

The Limits of Welfare Capitalism

Technological Change, Industrial Conflict, and
the Anglo-German Divergence

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Acronyms used in the text

AEU	Amalgamated Engineering Union
AFG	<i>Arbeitsförderungsgesetz</i> Employment Promotion Act
ASSET	Association of Supervisory Staffs, Executives and Technicians
BDA	<i>Bundesvereinigung der Deutschen Arbeitgeberverbände</i> Confederation of German Employers' Associations
BEC	British Employers' Confederation
BetrVG	<i>Betriebsverfassungsgesetz</i> Works Constitution Act
CAWU	Clerical and Administrative Workers' Union
CDU	<i>Christlich Demokratische Union Deutschlands</i> Christian Democratic Union
CMV	<i>Christlicher Metallarbeiterverband</i> Christian Metalworkers' Association
DAG	<i>Deutsche Angestellten-Gewerkschaft</i> German Salaried Employees' Union
DATA	Draughtsmen and Allied Technicians' Association
DGB	<i>Deutscher Gewerkschaftsbund</i> German Trade Union Confederation
EEF	Engineering Employers' Federation
ETU	Electrical Trades Union
Gesamtmetall	<i>Gesamtverband der Arbeitgeberverbände der Metall- und Elektro-Industrie</i> Federation of Engineering Employers' Associations
GTC	Government Training Centre
IG Metall	<i>Industriegewerkschaft Metall</i> Industrial Union of Metalworkers
KSchG	<i>Kündigungsschutzgesetz</i> Dismissal Protection Act
LIFO	Last in, first out
NSMM	National Society of Metal Mechanics
NUGMW	National Union of General and Municipal Workers
NUSMW	National Union of Sheet Metal Workers
NUVB	National Union of Vehicle Builders
RPA	Redundancy Payments Act
RSA	<i>Rationalisierungsschutzabkommen</i> Rationalization Protection Agreement
SPD	<i>Sozialdemokratische Partei Deutschlands</i> Social Democratic Party of Germany
TGWU	Transport and General Workers' Union
TUC	Trades Union Congress

Archive Key

AdsD *Archiv der sozialen Demokratie* Archive of Social Democracy, Bonn

BAK *Bundesarchiv Koblenz* Federal Archive, Koblenz

CARN Carron collection, Churchill Archives Centre, Churchill College, Cambridge

LAB/T/CAB/PREM/PIN National Archives, Kew, London

MSS Files at Modern Records Centre, University of Warwick

Chapter 1: Introduction

On the 26th of April, 1956, 11,000 workers from the Standard Motor Company brought work to a halt at two of the company's factories in Coventry, England. The strike was a response to the company's announcement that it would be dismissing some 2,500 workers as part of its program to install new automatic machinery in its tractor plant. Alick Dick, the company's managing director, explained that the new equipment was a central part of the company's bid for export expansion in increasingly competitive American and European markets.¹ Economic conditions rendered it infeasible to absorb the workers displaced by the new technology in other parts of the company, management had concluded; they would need to look for work elsewhere.² So as not to leave any ambiguity, Dick announced to the press that "we are not installing £4 million worth of equipment to employ the same number of men. We cannot carry people for fun."³

By downing tools, Standard's workers sought to compel management to retain those whose jobs would be rendered redundant by the newly automated production methods.⁴ It would be management's responsibility to find new roles for these workers within the firm, training them as necessary to perform the tasks created by the new machines.⁵ While some in the tabloid press falsely portrayed Standard's workers as striking "against automation," it was clear to more astute observers that the conflict was over the allocation of control rights within the firm rather than over the technology itself.⁶ Standard's workers were trying to constrain management's freedom to make unilateral employment decisions, the goal being to force Standard to adopt an alternative model of workforce adjustment to technological change that would shift the burden from workers onto the firm. In the eyes of Standard's management, these demands were a dangerous encroachment on their freedom to make personnel decisions as they saw fit.⁷ To most observers, management's position was obviously correct. The *Financial Times* announced that unions ought to abandon their

¹ "Standard Strikers Unmoved by Management's Letter," *Manchester Guardian*, 11 May 1956. This and subsequent spring 1956 news clippings in NA [National Archives] LAB 10/1445.

² "11,000 Strike at Car Works," *Times of London*, 27 April 1956.

³ "Standard Men Vote to Continue Strike," *Daily Telegraph*, 1 May 1956; "Streik gegen die Automatisierung," *Frankfurter Allgemeine Zeitung*, 3 May 1956.

⁴ "12,000 car men strike to save 3,500 jobs," *Daily Worker*, 27 April 1956 [reported figure inaccurate].

⁵ "Standard Men To Stay Out," *Times of London*, 1 May 1956.

⁶ This is acknowledged, for instance, by Minister of Labour Iain Macleod in *Hansard*, 8 May 1956.

⁷ "Opposition to Strike," *Times of London*, 4 June 1956.

effort to “cram too many workers into too few jobs.” The *Guardian* concurred, writing that any actions through which a firm might be “bullied into carrying unnecessary workers on its payroll” would only lead to competitive failure and worse outcomes for all involved.⁸

Far from being an isolated incident, the strike at Standard Motors was the opening salvo in a conflict over technological displacement in British industry that would persist through the end of the 1970s. Indeed, the demands of Standard’s workers were soon adopted as the official position of the Amalgamated Engineering Union, Britain’s largest union in the manufacturing sector. The AEU embraced the introduction of new technologies but insisted that no workers lose their jobs as a consequence. The union made good on its commitment to defend its members against dismissal through dozens of strikes in the years that followed. Many observers at the time believed that the efforts of the AEU and other unions to protect workers against technologically induced job loss were discouraging employers from making labor-saving investments and leading to pervasive “overmanning” in British industry.⁹ As Edward Heath explained to his shadow cabinet in early 1970, “employers have to be free to introduce new plant and get rid of men... Trouble at the moment, they cannot get rid of the men.”¹⁰ Later scholarship has endorsed the conclusion that union-imposed restrictions on workforce reduction made an important and perhaps decisive contribution to the declining productivity and competitiveness of British manufacturing in the decades following the Second World War.¹¹ Though some of this scholarship has mistakenly conflated resistance to job loss with resistance to new technologies themselves, there is widespread agreement that unions’ efforts to protect their members from the risks associated with technological change contributed to the crisis of British manufacturing in the 1970s.¹²

Given Britain’s unhappy road to failure, it seems obvious that there must be a better way of reconciling the imperative of technological change with workers’ demands for economic security. If labor-saving technologies make society as a whole better off through their salutary effects on productivity and international competitiveness, then it should always be possible for the government

⁸See LAB 10/1445.

⁹Notably Shanks (1961); Wigham (1961: 51); Shonfield (1965: 113).

¹⁰Transcript of Shadow Cabinet Conference at Selsdon Park Hotel, Morning session, 1 February 1970, Thatcher Archives CRD 3/9/93.

¹¹In comparative political economy, see, e.g., Hall (1986, 44-45); Zysman (1983, 178); Hassel (2001, 159-160); in economic history, see, e.g., Broadberry (1997, 316-317); Crafts (2018, 87-96); Eichengreen (2007, 124); Foreman-Peck et al. (1995, 179-184).

¹²For a mistaken conflation of this sort, see Eichengreen (2007, 124).

to transfer some share of the gains from the public to workers who lose their jobs, leaving everyone at least as well off as they had been before. The provision of compensation through the welfare state is the obvious way to enact this transfer: by providing displaced workers with generous cash benefits and ample retraining and job search assistance, the government can ensure that they have no incentive to resist the workforce restructuring necessary to make profitable use of new technologies. In this sense, the welfare state can actually facilitate technological change and enhance economic performance.

This, of course, is an appealing conclusion for all who seek to reconcile efficiency and equity within the framework of an advanced capitalist economy. Fortunately, existing scholarship has furnished us with an example of a capitalist economy that accomplished a reconciliation of precisely this sort. While Britain was undergoing the convulsions of decline in the 1960s and 1970s, West Germany was emerging as an international model of a country that had succeeded in balancing the rigors of economic competitiveness with workers' need for stability and security. As Britain's share of global manufacturing exports shrank, West Germany's share soared, propelled upward by investment in labor-saving machinery and a growing army of numerically controlled machine tools and industrial robots. In contrast to their British counterparts, West German unions are widely seen as having followed an enlightened path of cooperation with management, underwritten by worker representation at the plant level and by the distinctively generous compensation and retraining opportunities afforded through the German welfare state.

In 1976, West Germany's Social Democrats coined the concept of a "German model" (*Modell Deutschland*) as a campaign slogan to capture the idea that, under their stewardship, the country had achieved inclusive growth while other countries stagnated or suffered mass economic dislocation. Since then, decades of scholarship on the German industrial relations system – most notably in important work by Streeck (1984; 1992), Thelen (1991; 2004; 2014), Hassel (2001), and Manow (2020) – have reinforced this attractive picture of cooperative and equitable adjustment to technological change in postwar German manufacturing. Agenda-setting research by Soskice (1994; 1999), Hall and Soskice (2001), and Iversen and Soskice (2009) has characterized West Germany's institutional endowment as distinctively conducive to manufacturing success in the second half of the twentieth century. Economic historians interested in Britain's relative decline, including Broadberry (1997), Eichengreen (2007), and Crafts (2018), have similarly embraced the idea of

a cooperative, growth-oriented industrial relations model in West Germany that was regrettably absent from postwar Britain. German economic historians like Abelshauser (2004) and Plumpe (2016) also affirm a distinctive tradition of ‘social partnership’ that contributed to their country’s economic success. Even Baccaro and Howell (2017), who are critical of German industrial relations in the twenty-first century, endorse the existence of enlightened social partnership in the 1960s and 1970s. Indeed, the German model of collaborative adjustment has achieved new relevance in debates about the appropriate way of managing the labor market risks generated by artificial intelligence.¹³ Concerns about the displacement effects of new technologies have led scholars like Nobel Prize-winner Daron Acemoglu to embrace the cause of trade unionism, albeit with an important caveat: what Acemoglu wants is not the conflictual unionism of the Anglophone world, but rather the cooperative unionism epitomized by the West German system in the 1960s and 1970s.¹⁴

The allure of the German model is understandably hard to resist. And at first glance, the flattering portrayal in existing scholarship seems to align well with the facts. West Germany’s engineering union, the *Industriegewerkschaft Metall* (IG Metall), did indeed pursue a very different strategy for dealing with technological displacement from that of its British counterpart, the AEU, whose militant stance was outlined above. In May 1968, IG Metall concluded an agreement with West German engineering employers that affirmed employers’ freedom to dismiss workers made redundant through the introduction of new technologies. The federation of engineering employers, Gesamtmetall, conceded that its members would be obliged to engage in non-binding consultation with works councils and to make one-time compensatory payments to dismissed workers who met certain eligibility criteria in terms of age and length of service. Gesamtmetall made clear, however, that the public bore primary responsibility for tending to the needs of workers whom its member firms dismissed: most of the compensation afforded to dismissed workers would be financed through the social insurance system.¹⁵ Ernst Günter Vetter, industrial relations editor of the conservative *Frankfurter Allgemeine Zeitung*, heralded the agreement as a respectable compromise between equally matched parties that balanced employers’ need for managerial freedom and workers’ demand

¹³See review in Jäger et al. (2022).

¹⁴Acemoglu (2023); see also Acemoglu’s work with co-winner Simon Johnson (2023).

¹⁵See interview with Gesamtmetall chairman Herbert van Hüllen, ‘Van Hüllen: Gesamtmetall ist ein Verband von Konkurrenzfirmen,’ *Deutsche Press-Agentur* March 18, 1968. In AdsD/5/IGMA/151065.

for economic security.¹⁶ Given its consistency with all that we think we know about the German model, who could disagree with his assessment?

1.1 The myth of collaborative adjustment

This book argues that the understanding of the German model inherited from existing scholarship is wrong. What distinguished Germany from Britain was not a collaborative model of industrial relations undergirded by a distinctively generous welfare state. In fact, the generosity of the compensatory benefits available to displaced workers was remarkably similar in the two countries. In neither country did these benefits come anywhere close to meeting the full monetary cost of job loss. British and German unions were united in their recognition that no government would provide compensation generous enough to adequately address the wage losses their members faced as a result of technological displacement. Accordingly, unions in both countries recognized that the only way to make technological change compatible with their members' material interests was to protect them *at their existing place of work*. This required the use of the threat of strike action to coerce employers into relinquishing their control over dismissal decisions and to force employers to accept personnel levels that contradicted their assessments of what efficient production required.

What distinguished the two cases was the existence of a set of repressive institutions in West Germany designed to impede workers' collective action and to preserve employers' unilateral control over dismissal decisions. The key institution was the works council system of plant-level worker representation, which is typically lauded as the centerpiece of Germany's system of inclusive growth.¹⁷ Because the feeble consultative rights granted to works councils were accompanied by severe restrictions on strike action, the law undermined workers' ability to effectively resist job loss at the plant level and forced unions like IG Metall to address the issue of technological displacement on the terrain most favorable to organized employers, who held the upper hand in industry-level negotiations and were categorically unwilling to cede control over dismissal decisions. This foreclosed the possibility of establishing serious restrictions on workforce downsizing following the introduction of

¹⁶Ernst Günter Vetter, "Ein Kompromiß der Stärke: Rationalisierungsschutz in der Metallindustrie," *Frankfurter Allgemeine Zeitung* 31 May 1968.

¹⁷This book provides analytic microfoundations and a sound empirical basis for the critical view of the works council system proposed by Pirker (1960), Schmidt (1970), Schultz-Wild (1978), and Hohn (1988). These authors' insights have been drowned out by the overwhelmingly positive portrayal of the works council system in the comparative political economy scholarship and the German industrial relations literature.

new technologies. Far from being a bargain between equally matched parties, the aforementioned Rationalization Protection Agreement of 1968 was actually a case in point for the failure of West German unions to obtain their bargaining objectives: the limited safeguards established in the agreement were a far cry from IG Metall's initial demand that employers surrender control over dismissal, which had been rejected by employers as an "attack on technological progress."¹⁸

Following their failure in the collective bargaining arena, unions like IG Metall tried to get their ostensible allies in the Social Democratic government to foist severe dismissal restrictions on employers by law. The Social Democrats were, however, unwilling to accede to union demands that would tarnish their carefully cultivated image as responsible stewards of a capitalist economy. Accordingly, the Social Democrats fobbed the unions off with consultative rights that offered little beyond what they had obtained through collective bargaining. As we will see in this book, German employers retained far greater control over dismissal decisions than their British counterparts. This, in turn, preserved West German employers' incentives to invest in labor-saving technologies, confident in the knowledge that they could shed redundant labor without disruption. The workers thereby displaced were not supported by some unusually generous welfare state. Rather, they received less compensation for job loss than their counterparts in Britain received. In short, West Germany's industrial success was not attributable to a distinct tradition of labor-management cooperation or to a distinctively comprehensive welfare state. Rather, it is attributable to the weakness of organized labor, which was the product of laws designed to keep unions weak.

1.2 Explaining the Anglo-German divergence

Making sense of the postwar divergence in the performance of British and West German manufacturing requires that we set aside much of what we think we know from the field of comparative political economy. This includes the received understanding of the role of the welfare state in advanced capitalist economies. Existing scholarship assigns great importance to the welfare state as a foundation for class compromise: indeed, the tradition of scholarship misleadingly called "power resource theory" holds that industrial conflict becomes outmoded once workers' needs can be met through the transfer payments and government services provided to them by a beneficent Social

¹⁸ "Gesamtmittel: Angriff auf den technischen Fortschritt," *Deutsche Press-Agentur* 1 Feb. 1968. In AdsD/5/IGMA/151065.

Democratic government.¹⁹ This view goes hand-in-hand with the belief that there was dramatic cross-national variation in the generosity of postwar European welfare states, leading to different “worlds of welfare capitalism.”²⁰ For scholars steeped in this tradition, it is tempting to argue that the persistence of conflict over job loss in postwar British manufacturing reflected a distinctively ungenerous British welfare state.²¹ Others might add that conflict over job loss in postwar Britain reflected the government’s distinctive inability to ‘credibly commit’ to compensation via the welfare state because of the rapid shifts in political power generated by the country’s electoral system.²² Either way, we arrive at the comforting conclusion that the conflicts over workforce reduction that we observe in postwar Britain reflected regrettable British or Anglophone peculiarities with few implications for the viability of welfare capitalism more generally.

This book argues, by contrast, that conflict over job loss in postwar Britain reflected a more fundamental limitation of the capitalist welfare state. In any economy in which dismissal and hiring decisions are made by private employers, no government possesses the information necessary to effectively screen between workers on the basis of the cause of their unemployment. In the absence of effective screening, whatever support a government offers to address the negative effects of technological job loss will be exploited by opportunistic claimants who may select out of employment and remain out of work because of the compensation that the government has made available. This adverse selection problem imposes an upper bound on the generosity of the compensation that any government can offer through the welfare state that is considerably less than the value of the wage losses that many workers face as a result of technological displacement. This was as true in West Germany as it was in Britain. Given the limited compensation that governments were willing to provide, workers retained an incentive to fight for their jobs, inasmuch as they were able to do so.

Many scholars see ‘activating’ policies like government-sponsored retraining as an appealing alternative to compensatory transfer payments. But this book shows that retraining policies are bound to fail as a means of addressing the cost of job loss because of the same types of informational problems. If employers make dismissal and hiring decisions on a rational basis, government-

¹⁹This is stated explicitly in Korpi (1983, 170); see also Korpi and Shalev (1979). Later scholarship is more euphemistic but shares this view: for Huber and Stephens (2001), industrial conflict can be replaced by industrial peace and bargaining restraint once the Social Democrats are in charge.

²⁰Esping-Andersen (1990).

²¹As in Hassel (2001); Manow (2020).

²²The best version of this position is in Lindvall (2010).

sponsored retraining programs that are open to the unemployed inevitably become a reservoir of presumptively low-quality labor market ‘lemons’ who are unappealing to prospective employers and largely unemployable except in make-work programs. If the government imposes restrictive eligibility criteria to ensure that it is only retraining workers with a strong prospect of successful placement in the private sector, it can improve its success rate *among participants* but only by sacrificing its ability to address the costs that most workers face as a result of job loss. Attempting to achieve greater placement success by delegating retraining to the private sector fails because of the exploitation of training subsidies by employers, whose abuse the government lacks the information to screen out. As we will see in this book, the widespread view of Sweden as a country that succeeded in government-sponsored retraining in the postwar era is utterly groundless.²³ Sympathetic portrayals of West Germany’s retraining efforts are similarly misleading. If any government in the postwar era can be credited with a clear understanding of the relevant dilemmas and a commendable effort to devise a retraining scheme that would actually transmit skills to disadvantaged workers, it is the British government, but its effort failed as well. Unless the government is willing to strip employers of discretion over dismissal and hiring decisions, government-sponsored retraining cannot address the cost of job loss for the vast majority of displaced workers. No rational worker would acquiesce to dismissal in return for the promise of retraining unless he were simply unable to contest his employer’s decision.

Workers’ efforts to protect themselves and their peers against dismissal following the introduction of new technologies must be sharply distinguished from opposition to technological change *per se*. The notion that any unions oppose new technologies is a myth promoted by scholars who seek to burnish the credentials of German unions by implicitly or explicitly contrasting these unions’ demands for protection against technological job loss, which scholars seek to depict as reasonable and harmless, against the boogeyman of British trade union Luddism. The implied contrast is empirically groundless: trade union Luddism in Britain is a canard. As we will see in this book, British unions, like their West German counterparts, embraced new technologies and simply sought to ensure that the introduction of new technologies did not result in job losses: a demand that many scholars portray as eminently sensible when writing about the West German case. Sorge and Streeck (1987, 10), for example, commend West German unions for their insistence that employers “avoid

²³This view is ubiquitous: Bonoli (2010) is a representative example.

redundancy through retraining and redeployment” within the firm.²⁴ But this demand was identical to the one advanced by Standard’s striking workers in 1956 and affirmed by the AEU for decades, making it the constant target of denunciation for ‘Luddism’ by British and foreign observers and ‘exhibit A’ for British trade union backwardness, notably in Olson (1982). The problem is that investments in labor-saving technologies are made on the basis of their private return for employers, and the private return on labor-saving investments depends upon employers’ freedom to shed labor as they see fit. It was precisely British unions’ distinctive success in achieving the goal of protection against technological job loss – a goal they shared with their counterparts in West Germany and elsewhere – that undermined employers’ incentives to invest in new technologies and held back the competitiveness of British industry relative to West Germany.

Of course, if worker-imposed restrictions on dismissal discouraged British employers from investing in labor-saving technologies, and if this in turn undermined the viability and competitiveness of British industry, it would seem that workers were behaving foolishly or irrationally in restricting employers’ control over dismissal. Both sides, one might conclude, would have been better off granting employers a free hand over dismissal, even if the government was not offering full compensation for those who lost their jobs. This book shows that this conclusion is unwarranted. Even if workers’ preferences are consistent with the priorities of a welfare-maximizing social planner, inefficient conflict over job loss is inevitable unless workers are simply too weak to contest employer decisions. The inevitability of inefficient conflict reflects the fundamental information asymmetry within the capitalist firm: only the employer possesses accurate information about the competitive conditions facing the firm, but the employer always has an incentive to misrepresent this information in negotiations with workers in order to pressure them to accept concessions they would otherwise reject. This book shows that inefficient conflict and underinvestment arise even if workers and employers can fully commit through binding contracts, contra Lancaster (1973), Grout (1984), Bean and Crafts (1996), and Eichengreen (2007): the source of inefficient conflict is not the inability to ‘credibly commit’ to the terms of a contract but rather the parties’ inability to agree on mutually satisfactory contractual terms given employers’ incentive to exploit information asymmetries to their advantage.

²⁴The demand for within-firm retraining to avoid redundancy must not be confused with support for government-sponsored retraining of workers who have already been made redundant.

Many scholars insist that only some kinds of unions engage in inefficient conflict over job loss. Following Olson (1982), many have argued that such behavior is characteristic only of small unions pursuing their ‘particularistic’ interests at the expense of the greater good. In the British case, it would be especially tempting to attribute resistance to job loss to ‘craft unions,’ which represented workers in particular skilled manual occupations. Scholars in this tradition see larger industrial unions – unions that represent workers across the skill distribution within a given industry – as far more enlightened in the sense of being more willing to give employers what they want: low wage growth and passivity in the face of job losses. This book demonstrates that the Olsonian view, canonically formalized by Wallerstein (1990), is the product of implausible modeling assumptions, which helps to explain why it lacks explanatory value in the cases studied here – despite the fact that Olson built his theory on the basis of (false) stylized facts from these very cases. A bargaining model with more plausible assumptions generates the opposite result: namely, that more ‘encompassing’ industrial unions are more aggressive at the bargaining table and better able to impose their demands on employers. This is precisely *why* workers form industrial unions. This book shows that the unions most inclined to clash with employers over job losses were industrial unions endowed with a large core of skilled manual workers, who possessed the greatest resolve for conflict because of historical labor market circumstances favorable to workplace organization. This was the structure of both the AEU and IG Metall.

Of course, if employers are willing to concede, no conflict over job loss arises. Scholars like Thelen (2014; 2020) and Martin and Swank (2012) have argued that inter-employer “coordination” through employers’ associations enables the emergence of a more cooperative and “socially embedded” form of capitalism, paradigmatically represented by Germany.²⁵ They argue that employers’ associations lead employers to make concessions to unions that they would not make individually, yielding cooperative bargaining and worker-friendly outcomes. This book argues, by contrast, that the primary purpose of employers’ associations is to assist employers in withstanding union pressure for concessions. This is quite explicitly how employers’ associations in Britain and West Germany described their own role. These groups understood themselves to be *Kampfverbände*, struggle-organizations, whose *raison d’être* was to battle down excessive union demands.²⁶ The argument

²⁵For Martin and Swank the canonical case is Denmark.

²⁶See Gesamtmetall’s commemorative centennial history, Mallmann (1990, 35-36); also the Engineering Employers’ Federation’s evidence for the Donovan Commission in EEF (1963, 33-34).

here is not that employers pursued repression as an alternative to an ostensibly more cooperative strategy of collective bargaining, as proposed by Kuo (2015): rather, employers' associations existed to strengthen employers' hand *within* collective bargaining.

Employers' propensity to organize is grounded in the recognition that if one employer appeases union demands, it becomes harder for other employers in a given industry to resist the same demand. The formation of a bargaining cartel is meant to prevent union whipsawing between employers. Employers' associations are, by structure, less 'enlightened' than the maverick employers who publicly advocate for generosity toward workers and set the standard for 'good behavior.' This is a reflection of simple arithmetic: within a given industry, the establishment size of the median member of an employers' association will typically be much smaller than the size of the establishment employing the median union member. Far from fostering a readiness to make concessions, employers' associations anchor bargaining outcomes for an entire industry to the needs of relatively low-margin small enterprises whose circumstances compel them to be aggressively cost-oriented. The maximum concession that an employers' association is typically willing to make will be less than the concessions that most union members could obtain through establishment-level bargaining with their own employer. This was true in both British and German manufacturing, where employers were similarly organized and similarly insistent on their defense of employer prerogatives.

This new theory of union-employer bargaining has important implications for the strategies that unions adopt to try to defend their members against job loss. While Emmenegger (2015) argues that strong unions prefer to regulate dismissal through collective agreements with employers rather than by law, this book shows that the regulation of dismissal through collective agreement offered only a mild improvement over the feeble protections that could be obtained by law. This is because the maximum offer of employers' associations reflected the demands of small and medium-sized enterprises whose economic circumstances rendered them unwilling to compromise on employer prerogatives over dismissal. Accordingly, unions that were in a strong position to contest dismissal instead favored decentralized resistance to job loss at the plant level, which enabled the imposition of *de facto* restrictions on employer prerogative through the threat of strike action. Employers, as we will see, were the ones who sought to bargain over dismissal regulation at the industry level. This book shows that *de facto* restrictions on dismissal, which are overlooked by the vast majority of the scholarship on dismissal regulation and systematically ignored in conventional indices of

‘employment protection,’ were in fact much more effective in constraining employer discretion than were regulations imposed through collective agreement or statute.

Not all unions are in a position to engage in decentralized resistance to job loss, however. As already argued above, the unions most able to coerce employers into accepting informal restrictions on dismissal were industrial unions, i.e., unions that organized workers across the skill distribution and contained a core of skilled manual workers. While these unions were organized on an industry-wide basis, the optimal strategy for restricting dismissal was through decentralized, plant-level resistance reminiscent of the traditional union strategy of *Einzelabschlachtung* (individual slaughter). Unions with a narrower membership supported industry-level negotiation over dismissal regulation – or, barring this, statutory regulation – because of their members’ inability to effectively fight for their jobs at the plant level.

Irrespective of a union’s organizational characteristics, its prospects for successful resistance to job loss at the plant level were decisively shaped by the institutional environment. Within a broader thicket of repressive legislation in postwar West Germany that included an automatically binding peace obligation irrespective of the wishes of the bargaining parties and a categorical prohibition on both the closed and the union shop (i.e., nationwide ‘right-to-work’), the most relevant institution was the law governing worker representation at the plant level, the Works Constitution Act (*Betriebsverfassungsgesetz*) of 1952, which prohibited workers’ elected representatives from issuing or acting upon strike threats in return for modest consultative rights over personnel decisions.²⁷ This book shows that the works council system undermined unionized workers’ ability to impose *de facto* restrictions on dismissal at the plant level and pushed West German unions to pursue dismissal regulation by collective agreement and then by statute. For the reasons already stated, this road yielded limited protections against dismissal: in fact, by the 1970s, statutory protections against dismissal in West Germany were not only weaker than the *de facto* restrictions imposed by British unions but also no stronger and arguably weaker than Britain’s modest statutory dismissal regulations, which had been introduced in failed efforts to end conflict over workforce reduction.

²⁷On these points West German law was also far more restrictive than American law under the Taft-Hartley Act. The automatically binding peace obligation is the *Friedenspflicht*; under Taft-Hartley parties had to opt into a no-strike clause. The doctrine of *negative Koalitionsfreiheit* imposed the ban on the closed and union shop (pre-entry and post-entry closed shop in British parlance); under Taft-Hartley the union shop was legal. On these points see Biedenkopf (1961a, 1961b). No such restrictions existed in postwar Britain.

Attempts by the British Conservatives in the 1970s to impose at least some of the restrictions that their Christian Democratic counterparts had imposed on West Germany's unions in the early 1950s failed. This was because the British labor movement had not been weakened by a twenty-year campaign of legal repression equivalent to the one pursued by Germany's National Socialist and Christian Democratic governments in the name of rescuing the country from socialism and securing workplace peace. It was not until British unions had been weakened by deindustrialization – a consequence of the loss of industrial competitiveness that this book attempts to explain – that British Conservatives could achieve the long-coveted goal of implanting some of West Germany's institutions, an ambition suggested in the 1975 pamphlet *Why Britain Needs a Social Market Economy* by the think-tank founded by Margaret Thatcher and Keith Joseph.²⁸ Through the 1970s, British manufacturing employers were deprived of the restrictions on strikes against mass dismissal that they had long demanded and which their West German counterparts had enjoyed and praised since the early 1950s. Between the 1950s and the end of the 1970s, West German employers maintained much greater control over dismissal than did their British counterparts, allowing them to freely shed labor in response to their changing production requirements. This preserved their incentive to invest in labor-saving technologies and allowed them to make optimal use of the new technologies they had purchased. This is the real institutional foundation of West Germany's comparative advantage, to borrow a phrase from Hall and Soskice (2001). It is this difference that explains the Anglo-German divergence in manufacturing performance over the postwar era and West Germany's rise to industrial primacy in Europe.

1.3 The design of this book

The core of this book consists of a comparative analysis of the British and West German engineering industries between the 1950s and the 1970s, the era of West Germany's ascent to become the dominant manufacturing power in Europe. This comparative industry-level approach overcomes important shortcomings of existing scholarship on the German model and on Britain's economic decline, which rest primarily on evidence from a single country combined with stylized contrasts to other cases. Though both bodies of literature have generated important insights, a structured comparative study of the sort undertaken here is better suited to clarify the determinants of Ger-

²⁸Centre for Policy Studies (1975).

man industrial success and British relative failure. The engineering industry is the natural focus of an Anglo-German comparison because engineering – which comprises the production of industrial machinery, motor vehicles, and electrical equipment – was the largest industry by output, employment, and exports in both countries. Engineering is also the industry that has given Germany its reputation for manufacturing prowess and is where collaborative industrial adjustment to technological change should be most apparent. If claims about the German model do not hold for engineering, they do not hold at all. The reason to study engineering rather than a particular branch of engineering, such as motor vehicles, is that unions and employers were organized at the level of engineering as a whole in both countries: there were no separate organizations and no separate bargaining processes for particular branches of engineering.

Of course, many readers will have the intuition that the postwar British and West German engineering industries were radically dissimilar to one another in terms of their employment structures, training regimes, plant sizes, productivity levels, production methods, export orientations, extent of employer organization, and structure of trade unionism. If true, these confounders would threaten the validity of the argument developed here. As this book shows, however, postwar West German engineering was not significantly different from postwar British engineering along any of these dimensions except in the balance of employer-union power, which was more heavily tilted toward employers in the West German case. Existing scholarship has been misled by the assumption that Britain and the United States share some deep-seated similarities as “liberal market economies,” a term invented to characterize certain Anglo-American commonalities in the 1990s that has since been projected back into the nineteenth century and whose transhistorical validity is now taken for granted. In reality, the twentieth-century British and West German engineering industries were much more similar to each other than either was to American engineering – except, interestingly, when it comes to unionization, since British and American engineering workers were both much more highly organized than their West German counterparts.

Most important for our purposes is the fact that workers in both British and West German engineering were primarily organized into industrial unions that encompassed manual workers across the skill distribution and aspired to be the sole voice for workers in the engineering industry. These were the aforementioned Amalgamated Engineering Union (AEU) and the *Industriegewerkschaft Metall* (IG Metall). In neither country did these industrial unions succeed in realizing their aspi-

ration of being the sole union in the engineering industry, and both competed against rival unions that sought to organize workers along occupational or confessional lines. This was more pronounced in the British case, but the presence of more unions in British engineering was more than offset by a much higher overall union density. This meant that the AEU and IG Metall were similarly ‘encompassing’ in the sense that each organized a similar share of its country’s engineering workforce. Both the AEU and IG Metall faced powerful national federations of engineering employers that were notorious for their uncompromising stance on managerial prerogatives and for their willingness to whip the unions into submission through industry-wide lockouts.

These similarities make the British and West German engineering industries ideal for an investigation of the role of country-level labor institutions in shaping unions’ capacity for collective action and their subsequent choice of strategy to address the employment risks generated by labor-saving technological change. The fact that there were multiple unions in the engineering industry of each country also allows for an examination of the organizational determinants of within-country variation in unions’ capacity for collective action and their corresponding choice of strategy. This within-country variation is important because, as shown in this book, several unions in the British engineering industry rejected the AEU’s strategy of plant-level resistance in favor of what we could anachronistically call a “German” solution of industry-level regulation. This reflected these unions’ organizational weakness and inability to effectively contest job losses at the plant level.

Chapter 2 presents the book’s theory, proceeding in detail through each of the points raised above. The first several sections explain how information problems undermine the possibility of a compensatory solution to job loss and doom retraining efforts to failure and why informational asymmetries at the plant level make conflict over dismissal unavoidable. The next set of sections deals with the structure of collective bargaining, explaining why unions and employers favor bargaining over job loss at different levels and how the structure of union organization shapes unions’ ability to impose effective restrictions on dismissal. Having done so, I explain how governments can impose a works council system to lock in and render permanent what would otherwise be momentary union weakness and how a works council system undermines unionization and the prospects of successful collective action. This is followed by a discussion of various theories of leader-member incongruence within unions, including work by Golden (1997) and Acemoglu and Robinson (2001). The next section explains why left parties do not implement the employment security policies that

unions and their members want, engaging with Rueda's (2007) argument that left parties are agents of labor market 'insiders.' The final section critically evaluates the claim by Manow (2020) and others that we should expect meaningful differences between Christian Democratic and 'secular' Conservative parties on the issues studied in this book. This prediction is questionable even if Christian Democratic parties affirm a distinctively worker-friendly social teaching, which is far from clear in the West German case, as we will see.

Chapter 3 addresses possible causes of British manufacturing's postwar decline. The first part of the chapter documents the Anglo-German divergence in manufacturing performance in general and engineering performance in particular between the 1950s and 1970s, focusing on productivity growth and export competitiveness. It also provides an overview of the labor-saving technologies that drove productivity growth in engineering during this period. The second part of the chapter canvasses and rejects several existing explanations for West Germany's success and Britain's relative failure during this period, including arguments based on the alleged lack of wage restraint in Britain, the putative lack of competitive pressure in British industry, the excessively large (or inadequately large) size of British manufacturing establishments, and West Germans' intrinsically superior engineering prowess. The latter sections of the chapter deal in more detail with the engineering apprenticeship systems in the two countries, showing that allegations of a 'skills gap' between British and West German engineering rest on an unjustified fixation on formal skill certification and a misinterpretation of German apprenticeship statistics. The decline of apprenticeship in Britain is best understood as a consequence rather than as a cause of the underperformance of British manufacturing in the postwar decades.

Chapter 4 deals with employment risks, technological change, and the structure of industrial relations in postwar British and West German engineering. The first section addresses the relationship between apprenticeship, skill specificity, and employment risks. The argument associated with Estévez-Abe, Iversen, and Soskice (2001) that workers who have undergone an apprenticeship have non-transferable skills that render them especially vigorous proponents of employment protection is shown to be backwards when it comes to within-industry variation in risk exposure. This section assesses the risk exposure of different occupational groups within the engineering industry using previously untapped survey data from the 1960s. The second section discusses theories of technological change and the employment risks generated by new technologies. I challenge the

‘constructivist’ interpretation of technological change proposed by Noble (1984) and Acemoglu and Johnson (2023) according to which employers adopt ‘bad’ or ‘anti-worker’ technologies in order to achieve control over their workforce rather than adopting the productivity-maximizing technology. This view is shown to be untenable whether we argue from standard premises or ‘radical,’ i.e., Marxian ones: the constructivist view only holds if employers are systematically irrational or are able to internationally collude to prevent the adoption of productivity-maximizing production methods. The third part discusses the relationship between technological and cyclical unemployment, showing why these are indistinguishable from one another when employers strategically time dismissals. The penultimate part of the chapter presents an overview of union and employer organization in British and West German engineering, setting the stage for the chapters that follow. The final part of the chapter addresses some misunderstandings about craft unions, employment protection, and task demarcation.

Chapters 5 and 6 present the first part of the book’s empirical analysis. These chapters draw on previously untapped and often previously unavailable archival evidence from the records of twelve unions from the Modern Records Centre at the University of Warwick and the Archiv der sozialen Demokratie at the Friedrich-Ebert-Stiftung, Bonn. This evidence, combined with archival material on engineering employers’ bargaining and lobbying activities in both countries, enables the reconstruction of the formulation, implementation, and adjustment of unions’ strategies toward the challenge of technological displacement over the twenty-five-year period between 1955 and 1979. The evidence includes internal union memoranda, correspondence between union officials, records of unions’ policy-making conferences, and meetings with employers. The empirical approach adopted in this book allows me to determine the extent to which the results obtained through bargaining and lobbying match the goals that unions set beforehand and to glean union leaders’ assessments of these results in the aftermath of new collective agreements and policy changes. This is the first time that archival evidence from British or West German unions has been used to assess the validity of the claims about British or West German unions that have been made in comparative political economy and economic history scholarship for the last half-century.

Chapter 7 examines why the British government did not simply increase the generosity of the welfare state to buy unions’ acquiescence to workforce reduction. This part of this book’s empirical analysis draws on new evidence from the National Archives. This evidence, which includes

intra- and inter-ministerial correspondence, minutes of committee meetings, draft legislation, and parliamentary debates, clarifies the considerations that shaped the design of the policies and the generosity of the terms that policymakers were willing to offer displaced workers from the 1950s through the 1970s. The evidence shows that the generosity of compensation was severely constrained by concerns about opportunism under incomplete information, meaning that the government's compensatory interventions did not bring an end to conflict over dismissal and the attendant 'overmanning' in British industry. This led the Heath government to try to imitate the West German system of workplace repression, which failed because British unions were not as weak as their West German counterparts had been when the Adenauer government imposed its restrictions in the early 1950s.

Chapter 7 also explains why the British government's efforts at government-sponsored retraining from the early 1960s onward failed as a means of encouraging acquiescence to job loss. Despite some initial interest in the 'Swedish model' of retraining, British policymakers soon realized that Sweden's retraining program was primarily a holding pen for the unemployed and not a serious policy for upskilling workers and placing them in suitable employment. As we will see, this is the same conclusion reached by Swedish trade unionists and economists by the mid-1960s, an assessment supported by subsequent econometric studies. In Britain, both Conservative and Labour policymakers came to realize that high enrollment in government retraining programs – the primary metric by which Sweden's "success" has been judged in comparative scholarship – was actively *at odds* with the goal of successful reintegration. British policymakers therefore pursued a retraining policy that was intentionally small and outcome-oriented, though this meant that retraining could not be the means through which the cost of job loss were addressed for the vast majority of displaced workers. Public enthusiasm for the 'Swedish model' and an attendant fixation on enrollment numbers pushed the Heath government into imitating Sweden, wrecking the prospects of British retraining in the process. While King's (1995) trenchant critique of British retraining remains valid, the claim that Britain's failures reflected a distinctive cultural inheritance is unsustainable once we recognize that Sweden's reputation for success was based not on results, but rather on a propaganda campaign orchestrated by Gösta Rehn from his perch as the OECD's Director of Manpower and Social Affairs. Indeed, chasing the Swedish mirage was the source of many of Britain's problems.

Chapter 8 turns to policymaking in West Germany, drawing on new evidence from the Bundesarchiv in Koblenz. The first section discusses the Christian Democratic government's approach to labor market policy in the 1950s. This approach is shown to be entirely inconsistent with received views about how christian democratic and 'secular' conservative parties differ. Indeed, as this chapter shows, few of the received claims about 'christian democratic' distinctiveness hold up to comparative scrutiny. The second section studies the Christian Democrats' development of what they called a "social investment" policy paradigm in the 1960s that was meant to facilitate the rapid reallocation of labor between firms and industries. Unlike in Britain, the West German government did not face the problem of resistance to job loss because the institutional environment ensured that employers retained unilateral control over dismissal decisions, leaving the government free to pursue retraining without a compensatory buyout akin to Britain's Redundancy Payments Act (1965). Like their British counterparts, West German policymakers soon concluded that Sweden's reputation for success in retraining was detached from reality. The Christian Democrats' retraining effort, which came to fruition under the Grand Coalition, was nonetheless a failure because it delegated retraining to private employers who rampantly abused the scheme for their own benefit. Reforms under the government of Helmut Schmidt constrained employer exploitation but in doing so turned West Germany's retraining system into a backwater for unemployed workers with few realistic prospects of new employment. Meanwhile, the expansion of works councils' rights under the Works Constitution Act did not significantly constrain employers' control over dismissal decisions and granted German workers a feeblar entitlement to compensation after job loss than their British counterparts had enjoyed since 1965.

Chapter 9 turns from union strategies and government responses to economic and labor market outcomes. The purpose of this chapter is to assess the relative severity of the restrictions on workforce downsizing that employers in British and West German engineering faced in the 1970s. The first part of this chapter discusses the widespread view that West Germany had distinctively severe restrictions on dismissal, as proposed by Streeck (1992; 1997) and by Estévez-Abe, Iversen, and Soskice (2001). The second part shows that, even if we focus solely on statutory restrictions on dismissal, it is far from clear that those in West Germany were more stringent than those in Britain. Once *de facto* restrictions are taken into account, it is undeniable that restrictions on dismissal were more severe in British manufacturing. The subsequent sections test the relative severity of

dismissal restrictions in Britain and West Germany by drawing on output and employment time series and previously untapped employer surveys from both countries. These data sources allow me to estimate sectoral and industry-level elasticities of employment to output shocks and to measure British and German engineering employers' procedures when using dismissal as a tool of workforce adjustment. These findings strongly support the conclusion that West German employers enjoyed much greater freedom to dismiss workers in response to changes in their production requirements than their British counterparts and often paid no compensation to workers they dismissed. This reflects the fact that they were under no statutory obligation to do so in most circumstances and had little to fear by way of workplace disruption.

The latter part of Chapter 9 assesses the generosity of the compensation available to dismissed workers in both countries through unemployment insurance, early retirement, and analogous pathways out of the labor market. This section demonstrates that the widespread view of a distinctively generous German welfare state in the 1970s is a myth. British workers generally had higher entitlements following dismissal and equivalently generous pathways out of the labor market if dismissed at an advanced age. It therefore cannot be the case that the union-imposed restrictions on dismissal in Britain reflected a relatively ungenerous welfare state. Workers in both countries faced high costs as a result of job loss, giving both an equivalently strong incentive to contest dismissal to the extent that they were able to do so. It was West German workers' weakness that explains relatively frictionless labor-shedding in West Germany. The final part of the chapter asks who benefited from the German model. The notion that West German capitalism was distinctively "egalitarian" and "socially embedded," as proposed by Thelen (2020), is shown to be backwards: West German top-income inequality was as great as in the United States and far greater than in Britain during the heyday of the 'German model' in the 1970s. Moreover, compared to both Britain and the United States, West Germany did far less to moderate top-end inequality through taxation. Taken together, this evidence indicates that the German model of workplace repression and unrestricted labor-shedding worked exceptionally well for capitalists and top managers, not for workers. Workers benefited in the sense that, as a result of their repeated failure to obtain the restrictions on dismissal that they sought, West German manufacturing remained competitive and mass de-industrialization was avoided. To endorse the German model on the grounds that 'all's well that ends well' is simply to affirm the view that employers have always endorsed: namely,

that union interference produces worse outcomes for everyone than if workers simply allowed employers to do as they see fit. This view should not be concealed behind misleading claims about “collaborative adjustment.”

Chapter 10 extends the book’s argument to Sweden and Japan. If Germany does not offer an attractive model of collaborative adjustment to technological change, it is natural to look to these countries for examples of a successful reconciliation of technological change and workers’ interests within a capitalist society. According to the standard narrative in comparative political economy, Sweden’s hegemonic Social Democratic government constructed an active labor market policy in the 1950s that ensured that workers displaced as a consequence of technological change would be retrained and redeployed elsewhere in the economy, eliminating unions’ incentives to resist job losses. Postwar Japan, by contrast, is seen as a country in which workers in core industries like engineering benefited from a system of ‘lifetime employment,’ which is thought to have sheltered workers from the risks associated with technological redundancy without compromising the country’s economic competitiveness. Some might argue on the basis of the Japanese case that employment security for workers is not incompatible with the rapid adoption of new technologies.

This chapter shows that Sweden’s economic performance over the postwar era hardly makes it a model worthy of emulation, though Sweden did considerably outstrip Britain in manufacturing productivity. The widespread view of distinctive Swedish success in retraining is untenable, a conclusion already previewed above. Given the manifest inadequacy of Sweden’s active labor market policies, the Swedish engineering union Svenska Metall led a push within the labor movement for more severe restrictions on dismissal in the 1960s, much like its counterparts in Britain and West Germany. Because plant-level strikes against job loss were illegal under most circumstances in Sweden, Svenska Metall pursued dismissal regulation by collective agreement and then through law. Sweden’s Social Democrats were, however, unwilling to grant Svenska Metall and other unions the restrictions on dismissal that they sought, instead providing feeble consultative rights much as the West German Social Democrats had done. Sweden’s employers remained relatively free to shed labor as they saw fit, contributing to a relatively strong manufacturing performance that was outweighed by distortionary policies that rendered Sweden’s growth rate almost identical to that of Britain. Japan can be counted as an unequivocal economic success, but there was no such thing as a distinctive Japanese system of ‘lifetime employment.’ Japanese employers re-established unilateral

control over dismissal by the early 1950s and operated like their counterparts abroad when it came to workforce reduction. Much like the AEU in Britain, Japanese enterprise unions such as those in the engineering federation Zenkoku Kinzoku attempted to achieve *de facto* employment protection for their members through the threat of strike action. The low level of unionization and the disadvantageous structure of enterprise unionism undermined the efficacy of these efforts, however, meaning that Japanese engineering employers retained much greater control over dismissal than their British counterparts.

Chapter 11 concludes the book by discussing its implications for the possibility of reconciling workers' interest in economic security with the imperative of technological change in an internationally integrated capitalist economy. The lesson of the Anglo-German comparison undertaken in this book is that no such reconciliation is possible: either workers succeed in achieving economic security for themselves, undermining employers' incentives to invest in labor-saving technologies and ultimately yielding competitive failure, or workers are kept too weak to obtain such security for themselves, preserving employers' incentives to invest and facilitating adaptation to changing competitive conditions. This is developed into a trilemma that offers a possible escape from the trade-off between workers' security and technological change through a transition to social control over investment. To be sure, this route entails problems of its own and may not be advisable on net. But we should abandon the illusion of an easy reconciliation of workers' interests and technological change within a model driven by private investment. At the very least, we should stop looking for guidance from tales of union-employer collaboration in twentieth-century Europe.