

# NOTEBOOK

## Consider the Germans By Thomas Geoghegan

Come on: Is the West really in such decline? Yes, we can sit here on our island continent and gloom about the rise of China, as our elite now like to do. Or we can go out into the world and start competing like the Europeans. For here's a strange fact: since 2003, it's not China but Germany, that colossus of European socialism, that has either led the world in export sales or at least been tied for first. Even as we in the United States fall more deeply into the clutches of our foreign creditors—China foremost among them—Germany has somehow managed to create a high-wage, unionized economy without shipping all its jobs abroad or creating a massive trade deficit, or any trade deficit at all. Sure, China just pulled slightly ahead of Germany, but that's mostly because the euro has soared, making German goods even more expensive, and world trade has slumped. Meanwhile, the dollar is dropping, and we *still* can't compete with either nation. And even as the Germans outsell the United States, they manage to take six weeks of vacation every year. They're beating us with one hand tied behind their back.

Why is Germany beating us? It's tempting to say it's because we beat

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them. After all, we helped put a major component of the German model in place, which is the role that German workers have in running their firms. After World War II, we had a problem: Who would keep watch over all the German businessmen who had supported Hitler? We couldn't put them all in jail. Back in that New Deal era, we and our allies were quite willing to put workers on the boards to keep an eye on businessmen. Still, the idea of works councils was not invented by Americans. In fact, it had its origins in Weimar Germany. And now Germany is the country, out of all countries, including Communist China, in which workers have the greatest amount of control over (dare I say it) the means of production.

Okay, it's not that much control. But it's enough to make the German system a rival form of capitalism. And because German workers are at the table when the big decisions are made, and elect people who still watch and sometimes check the businessmen, they have been able to hang on to their manufacturing sector. They have kept a tool-making, engineering culture, which our own entrepreneurs, dreamily buried in their Ayn Rand novels, have gutted. And now, thanks in large part to these smart structural decisions, Germany is not only competitive, it's rich. Although it's unlikely that even the most liberal of American politicians would ever use a phrase like "worker control"—much less de-

scribe people who work as "workers"—it might still be worth at least considering what would be involved in emulating the German model.

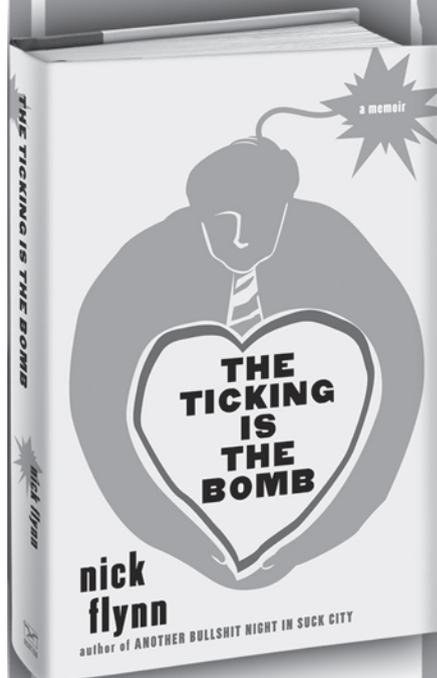
Let me here cart out the big three building blocks of German social democracy: the works council, the co-determined board, and Germany's regional wage-setting institutions. If I were teaching a class, I'd put these up on the blackboard and talk about them at the beginning of every class. "What do I mean by the German model? I'd like to see hands." No one knows. So I give the answer: "It's the works council, the co-determined board, and the wage-setting institutions."

Everyone in class groans. Whatever does that mean?

Well, the works council is simple in theory, though hard for an American to take in. Let's say you work at the Barnes & Noble at the corner of Clybourn and Webster avenues in Chicago. You may be just a clerk, no degree. (In Germany, you'd have a certificate in bookstore clerking, but in the United States there's no need.) Still, you could be elected to a works council at this store. That means you help manage the place. You help decide when to open and close the store. You help decide who gets what shift. On layoffs and other issues, the employer must reach an agreement with the works council. So you may ultimately decide whether Ms. X is to be laid off or fired. How did you get into

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this kind of "management"? Barnes & Noble had no say in it. You were elected by your fellow workers. You went out and campaigned: "Elect me."

The result is that there are thousands of clerks and engineers in Germany who now are (or a few years ago were) elected officials, with real power over other people. They are responsible for other people. They are responsible for running the firm. They make up a powerful leadership class that represents the kind of people—low-income, low-education—who don't have much of a voice in the affairs of other industrialized countries.

If that's a works council, what's a co-determined board? These apply mostly to the largest companies, those with more than 2,000 employees. We now leave behind the bookstore at Clybourn and Webster and try to imagine all of Barnes & Noble, the whole company. Way at the top, in the boardroom, where you expect to bump into Robert Rubin, the clerks get to elect half the board: not a fifth, not a third, but half—the same number of voting directors that the hedge funds get to elect.

Of course there's a catch! Under German law, if the directors elected by the clerks and the directors elected by the shareholders are deadlocked, then the chairman can break the tie. And who picks the chairman? Ultimately, just the shareholders. So capitalism wins by one vote, provided the stockholders, the bankers, and the kids from Goldman Sachs all vote in a single bloc. But the clerks still have a lot of clout. If the shareholders are divided on whether "A" or "B" should be the next CEO, the clerks get to pick the king. "A" is CEO but he owes his job to the clerks. By the way, the clerks have all this power without owning any shares! In this stakeholder model, they need only act on their interests as "the workers."

With works councils and co-determination, everything in the firm gets discussed, rather than the CEO going to the mountaintop without ever seeing a worker and deciding to pull the plug. "Wait," people say to me. "You mean co-determination keeps jobs from going abroad?" No, they can't stop a sale. They can't stop outsourcing. But they can cut deals. "Conditions—that is my

motto," is how one worker-director put it in an issue of my favorite German magazine, *Mitbestimmung*. In the United States, people don't even know the plant is closing until management calls a meeting and ushers everyone out under armed guard. But in a German firm, the workers are Cato-like guardians, able to look at all of the financial records and planning documents as if they owned the place. If a company wants to start a plant abroad, the workers can pressure the board to plow some money back into a German plant or provide a ten-year employment guarantee. Or they can fight to get a better owner. It's not just the arguing; it's the fact that they can be in the boardroom watching, or in the back room rifling through the files. Doesn't your own behavior change when you think Cato is watching you? Well, it's true for managers too. That's why there is still a manufacturing sector in Germany.

Given the influence of the works council and a co-determined board, what remains for Germany's many powerful unions? They do the bargaining over wages and pensions but at a macro level, with a federation of all the big bookstores, not just Barnes & Noble but Borders as well. This is the German model of regional or multi-employer bargaining. We negotiated wages this way in the United States in the 1940s and 1950s, but no more. I doubt many Americans under forty even know what I mean by regional wage-setting institutions, and yet they are probably the single most important way in which Germany is "socialist."

This system is much in decline even in Germany, but it still has a huge egalitarian effect. The goal, never quite reached, is that every Barnes & Noble, every Borders, everywhere in the covered area, pays the same wage for the same type of work. Wages are not set person by person or shop by shop. They're the same, everywhere, as much as possible. The result, from an American perspective, is a shocking transparency: in Germany the ideal is that everyone knows what everyone else is making. By contrast, who knows what Barnes & Noble pays in Chicago, or Borders in Joliet? In the German system, people can find out what other people are getting, and their unions in turn can demand the same.

The private export sector is the most unionized part of the German economy (even more than the public sector). And it is understood to be the vanguard, the industry on the front lines of the global economy. So if the engineers at ThyssenKrupp get a 3 percent raise, then certainly the clerks should get a 3 percent raise. Soon everyone in Germany is getting 3 percent! In a complicated and limited way, the whole country can have a voice, if not a vote, in what take-home pay they receive. Unification with low-wage East Germany has made this leveling tougher, but people in Germany can still actually talk about “wage policy” and “wage objectives.” There’s a national conversation, unknown here, as to how much everybody should get.

All my life as a labor lawyer I have read the same thing in *The Economist*, about the United States and its wonderful labor-market flexibility. What they mean is: Unlike the Germans, U.S. working people are completely powerless. But it’s precisely because of our labor-market flexibility that we can’t compete. Our workers have been flexed right out of their high-wage, high-skill jobs and into low-wage, low-skill jobs. That’s bad for the workers, of course, and it’s also bad for the economy. The German model—with worker control built into the very structure of the firm—keeps bosses and workers in groups, rubbing elbows with each other, and sometimes just elbowing. It creates a group interaction that over time builds and protects what economists like to call human capital, especially in engineering and quality control. It’s precisely this kind of valuable capital that our atomizing “flexible” labor markets are so good at breaking up and dispersing.

Yes, there’s much to like about the U.S. model. In global competition, the United States has almost every comparative advantage over Germany. We spend vastly more on basic research than the Germans do. We have much more land, more labor, more capital, much higher levels of formal education. But with our flexible labor markets we cannot develop human capital or knowledge to wean ourselves away from turning out crap and leaving the high-skill manufacturing to the Europeans. The one great comparative advantage of Germany is that it is a

social democracy. Germany has its problems, and I take them seriously. But I’m also sure that German companies will lead the next industrial revolution, the “green” one, while we in the United States will merely watch.

If you ask most Democrats and their think-tank minions how to help our powerless middle class, they have no answer except to send even more of them to college, where with luck they get out being only \$50,000 or so in debt. As for the high school graduates who make up the base of the party, we effectively tell them: You’re finished. There’s no role for high school graduates in our version of the global economy. In Germany, these same high school graduates could be sitting on a corporate board. Skeptical readers will say: Oh, but that’s Europe, it’s socialism, something like that is not possible here. I think it’s quite possible.

I now have stopped underlining and re-reading Wolfgang Streeck’s great 1996 essay, “German Capitalism: Does It Exist? Can It Survive?” Still, I recall his central, disheartening point that the German model, with its works councils and the rest, was simply too hard to replicate in other countries. In the end, global capitalism would force Germany itself into our simpler, top-down Anglo-American model.

But it turns out, at least in the European Union, that other countries are now keen on experimenting with co-determination and works councils. “Co-determination is our biggest export,” a former official in the German government told me. As it spreads through Europe, we may come to understand the German model as not just a rival but a better form of capitalism. It only takes a change in law. Maybe we’ll decide one day, simply out of patriotism, that we have no other choice.

Is it likely? No. Is it possible? Yes. At any rate, it’s just nonsense that “Europe’s way” and “our way” can never be the same. We may have messed up our part in globalization, but we still have time to fix things. It may be even easier in this wired world to exercise our greatest privilege as Americans—to astonish ourselves by being American and making a European idea of democracy our own. ■

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