms and its sizable sector of small and medium-sized firms (Mittelstand).

The core of the deal: large firms dominated the employer association (and its main decision-making bodies), but typically also bore the burden of industrial conflict in order to secure moderate settlements with the unions on a range of issues, including, but not limited, to wages.

Some of the most destabilizing trends: intensification of cooperation between labor and capital at the plant level (especially in larger firms).

Clear tensions began to emerge already in the 1980s, in the context of negotiations over working time reduction (down to 35 hours).

Larger firms were able to offset the costs of such reductions by allowing greater flexibility in working times—expanding shift work or devising differentiated working time arrangements. However, smaller companies were not able to make these same kinds of adjustments and thus were hit more heavily by the sheer costs of reduced working hours.

The results of subsequent collective bargaining rounds in the 1990s exacerbated problems of solidarity on the employer side.

German producers had begun to face much stiffer competition from high-quality (lower-cost) producers in Japan and elsewhere.

The latter half of the 1990s witnessed bargaining rounds that featured remarkable displays of disunity on the part of metalworking employers (that became risk-averse).

Weaker firms began to opt out of the industry-level contract altogether. Central bargaining over time comes to cover a shrinking number of firms.

Union leaders realize that their own ability to conclude binding and encompassing agreements hinges on continued organizational viability on the employer side, which is why their own celebrations of these victories were muted, and frequently accompanied by expressions of concern about the weakness of the employer association.

Lack of unity and discord are prominent features of the IG Metall’s internal politics at present.

In 2003, the IG Metall strike (over reducing the working time in East Germany from 38 to 35 hours, as in the West) failed for the first time since 1950s.

Employers such as *Gesamtmetall’s* head Kannegiesser explicitly defend the collective bargaining system for the “order” and “predictability” that it helps to impose on the labor market.

**Japan**

Postwar system of “lifetime” employment (shūshin koyō) + seniority wages (*nenkō joretsu*): incentive mechanisms for workers.

Japanese management practices operate on a firm level (rather than on industrial, as in Germany).

Importance of coordination (rather than competition) between employers.

Lifetime employment only works if workers start at low wages, and then gradually acquire skills that make them increasingly productive and valuable to the company.

Management-labor coordination is less formal than in German.

Conducted via the seasonal *Shunto* wage bargaining system.

Since the 1960s, the metal industry had become the main pattern-setting industry. Bargainers in this export-oriented sector care about its competitiveness, and unions, organized in the IMF-JC (International Metal Workers’ Federation Japan Council), have traditionally demanded “economically rational” wage increases.

Recent years have seen intensified questioning of the traditional wage system. Employer organizations such as Keidanren (Federation of Economic Organizations) and Nikkeiren have criticized seniority wages as rigid and debilitating for Japanese firms. Reasons:

1. Demographic change (aging workforce) has increased the number of older workers, and with that, increased also the total wage costs that firms must bear.
2. Alleged change in the nature of the seniority wage system, which has come closer to an automatic wage raise for many workers despite different job capabilities among workers of the same age.
3. New technology (the “IT revolution”) has changed the kinds of skills that firms need. Traditional on-the-job training over a worker’s career may be less attractive than hiring engineers with the relevant skills from outside the company.

For these reasons, many companies have moved to abolish the seniority wage system, often replacing this with performance-based wages (*seikashugi*).

However, as in Germany, one finds in Japan evidence of continued employer support for both lifetime employment practices and substantial aspects of traditional wage systems. In 1995, Nikkeiren published a report, “A Japanese Management System in the New Era,” advocating that firms distinguish among three different types of workers: long-term employed workers with accumulated skills, workers with professional skills, and short-term/flexibly employed workers.

In 1999, Chairman Hiroshi Okuda, in a seminar for top managers, argued, “Even if there are redundant workers, it is management’s responsibility to seek new business opportunities to redeploy them. Employers without the entrepreneurship to find such business opportunities should retire.” The chairman of the board of Fujitsu concurred with Okuda in this seminar, citing his company’s successful efforts to retain (through retraining and redeployment) 500 workers made redundant in a recent restructuring (Nikkei August 6, 1999).

Pioneer of the performance-based system, Takeda Chemical (the largest pharmaceutical company in Japan), found it difficult to keep employees committed to the company.

Fujitsu implemented similar steps. In these processes of experimentation, Fujitsu management came to the conclusion that it is important to evaluate workers’ potential ability and “work process” independently of “outcome”.

The major problem: how to make individualistic wages compatible with the group-oriented work organization characteristic of Japanese firms.

Like a significant number of other companies, Toyota seems convinced that secure employment should be the basis of its competitiveness.

Nissan is another instructive case. It was taken over by the French automaker Renault in 1998 due to its financial difficulties and went through a very tough restructuring with massive dismissals (in the form of voluntary retirements). However, after achieving a V-curve recovery, President Carlos Ghosn maintained a bottom-up decision-making style, which is regarded as very Japanese (Ghosn 2001) and made it clear that the company’s main strength should reside in worker commitment to the firm. In wage bargaining for 2001, and in the context of concerns about revitalizing work organization, Nissan unilaterally declared that it would pay the full amount of bonuses demanded by the union.

However, not all companies can accomplish this same balance—incorporating elements of traditional employment practices while fine-tuning their reformed wage systems. An emerging important new divide among core firms in the Japanese economy is between stronger firms (such as Toyota), and weaker firms which have moved away from traditional practices (including laying off workers) in a straightforward effort to reduce labor costs.

For example, Mazda abandoned seniority-based wages in favor of a more performance-based system in part because the company could no longer afford Toyota-style wage and employment practices (Sako 2001). In cases like Mazda, radical reform of the wage system often wound up demoralizing workers, and did not improve company competitiveness (Yanagishita 2003).

Increasing adoption of performance-based wage systems has made it very difficult to maintain the traditional Shunto system. As practiced in the past, Shunto coordination required leading firms to act as pattern setters both within their own industry and also with an eye to other industries for which their settlement would provide the benchmark. Performance-based wages interfere with this because it is more difficult to coordinate wage increases once company profits begin to play a prominent role in wage determination.

This had become a problem already in the 1990s when Takeda Chemical Industry and Mitsui Mining and Smelting adopted performance-based wages and simply left the Shunto framework altogether.

Toyota management worried that if Toyota, which was actually booming thanks to the weak yen, raised the regular wage, this result would spill over into other industries and exacerbate the high cost problem. As an alternative, managers proposed that the increased company profit be distributed in the form of bonus payments, which are less linked to the Shunto (Nikkei March 20, 1997).

In the end, however, Toyota decided to increase its regular wage by a larger margin than other companies in the metal sector did, in effect abdicating its role as benchmark and pattern setter. Its president said that it was very important to motivate workers in order to make its work organization more competitive (Nikkei March 20, 1997).

Recently, fewer and fewer young Japanese workers take seriously the promise and prospect of secure long-term employment.

We can find a kind of labor–management cooperation in the core sector behind changing Japanese management practices.

***Conclusion***

Recent market developments have brought an intensification of cooperation between labor and management in some companies and industries that has complicated traditional forms of coordination (at higher levels) among employers and solidarity among workers on which these systems previously rested.

Common trend toward new or more virulent forms of dualism—featuring firms or sectors characterized by intensified cooperation between management and labor, but facilitated and perhaps even underwritten by a growing gap between practices and outcomes within the new core and those outside it.