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**How Cooperative Was the Spirit?
A Note on the 'Eichengreen-View'
of Europe After World War II**

by

Karl-Heinz Paqué

September 1995



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Abstract

This paper is an empirical critique of Barry Eichengreen's interpretation of the exceptional growth performance of Western Europe during the 1950s and 1960s. The main part of the paper shows that, at least for the important case of West Germany, Eichengreen's view of a broad-based economic and social consensus as the major reason for moderate wage growth and fast capital accumulation is hardly compatible with the facts. In particular, there is no historical evidence an explicit or implicit tripartite deal between unions, employers and the government to avoid problems of time-inconsistency in commitments to wage moderation.

Keywords (Classification System, Journal of Economic Literature):

N Economic History

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0. Introduction

In two recent papers, Barry Eichengreen has advanced a particular interpretation of the exceptional growth performance of Western Europe during the early post World-War II-period, i.e. roughly the 1950s and the first half of the 1960s.¹ In essence, he argues that, in the majority of countries and in the more successful ones at that, there was a broad-based economic and social consensus, backed up by appropriate internal and external institutions, which brought about moderate wage settlements, an exceptionally high rate of capital accumulation and thus sustained economic growth.² In this view, the post-war European growth spurt is largely regarded as the result of a conscious corporatist effort.

This paper is a critical comment on Eichengreen's interpretation, or more precisely: on that part of his interpretation which is concerned with the role of an *internal* consensus as a growth-enhancing factor. (I largely bypass the positive role of *international* cooperation which I take to be much less controversial.) In part 1 of the paper, I summarise Eichengreen's argument. In part 2, the core of the paper, I confront the theory with empirical facts; in doing so, I focus on the West German experience, which necessarily forms a major part of Eichengreen's (or any other) explanatory account of the growth record in the relevant period of European history.

1. The Eichengreen-View

According to Eichengreen (1994a, b), the economic logic of West European era of fast economic growth can be summarised as follows.

¹ See Eichengreen (1994a,b).

² The punchline of Eichengreen's interpretation is not new, it goes back to Maier (1975). However, Eichengreen can be credited for having put Maier's idea into a more coherent theoretical framework. Parts of the interpretation can also be found in many studies of individual countries, one of the earliest being Wallich (1955) on the West German economic revival.

There are two 'proximate causes' - in the sense Maddison (1991) coined this term - for the exceptional performance: pure *catch-up* vis-à-vis the United States (Abramovitz 1986) and *high investment*. While catch-up can be taken to be almost self-explanatory³, investment is itself an endogenous phenomenon that raises deeper questions: Why was high investment possible and what made it so productive? In Eichengreen's view, the proximate answers are: *wage moderation* and *export growth*, which are again to be explained and, at this point, consensual arrangements and institutions come in.

As to *wage moderation*, Eichengreen holds that, unlike in other historical periods, labour and capital succeeded in reaching a cooperative solution to the standard bargaining game of dynamic welfare maximisation: in essence, labour agreed to defer current consumption in return for higher future consumption that was to be made possible by high investment financed through high profits. To be sure, this is an unusual outcome: theory tells us that a cooperative solution to this type of dynamic game is conceivable (Grout, 1984; van der Ploeg, 1987), but not very likely to come about because the solution is *time inconsistent*, i.e. both sides in the game have an incentive to renege on prior commitments once the other side has fulfilled (implicit) contractual obligations. E.g., labour unions may promise to restrain wages to allow for investment, but once investment has taken place they have an incentive to renege on their promise and appropriate the maximum quasi rent; anticipating this outcome, capital and management may refrain from committing themselves to higher investment and disburse profits instead. Hence institutions are needed that in some way enforce the commitment through whatever legal, political or social means.

³ Strictly speaking, catch-up in the sense of closing a technological 'idea gap' (Romer 1993) is of course not self-explanatory because it presupposes a theory of international knowledge diffusion via trade, direct investment or other links that may be highly controversial. However, for the question at hand, the empirical relevance of catch-up is well confirmed, although its precise magnitude - and the extent to which it is really 'separable' from other factors like, e.g., high investment - may be open to doubt.

The relevant questions then become: What were these institutions at the time? And in addition: Why did they work in this particular historical period and not in others? And why did they not last longer, say, up to the late 1960s? In essence, Eichengreen's answers to these questions come down to one catchword: *corporatism*. In his view, the prototypical post-World War II European government adjusted the legislative framework in a way that gave both employers and unions a maximum incentive first to commit themselves to a cooperative solution of the dynamic game and second to honour the relevant commitment. It did so by an array of institutional innovations that were introduced to varying degrees in different countries; these involved (i) the concertation (and to some extent centralisation) of collective bargaining through government intervention, partly enriched by some kind of 'social compact' for investment and growth, (ii) an extension of worker consultation or even 'co-determination' on the plant level, and/or (iii) a widening and deepening of the welfare state.

Why did these consensual arrangements break down eventually or lose their effects on wage moderation? Eichengreen's answer - arrived at via a kind of negative selection of explanations like 'Olsonian capture', the oil price shocks and the breakdown of the Bretton Woods system - ⁴ focuses on the increase of international capital mobility that accentuated the problems of time inconsistency by weakening the causal link between wage moderation and subsequent investment: as management had increasingly the option of investing profits abroad, domestic labour could not be assured that a sacrifice today would translate into higher income tomorrow. To meet these new challenges, a quite drastic adjustment of institutions might have been necessary by the late 1960s; however, unlike in the early post-war period with its large-scale dislocation of institutions, history did not provide an opportunity for a (second) major adjustment of economic, political and social arrangements, which reveal a kind of natu-

⁴ See Eichengreen (1994b), pp. 37-43.

ral inertia once they have been established and successfully working for a significant period of time.

As to *export growth*, Eichengreen identifies a time inconsistency problem analogous to the one concerning wage moderation: to reap the long-run benefits of European trade integration and to keep down political groups lobbying against it, there had to be a firm international commitment to irreversible liberalisation that made it profitable to incur the short-run costs of industrial restructuring. The various forms of international cooperation that were institutionalised in the late 1940s and early 1950s did exactly meet this need: intra-European trade was greatly facilitated by creating the clearing mechanism of the EPU (supported by Marshall plan aid), by setting up the ECSC, which committed Germany to giving the French steel industry access to the coal reserves in the Ruhr valley, and by a GATT process that allowed intraregional trade preferences as long as they did not entail a rise of trade barriers vis-à-vis the rest of the world.

2. Eichengreen's Theory and the West German Facts

In one of the two relevant papers⁵, Barry Eichengreen presents a broad assortment of facts in support of his interpretation of post-war economic history. As to the *internal* side of his argument (the only side that concerns us here!), the bulk of these facts is taken from a number of smaller European countries, which are shown to reveal quite a few of the relevant traits characterising a system of consensual corporatism. From the four large countries (West Germany, France, Italy and the United Kingdom), only West Germany is explicitly taken as a case in point all throughout; France and Italy are considered as late converts to consensual corporatism, and the United Kingdom as none at all.

⁵ See Eichengreen (1994b).

All this has curious consequences for what may be called the *coverage* of the evidence (see Table 1 in the appendix). The group of small nations - in Table 1 called 'Group A' and consisting of Austria, Belgium, the Netherlands and four Scandinavian countries - covered in 1950 no more than 19 per cent of the relevant population total. Only if the case of the largest single country West Germany can be included in the evidence may the Eichengreen view be taken as an interpretation for a relevant chunk (roughly 40 per cent) of the whole. Even then, however, it would still be a somewhat limited explanation as long as it does not fully account for the growth experience of the two major Romanic countries which, apart from Britain (and Ireland), have to be taken as the ones with the *least* developed consensual corporatism in post-war western Europe.⁶ As the two right-hand columns of Table 1 indicate, both France and Italy had well-above average productivity growth in the 1950s *and* the 1960s, which does not square well with a theory featuring corporatist institutions.

Be that as it may, the case of West Germany has obvious importance for the scope and validity of Eichengreen's interpretation: (i) West Germany is the largest of all countries under consideration and, centrally located as it happens to be, a very important trading partner to most of the rest. (ii) Unlike Britain, France and Italy, it is commonly regarded as having an economy with strong European-style corporatist characteristics. (iii) And its exceptional economic performance in the post-war period is beyond any doubt, reaching by far the fastest productivity growth in the 1950s and still average growth in 1960-73, the 'Golden age' of most other countries (see Table 1). In short: only if the case of West Germany supports the argument can the Eichengreen interpretation be taken as accounting for more than a fringe phenomenon that prevailed in the smaller northern, western and central European countries.

⁶ In this respect, Eichengreen does not deviate from the international rankings of corporatism that other writers have set up (i.a. Bruno, Sachs 1985; Calmfors, Driffill 1987). Usually, the Romanic countries are categorised as the least corporatist in western Europe, roughly on a par with Britain and Ireland.

A 'test' of Eichengreen's theory for the case of West Germany essentially consists of giving answers to a sequence of empirical questions. Was there wage moderation in the 1950s and 1960s? If so, was there a corporatist agreement supporting it? And, if not, was there at least an implicit tripartite deal between the government and the two parties in collective bargaining which delivered the long-term bonding that was required to overcome the problem of inter temporal inconsistency? We shall tentatively answer these questions below.

2.1. Evidence on Wage Moderation

By historical standards, wages grew fast in Germany during the 1950s and 1960s (see Table 2 in the appendix): the nominal wage (defined here as average gross yearly earnings of an employee) increased by 7.9 per cent p.a. in 1950-60 and 8.6 per cent p.a. in 1960-70, the real wage (defined as the nominal wage divided by the consumption deflator) increased by 6.0 and 5.8 per cent respectively. However, given the fast labour productivity growth, the rise of unit labour cost remained moderate: 2.2 per cent p.a. in 1950-60 and 4.3 per cent p.a. in 1960-70. And real unit labour cost, i.e. (nominal) labour cost divided by the value added deflator, declined by 0.9 per cent p.a. in 1950-60 and rose mildly by 0.4 per cent p.a. in 1960-70, with this rise being largely due to the once-for-all sharp wage hike in the final year 1970 of the sample period.

Table 3 (in the appendix) presents a more detailed picture of the pattern of real unit labour cost (RULC) and its various components in the relevant periods. It confirms that, as a whole, the 1950s were a time of declining labour costs. This holds for both the first and the second half of the decade, with the decline being somewhat more dramatic in the earlier years than in the later ones. Looking over the yearly changes of RULC, we can see that a rough cyclical pattern emerges, with marked decreases in the upswings 1950/1, 1954/5 and again 1958-60, and only slight increases in-between. Note that the ratio of the deflators of value added and consumption PV/PC (column 5 in Table 3) follows a very similar inter temporal pattern as RULC, albeit in

reverse: all major RULC decreases have a counterpart in substantial increases of PV/PC, and both columns reveal a clear-cut cyclical pattern. In economic terms, this means that - de facto - wage settlements allowed firms to keep their terms-of-trade gains as profits for investment purposes.

For the 1960s, Table 3 shows a somewhat different picture: as a whole, the ten years from 1960 to 1969 were a time of virtually constant aggregate labour cost, but cyclical fluctuations were significant, with increases in 1960-63 and 1964-66 being compensated by sharp decreases in 1963-64 and 1966-69. Not before the watershed year 1970 did a sustained rise of RULC set in and last until roughly the mid-1970s. From this - and from more sophisticated measures of 'wage gaps' for these periods -⁷ one can conclude that the 1950s, but not quite the 1960s, were a period of persistent wage moderation in West Germany.

The numbers in Table 3, which are based on national accounts statistics, do not contain information on whether the wage changes were due to collective agreements between unions and employers' associations (or individual employers) or to the operation of market forces. A tentative measure that discriminates between these two elements is the 'wage distance', here defined as the percentage difference of the actual hourly earnings (w^e , 'e' for 'Effektiv') and the hourly minimum wage (w^t , 't' for 'Tarif') of an industrial worker.⁸ As collective agreements in Germany are strictly confined to set minimum standards of remuneration,⁹ the inter temporal development of the wage

⁷ See Paqué (forthcoming), Chapter II. Wage gap measures have the advantage that, in theory, they purge the data of the induced productivity effect due to variations of the employment level, which is particularly important for times with fast employment growth (as the 1950s). Under standard neoclassical assumptions, the measures of RULC presented in the text underestimate (in absolute terms) the decline of a 'true' measure of labour cost because they do not take into account the decline of average labour productivity induced by integrating marginal employees. On the other hand, wage gap measures usually suffer from a host of restrictive assumptions concerning the economy's production technology.

⁸ For details of definition, see Paqué (forthcoming), Chapter IV.

⁹ See Paqué (1993a) for further institutional details.

distance in the medium term can be taken as a rough proxy for the change of importance of market forces relative to collective bargaining.

Figure 1 (in the appendix) presents this rough proxy, with w^e and w^t defined as indices that are set equal for the base year 1951.¹⁰ The figure shows nicely that there was a trend increase of wage distance all over the 1950s and 1960s, interrupted only by the two (major) business downturns around 1958 and 1967. By the late 1960s, the wage distance as measured here reached roughly 15-20 per cent, a range which then remained roughly unchanged until the most recent past. Over the same time periods, the unemployment rate changed quite dramatically, from about 10 per cent in 1950 down to about 1 per cent all over the 1960s except the recession 1966/67 (see Figure 2). In view of these facts, even the 1960s may be tentatively classified as a period of wage moderation properly understood: while aggregate RULC did not decline anymore after 1960, contractual agreements were moderate enough to allow market-determined wage increases to surpass contractual minima by a considerable margin, and to do so over longer periods of time.

2.2. Corporatist Agreements on Wage Restraint

At the basis of collective bargaining in post-war West Germany lay the so-called principle of *Tarifautonomie*, i.e. of autonomous wage bargaining between unions and employers (or employers associations) without any government interference. This principle was legally established and protected by the Collective Agreements Act (*Tarifvertragsgesetz*) of April 1949, which formally ended the period of wage controls by the Allied forces.¹¹ In a broader historical perspective, the principle replaced the softer form of autonomous wage bargaining that prevailed in the Weimar Repub-

¹⁰ Note that this does *not* imply that w^e and w^t were actually equal in 1951.

¹¹ The wage freeze was formally ended earlier, in October 1948, three months after the currency reform. Even before, wage controls were not strictly enforced, but (ad-hoc) collective agreements took place on the plant level.

lic, which allowed for and even prescribed compulsory arbitration under government auspices in well-defined situations of bargaining stalemates.¹² It was precisely the memory of the (unhappy) experience with compulsory arbitration in the 1920s that made the post-war legislator decide to keep the government strictly out of collective bargaining;¹³ and no discernible political controversy arose on this issue.¹⁴

There are probably very few countries where the principle of (government-free) wage bargaining has been so jealously guarded by the bargaining parties, notably by the industrial unions, as in post-World War II West Germany. It is quite safe to say that, at *no* time since the late 1940s, there was a remote chance of achieving anything like an explicit tripartite agreement between government, unions and employers' associations that could have been binding for the relevant parties at the numerous industrial and firm-specific bargaining tables. If 'binding' is to mean legally enforceable, this is obvious enough. However, even if the term is to mean binding in a political sense of a gentlemen agreement on wage policy that involves top representatives of all three sides, it is hard to come up with examples, except maybe for the late 1960s, the last quarter of the period under consideration.

Until the mid-1960s, there was no formal or informal framework in which a corporatist coordination of wage policy could have taken shape: to my knowledge, not a single tripartite meeting involving top officials of unions, employers and the government and concerned with macroeconomic policy took place until February 1967, when the so-called Concerted Action, a brain child of the then Minister of Economics

¹² For a historical evaluation of compulsory arbitration in the 1920s, see Hartwich (1967) and Bähr (1989).

¹³ See Paqué (1993a), pp.211-2. Only in very narrowly defined circumstances coming close to a national emergency does the government have the right (and the obligation) to replace collective agreements by public decree. So far, no such situation has come about.

¹⁴ E.g., the Advisory Council to the Federal Minister of Economics, which - through its various 'reports' (see Wissenschaftlicher Beirat 1973) - played an important role in laying the intellectual ground for the concept of a 'Social Market Economy' in the months before and after the currency reform of June 1948, did at no point discuss the issue.

Karl Schiller, gathered for the first time.¹⁵ With some justification, the Concerted Action and the subsequent wage moderation may be credited for helping to pull the German economy out of the sharp recession 1966/67 and to initiate a non-inflationary recovery (although no 'political' wage guidelines were issued!); beyond this cyclical gain, however, it did hardly have long-lasting beneficial effects as the very sharp wage increases in the early 1970s indicate (see Table 3).¹⁶ In any case, the Concerted Action came much too late in the game to explain more than a very small part of post-war wage moderation;¹⁷ and it lasted in an institutionalised form until 1977, thus covering almost precisely the decade that is commonly viewed as the one with the strongest upward pressure on wages and labour costs in Germany until the present.

In view of these facts, it would be mistaken to view post-war Germany as anything like an example of corporatist coordination of wage policy. If anything, it could be characterised up to the mid 1960s as a case of strictly independent industrial wage bargaining with a significant and persistent anti-inflationary moral suasion by four institutions outside collective bargaining, namely (i) the Federal Ministry of Economics, from 1949 to 1963 headed by Ludwig Erhard, the popular liberal/conservative 'father of the German Economic Miracle', who was renowned for issuing so-called pleas for moderation (*Maßhaltappelle*) whenever a business upswing threatened to turn into an inflationary hike, (ii) the independent central bank, which made unequivocal statements of stability-orientation at major boom peaks (e.g. in 1956 and 1960) and thus clarified that a monetary accommodation of an aggressive wage pol-

¹⁵ I disregard here the tripartite meetings taking place in 1951 that were part of the negotiations concerning the prospective law on co-determination in the iron and steel industry. They did not concern wage bargaining and macroeconomic policy directly. We shall return to this matter below in Section 2.3.

¹⁶ For an evaluation of the Concerted Action strategy in the 1967 recession, see Giersch, Paqué, Schmieding (1992), pp. 148-50.

¹⁷ While the idea of some sort of coordinated macroeconomic policy (including wage guidelines) had been around since the five-member Council of Economic Experts had been established in 1963, its actual implementation into political practice took another four years. On the Council's concepts in detail, see Giersch, Paqué, Schmieding (1992), pp. 139-50.

icy was out of the question, (iii) a large and influential part of the press, i.e. in particular a phalanx of conservative and liberal quality papers which fully supported the stability-oriented policy stance of the government and the central bank, often against pressures from unions and populist politicians, and (iv) the Advisory Council to the Minister of Economics who gave academic backing to the prevailing policy stance in its ad-hoc reports on selected policy questions that were issued at irregular intervals and received considerable public attention. In none of these 'institutions' did the trade union movement take any active part during the relevant period.¹⁸

By the international standards of the time, the attempts at moral suasion were certainly frequent and intense, and in boom periods, they culminated in clusters of anti-inflationary warnings directed at a general public of wage earners and consumers. This has tempted some hindsight observers to classify some of the calls for moderation and stability as a German-style variant of incomes policy.¹⁹ This interpretation is seriously misleading: it neglects the essentially *unilateral* character of the calls which all came from mutually independent sources of what may be called the liberal/conservative establishment. They lacked the constituent element of incomes policies, namely the explicit or implicit policy coordination of all relevant sides of the macroeconomic game. At any rate, they are far off the 'institutional bonding' that Eichengreen (1994a, b) describes as a necessary condition to overcome the inter-temporal inconsistency problem faced by collective bargaining in post-war Europe.

2.3. Broader Bonding Mechanisms

It appears to be impossible to rigorously 'test' the Eichengreen-proposition that institutional reforms and political changes were major forces coaxing labour and capital into a cooperative solution to their dynamic game of welfare maximisation: other than direct agreements on wage restraint, the causality running from the general legal

¹⁸ For details, see Giersch, Paqué, Schmieding (1992), pp. 62-68.

¹⁹ See, e.g., Ulman, Flanagan (1971), pp. 185-86; Flanagan, Soskice, Ulman (1983), pp. 275-79.

framework and general economic and social conditions to the concrete outcome of wage settlements is so complex to defy any attempt at consistent modelling or even story-telling. Inevitably, much will remain in the murky zone of speculation. At this point, we confine our 'test' to an evaluation whether at least the main thrust of Eichengreen's argument is consistent with the broad pattern of relevant facts.

We structure this tentative 'test' by asking three questions for post-World War II-West Germany: (a) Was there a shift from confrontational to consensual policy-making to integrate the union movement into political decision-making? (b) Was there a likewise shift towards labour participation on the plant level? (c) Were there welfare state extensions to buy off union support?

(a) Consensual Policy-Making?

There are a number of established facts and uncontroversial historical interpretations that help to answer this question:

[i] The major post-war economic reform steps in and around the currency reform of June 1948, notably the large package of liberalisation measures, came about *without* political participation and consultation of the unions. Conceptually, they were the brainchild of the later Economics Minister Ludwig Erhard and a number of neoliberal economists; politically, they received their support from the conservative/liberal majority in the 'Economic Council' (*Wirtschaftsrat*) in Frankfurt, the forerunner of the later West German parliament. In the decisive two years after the reforms, the unions remained - together with the political opposition of the Social Democrats - strongly critical of the government economic policy, though they did not go as far as to stage any major political counterattacks. The reasons for the unions' cautiousness was a combination of two factors, namely first their temporary weakness due to lack of strike funds and the power limbo until a new umbrella organisation was founded in October 1949, and second the apparent popularity of the government's economic

policy stance, which also led to a victory of the conservative and liberal coalition in the first Federal elections of September 1949.²⁰

[ii] Until the mid 1950s - and in a somewhat more moderate form until the early 1960s - the union movement as represented by the DGB and the most powerful industrial unions *remained* highly critical of the actual government policies and of the uncooperative stance of the employers' associations. In this respect, it is helpful to recall the rough sequence of events.

The unions' Basic Programme (*Grundsatzprogramm*) passed at the founding congress of the DGB in Munich in October 1949 stated ambitious syndicalist aims culminating in the establishment of macroeconomic councils (*Wirtschaftsräte*) which should be appointed on a parity basis by employers and unions and vested with far-reaching competences and powers in terms of directing investment (*Investitionslenkung*).²¹ Being set up on the eve of the subsequent co-determination debate, which became unavoidable for the government due to the running out of special Allied provisions for co-determination in the iron and steel industry, the Munich programme remained politically relevant for the full three years of the actual co-determination debate. None of the unions' macroeconomic aims of syndicalism could be reached because the resistance of the government and of employers associations was uncompromising in this respect.²²

All over the first half of the 1950s - and with rising vigour after the co-determination debate petered out in 1952 - the unions campaigned for an aggressive wage policy to correct the emerging distributional asymmetry as evident in aggregate statistics on the labour share in national income. The drumfire of this campaign was given by the

²⁰ For details, see Giersch, Paqué, Schmieding (1992), pp. 36-44.

²¹ For details of the programme, which also included demands for the nationalisation of heavy industries, see Müller (1990), pp. 95-96.

²² For the details of the unions' fight for the syndicalist aims, see Müller (1990), pp. 97-111.

charismatic Marxist economist Viktor Agartz, until the mid 1950s chairman of the unions' Economic Research Institute, who put forward a theory of consumer demand-led growth, which was enthusiastically endorsed in union circles and fiercely criticised by the conservative/liberal establishment.²³ On the other hand, the two major incidents of industrial action for higher wages - the metalworker strikes in Hesse of September 1951 and in Bavaria of August 1954 - were regarded at least as partial failures, even within the unions: a relatively high share of workers voted against accepting the bargaining compromise, and union officials expressed openly their disappointment and frustration with the outcome, putting the blame on the intransigence and lack of cooperative spirit of the employers' side.²⁴ At the same time, there were clear indications that, in the prevailing climate of fast growth, tough industrial action was not very popular: public opinion and the press showed little sympathy and support for the strikes, the Federal elections of September 1953 brought a landslide victory for the conservative/liberal coalition and thus full backing for their economic policy package, and union membership continued to stagnate despite the fast rise of employment.

By the mid-1950s, the apparent lack of popularity of the union movement led prominent union officials to rethink the ideological opposition to the market economy and to make a strong plea for a much more pragmatic stance, which gained ground over the next few years. The Munich programme gradually turned into a dead letter and was first superseded by a more moderate and down-to-earth Programme for Action (*Aktionsprogramm*) in 1955 and eventually replaced by a more moderate Basic Programme in 1963, which formally opened the door to the corporatist experiments like the Concerted Action in the late 1960s. It is generally held that the first really popular campaign of post-war unionism was the demand of the metalworkers' union for the five-day- or 45-hour working week, which emerged in 1956 as an indirect conse-

²³ See Giersch, Paqué, Schmieding (1992), pp. 76-77.

²⁴ See Müller (1990), pp. 119-22, 139-40; DGB, Die Quelle (1951), pp. 515-16, (1954), 394-95.

quence of the aims set in the DGB-Programme for Action of 1955. There was also a gradual transition of union leadership: towards the end of the 1950s, major positions including the post of DGB-chairman were taken over by pragmatic union officials of a new generation, who visibly stood for a more constructive role of unions in politics and in the economy.²⁵

[iii] Despite their apparent self-insulation as an ideological force, the union movement was not without political influence even in the early 1950s. As for most of the time in the Weimar Republic, the Minister of Labour was a representative of the Christian union movement, who figured as a lobbyist for labour concerns within the government and thus as a counterweight to the much more liberally-minded Minister of Economics. In addition, there were some prominent Christian Democratic state politicians, notably the state premier of Northrhine-Westfalia Karl Arnold, who used their party links to the Federal government to support union concerns. Taken as a whole, however, the unions' political 'insider power' was clearly smaller than after their natural political ally, the Social Democrats, entered the Federal government first as a (junior) coalition partner in 1966 and then as (senior) partner in 1969; and it was probably also smaller (or at least not greater) than in the 1920s when the widespread use of compulsory arbitration under the auspices of the labour ministry gave the unions considerable leverage in macroeconomic policy matters.²⁶

(b) Co-determination?

The single most significant corporatist achievement of the early 1950s - and the one taken by Eichengreen (1994b) as a paradigmatic case for consensus building in post-war Germany - was the new legislation on labour participation on the plant level for the iron and steel industry in 1951 and for the rest of industry in 1952. The genesis of

²⁵ For an account of the gradual programmatic reorientation, see Grebing (1990).

²⁶ See Bähr (1989).

this legislation has been told and retold many times in German historiography,²⁷ and we shall focus on those essential elements of the story that are relevant for the issue at hand.

Most importantly, it is by now an uncontroversial interpretation that the outcome of the tripartite negotiations between the government and the umbrella organisations of the unions and the employers associations that led to the different models of co-determination - the 'parity' model in the iron and steel industry, the 'one third'-labour representation on the supervisory board of companies in the rest of industry - very much reflected the political starting positions of the status quo ante of the times of Allied occupation rather than the spirit of a genuine tripartite deal of 'constructive corporatism'.

As the British had already established a parity model in the iron and steel industry of the Rhine/Ruhr valley, it became politically very difficult even for a conservative/liberal government to turn this back. In fact, the business wing of the coalition government, in particular the Liberal Party, tried hard to do so, but - given the timing of the negotiations in 1950/51 around the peak of the Korea boom - the eventual strike threat of the unions was effective enough to enforce a compromise in January 1951. Even this compromise, which essentially consisted in a slightly watered-down parity model at the plant level, but no institutionalised labour participation in whatever macroeconomic planning, passed parliament against the vote of the Liberal Party, which did, however, remain in the government. To be sure, the spirit of these negotiations was by no means good: only a last-minute top-level meeting of two highly prestigious personalities - Chancellor Adenauer and DGB-chairman Hans Böckler - cleared the path to a settlement, with the government taking more the role of a 'compulsory arbitrator' between the unions and the employer side (to which Adenauer had personal ties of friendship). As it emerged, the unions took the parity

²⁷ See for concise summaries, i.a., Müller (1990), pp. 109-27, and Schwarz (1981), pp. 107-10.

model in the iron and steel industry as no more than a first step in the right direction: published union voices expressed something like sceptical satisfaction about the compromise.²⁸

The negotiations on the 'Company Statute Law' (*Betriebsverfassungsgesetz*) in 1951/52 took a very different path: Right from the beginning, the government made clear that the iron and steel co-determination model was to remain an exception, and that all other branches of the economy would obtain a much more restricted version of labour participation. The tough bargaining position of the government and the employers side led the DGB in December 1951 to quit all cooperation with the government in whatever economic policy committees. In the run-up to the parliamentary debate on the government's draft of the Company Statute Law, the unions staged a public campaign that culminated in a series of so-called warning strikes in the printing industry at the end of May 1952. The effect was virtually nil: apart from some window dressing vis-à-vis the unions, the government passed the law in July 1952 with its parliamentary majority. Given the general public opinion, the unions apparently did not dare to go any further in their resistance, just as in matters of wage policy. In union publications, however, union voices unanimously expressed open and sincere disappointment at the result, and a frustration at being factually excluded from major legislation on vital labour matters.²⁹

To sum up, it is hard to view the finally enacted, strictly limited extent of labour participation as a core part of a 'quid pro quo-package deal' between unions, employers and possibly the government to moderate current wage claims and thus further capital formation. What the evidence suggests is that the union side regarded the negotiations and the results as unsatisfactory.

²⁸ See, i.a., DGB, *Die Quelle* (1951), pp. 57-59.

²⁹ See, i.a., DGB, *Die Quelle* (1952), pp. 393-95.

(c) *Welfare State Extensions?*

There were essentially two major welfare state reforms in Germany in the relevant period³⁰ which could serve as candidates to support Eichengreen's theses, the Law for the Equalisation of War Burdens (*Lastenausgleichsgesetz*) passed in 1952³¹, and the Pension Reform Law (*Rentenreformgesetz*) passed in 1957³². In all other welfare state adjustments, the legislator remained firmly in the framework of the Weimar Republic, which was more or less re-instituted after the end of the Nazi period and Allied occupation.

As they were enacted, however, neither of the two welfare state innovations touched upon collective bargaining. The equalisation of war burden in essence consisted of imposing a one-for-all wealth tax to compensate the expellees from the former eastern German provinces who had lost their property. To be sure, the recipients were anything but a classical union clientele: a disproportionate share of them was unemployed, many of them had worked in agriculture (and not in industry) before the War, and politically they were inclined towards conservative ideologies in view of their recent expulsion as ethnic Germans. In any case, they had their own lobbying organisations, the 'associations of expellees' (*Vertriebenenverbände*), which were completely independent of unionism. Only in a very indirect political sense was a compensation of expellees in the interest of organised labour: on balance, transferring wealth from relatively rich West Germans to relatively poor newcomers might have helped to mitigate the threat of a revival of radical right-wing ideas, which was anathema to the union movement.

³⁰ I take the relevant period here to mean the 1950s and the first half of the 1960s. Thereafter, beginning with the so-called Grand Coalition of Christian and Social Democrats, further major reform steps were taken.

³¹ This law had a (preliminary) forerunner, the Emergency Aid Law (*Soforthilfegesetz*) of 1949, which was similarly structured as the final legislation of 1952.

³² For a summary account of the two pieces of legislation from an economist's standpoint, see Giersch, Paqué, Schmieding (1992), 80-82.

The pension reform - politically envisaged from 1953 on and eventually enacted in 1957, a few months before the Federal elections - consisted in 'dynamizing' pensions, i.e. linking the rise of pensions to the rise of gross wages, with the link to be formally established by an annual parliamentary decision. The reform actually led to a sharp once-for-all increase of old-age pensions and a moderate rise of social security contributions within the pay-as-you-go system. Obviously, the main group profiting from the reform were the pensioners, again anything like a classical union clientele. However, the reform did give unions the prospect of receiving broader support in the public for future wage demands because, through the link of pensions to wages, pensioners were apt to have a more visible stake in wage negotiations on the labour side. Whether this indirect benefit could have served as an implicit bond in Eichengreen's sense to restrain wage demands in the medium run remains open to speculation. In any case, the reform happened rather late, and it was worked out in the government without any visible union participation or influence.

2.4. Conclusions

All in all, it is hard to avoid the conclusion that Eichengreen (1994b) misinterprets the West German post-war experience: at least until the late 1950s, there is very little evidence for explicit or implicit contracts between government, employers and unions on wage moderation to maximise social gains in the long run.

This does not mean that the political climate between the 'social partners' was frosty throughout. In fact, high-ranking and popular politicians of the government attended the first two federal conventions of the unions - the economics minister Erhard in Munich 1949 and the president Theodor Heuss in Berlin 1953 - and both received a warm welcome. On these occasions as on others, politicians of the governing conservative and liberal parties repeatedly emphasised the legitimacy of union concerns and praised labour's (and unions') contribution to the reconstruction of the West German economy. However, it is difficult to recognise where these more symbolic gestures

led to a tangible cooperation that deserves the label 'corporatist', at least until well into the 1960s.

Neither does it mean that unions persistently opposed any major policy move towards capital formation and growth which did not fit straight into their programmatic framework. E.g., the generous tax allowances for capital formation to repair war-damaged equipment, which were granted to firms early on as an investment incentive to compensate for the punitively high taxation imposed by the Allies, were criticised from the union side, but not rejected out of hand, although a clear political preference was expressed for more encompassing investment planning by the government; and the later stepwise corporate and personal tax reductions by and large received the unions' blessing as sensible moves towards normality, although selected details were objected.³³

My interpretation does mean, however, that - in a fundamental sense - the punch line of post-war West German economic policy until well into the 1960s was determined by a conservative/liberal establishment without a significant union participation and, to a large extent, against persistent union opposition. Other reasons than a 'tripartite corporatist effort' must be sought for to explain the apparent wage moderation and the concomitant persistently high profit margins of the private sector of the German economy. I have given the rough outline of such an explanation in other recent papers and will not repeat it here.³⁴ Suffice it to say that my explanation classifies German-style unionism and collective bargaining as a passive rigidity (rather than an active agent!), which - through familiar insider/outsider mechanisms - transformed powerful positive (and non-anticipated) productivity shocks that emanated above all from the trade re-integration of Europe into a 'miracle' of employment growth. In this sense, unions were effectively overrun by the positive events: they played an almost

³³ For accounts of West German tax policy in the 1950s, see Boss (1987), Giersch, Paqué, Schmieding (1992), pp. 79-80, and Wallich (1955), pp. 66-67.

³⁴ See Paqué (1993b), pp. 15-22, and Paqué (1994), pp. 26-52.

unwillingly moderate role in the process and found themselves increasingly 'deserted' by a rank-and-file (and a general public including the non-unionised workforce) which saw not much reason in violent strike action because real wages were growing very fast anyway.

The isolation, in which the West German union movement began to find itself by the mid 1950s was thus precisely the result of their becoming an ideological anachronism, just like their political counterpart, the Social Democratic Party, which slid into the same type of identity crisis about at the same time. Not before the end of a protracted process of ideological transformation, which lasted roughly one decade, did West German unions *and* the Social Democratic Party stand ready for genuine corporatist dealings. It was this transformation which finally brought West German collective bargaining and economic policy making much closer to the examples that smaller European countries, notably the much admired Scandinavian ones, had given already in the 1950s. By that time, however, most of the post-war growth miracle was already coming to a close.

Appendix

Table 1 - Population and Productivity Growth in Selected European Countries

	Population*		Productivity Growth (% p. a.)**	
	'000	% of total***	1950-60	1960-73
<i>Group A:</i>				
Austria	6935	3.0	5.9	5.9
Belgium	8640	3.7	3.1	5.3
Denmark	4271	1.8	3.0	5.0
Finland	4009	1.7	4.1	6.1
Netherlands	10114	4.3	4.2	5.2
Norway	3265	1.4	4.3	4.2
Sweden	7015	3.0	3.4	5.2
	Σ 44249	18.9	Ø 4.0	5.3
<i>Group B:</i>				
Germany	49983	21.4	6.9	5.2
<i>Group C:</i>				
France	41836	17.9	4.6	5.3
Italy	47105	20.2	4.6	6.7
UK	50363	21.6	2.3	3.9
	Σ 139304	58.7	Ø 3.8	5.3
* 1950.				
** GDP per Man-Hour.				
*** Total includes all eleven countries below.				

Source: Maddison (1991), Table B.4 and C.11.

Table 2 - Change of Wages and Labour Costs (per cent p.a.) in West Germany 1950-70

	1950-60	1960-70
wage:*		
- nominal	7.9	8.6
- real	6.0	5.8
unit labour cost:**		
- nominal	2.2	4.3
- real	-0.9	0.4

* Nominal wage defined as average gross yearly earnings of employee (including social security contributions of employer); real wage defined as nominal wage divided by consumption deflator.

** Unit labour cost defined as nominal wage divided by labour productivity, defined as gross domestic product at current prices divided by active labour force; real unit labour cost defined as nominal unit labour cost divided by value added deflator.

Source: National Accounts.

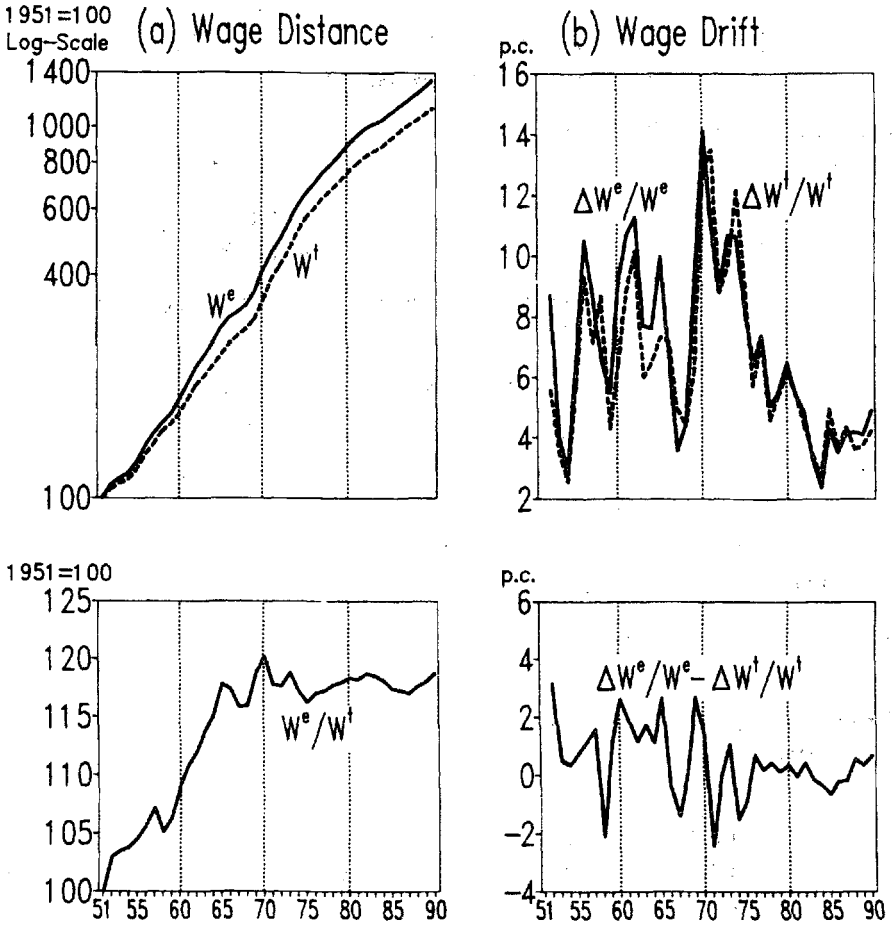
Table 3 - Determinants of Labour Costs 1950-60*

	(1) W	(2) LP	(3) PC	(4) PV	(5) PV/PC	(6) RULC
1950-51	15.8	7.0	8.2	11.8	3.4	-3.2
1951-52	8.3	6.9	1.4	4.7	3.2	-3.3
1952-53	5.9	6.0	-1.0	-1.3	-0.4	1.2
1953-54	5.0	4.7	0.2	-0.3	-0.5	0.6
1954-55	8.1	7.8	1.4	2.1	0.7	-1.8
1955-56	8.0	4.6	1.9	2.7	0.8	0.6
1956-57	6.6	3.6	2.5	2.8	0.4	0.0
1957-58	6.9	3.5	2.7	2.9	0.2	0.4
1958-59	5.6	6.6	0.8	1.6	0.9	-2.5
1959-60	9.0	6.8	1.1	3.2	2.0	-1.0
1960-61	10.2	3.2	3.4	4.7	1.3	2.0
1961-62	9.1	4.4	2.9	3.8	0.9	0.6
1962-63	6.1	2.5	3.0	3.1	0.1	0.3
1963-64	8.2	6.6	2.4	3.0	0.6	-1.5
1964-65	9.5	4.9	3.3	3.6	0.3	0.8
1965-66	7.6	3.3	3.5	3.3	-0.2	0.9
1966-67	3.3	3.2	1.8	1.4	-0.4	-1.3
1967-68	6.7	5.5	1.6	2.2	0.6	-1.0
1968-69	9.5	5.8	1.9	4.2	2.3	-0.6
1969-70	16.0	3.8	3.6	7.6	4.0	3.8
1970-71	11.6	2.5	5.6	8.0	2.4	0.9
1971-72	8.9	3.8	5.6	5.3	-0.3	-0.4
1972-73	11.6	3.6	6.3	6.4	0.1	1.3
1973-74	11.1	1.5	7.1	7.0	-0.1	2.3
1950-60	7.9	5.7	1.9	3.0	1.1	-0.9
1960-69	7.8	4.4	2.6	3.3	0.6	0.0
1969-74	11.8	2.7	5.6	6.9	1.2	1.6

* Compound annual growth rates of selected variables (in per cent).

- (1) W = wage level defined as average gross yearly earnings of employees (including social security contributions of employers);
- (2) LP = Labour productivity defined as gross domestic product at constant prices divided by active labour force;
- (3) PC = private consumption deflator;
- (4) PV = deflator of value added (i.e. gross domestic product);
- (5) PV/PC = ratio of PV to PC as defined in note to (4) and (3) respectively;
- (6) RULC = real unit labour cost defined as $W/(LP \cdot PV)$ as defined in notes to (1), (2) and (4) respectively.

Figure 1: Wage Distance and Wage Drift, West Germany 1951 - 90*



* W^t (W^e) defined as index of hourly minimum wage (actual hourly earnings) of industrial worker.

Source: Statistisches Bundesamt.

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