The miserable end of the “Volkswagen model”

Peter Schwarz
27 July 2005

The recent affair at Volkswagen—which led to the resignation of *betriebsrat* (works council) Chairman Klaus Volkert and Director of Personnel Peter Hartz, as well as the dismissal of several leading managers against whom legal proceedings are now underway—contains all the elements of a major public scandal: corruption, sex, company-financed pleasure trips and voyages round the world for members of the works council and all sorts of wheeling and dealing behind closed doors. The media, as is their wont, have seized upon the affair, above all the tabloid *Bild* newspaper, which is serving up daily offerings full of new and intimate detail.

It is hard to determine fact from fiction. However, the larger aims being pursued are quite obvious. The high profits the company secured in 2001 and 2002 were followed by heavy losses. On the job since May 1, 44-year old Volkswagen boss Wolfgang Bernhard, who as a director of Mercedes already made a name for himself for ruthlessly streamlining Chrysler in the US, wants to save 7 billion euros annually, something that is only possible by cutting tens of thousands of jobs and closing entire factories.

In the early 1990s, Gerhard Schröder, then state premier of Lower Saxony, established a closely woven network, involving the Social Democratic Party (SPD), the IG Metall union, and the VW works council and board of directors, which held sway over the company for 15 years. This has now become an obstacle that has to be removed.

“The economic restructuring of the battered enterprise can only succeed by severing the old insider relationships, in which everybody is reliant on everyone else and business considerations only play a peripheral role,” commentated newsweekly *Der Spiegel*. And *Die Zeit* wrote, “Those who had always regarded the tight-knit combination of managers, works council members and SPD politicians at VW as a thorn in their side now see a chance to put an end to the would-be sleaze.”

The political interests behind the scandal are also quite transparent. Klaus Joachim Gebauer, the sacked personnel manager who had leaked the information about the lucrative expenses being paid to the works council members (in revenge for his sacking, as some newspapers assume), is represented legally by Wolfgang Kubicki, a lawyer and leading Free Democratic Party (FDP) politician. Lower Saxony state premier Christian Wulff (Christian Democratic Union, CDU), who sits on the VW supervisory board, pushed for the immediate resignation of Peter Hartz. As the largest shareholder, the state of Lower Saxony enjoys considerable influence over the corporation.

Since Hartz owes his office to Wulff’s predecessor, Schröder, is seen as a close friend of the chancellor and has also lent his name to the widely hated “Hartz reforms” of the labour market, the scandal is providing effective ammunition for the CDU’s and FDP’s campaign in the upcoming federal elections.

For the workforce, however, the significance of the scandal is not exhausted by an understanding of its reactionary thrust. For decades, Volkswagen was considered the epitome of what was alternately called the “German model of workers’ participation,” “Germany Inc.” or “Co-management.” Nowhere else was the relationship between the board of directors, the trade unions, works council and politicians as close as it was at VW.

The head of the IG Metall, the world’s largest industrial trade union, traditionally sits as deputy chairman of the VW supervisory board, assisted by the works council, which under German industrial legislation also provides several other union members to the supervisory board. From 1990 to 2003, as long as the SPD ran the government in the state capital Hanover, VW was controlled practically by a triumvirate of the IG Metall, the works council and the SPD.

Until he resigned, Klaus Volkert, who headed the general VW works council since 1990, as well as being boss of VW’s world and European works council, was regarded as Germany’s most powerful works council chairman. He enjoys a close friendship with Peter Hartz, the influential director of personnel at VW and advisor to the chancellor, who also belongs to the SPD and the IG Metall.

Only someone who was unfamiliar with the corrupt atmosphere prevailing in the works councils of large corporations could be surprised to find out that such intimate relationships are also accompanied by material benefits. According to the public prosecutors office, in the space of two years, some €780,000 ($937,000) in unauthorised expenses were paid to works council members, including payments for visits to brothels during trips around the world. Every three months, VW transferred €23,000 ($27,700) into the bank account of Volkert’s Brazilian girlfriend Adriana B., allegedly for film work. This is most unusual, since such employment is normally reimbursed separately for each individual piece of work and not by regular remittances.

Volkert finally had to hang up his hat when it became known that he was a shareholder in a company belonging to Helmuth Schuster, who was seeking lucrative business deals with VW. Schuster, who is now under investigation by the public prosecutor’s office, was a board member of Skoda, VW’s Czech affiliate.

Hartz proffered his premature resignation one week after Volkert, justifying this by pointing to his responsibility for the unauthorised expenses. In the meantime, rumours also emerged that he had used company funds to pay for a prostitute, an accusation he denied.

For the corporation, the “VW system” proved extremely lucrative for a long time. After several crises in the 1990s, the Volkswagen group alone attained a profit of €3 billion ($3.6 billion) in 2001. In addition, a further €1.5 billion ($1.8 billion) accrued from the Audi group.

For the workforce, however, the “VW system” meant a painful process of continual cuts in wages and benefits, which the IG Metall, the works council and SPD uniformly presented as the successful defence of jobs.

Hartz, assisted by Volkert, demonstrated boundless imagination when developing new work time and remuneration paradigms, which not only led to a sinking standard of living for Volkswagen employees, but also served as levers for breaking up collective agreements throughout the entire industry. It is no accident that Chancellor Schröder engaged the VW manager to develop the hated labour market reforms that now carry his name.

In 1993, supported by the IG Metall, the then-state premier Schröder appointed Ferdinand Piech as chairman of the VW board. The Austrian multimillionaire is a grandchild of Ferdinand Porsche, who had developed the first Volkswagen model for Hitler, the VW beetle. Three years later, Schröder's intimate relationship with Piech was a cause for headlines when the state premier of Lower Saxony and his wife visited the Vienna opera ball in the VW chief's private jet and at his expense.

Two things were characteristic of Piech: On the one hand, his efforts to move Volkswagen, which had previously built mid- and lower-priced cars, into the luxury market. Thus VW bought up the prestigious Bentley, Bugatti and Lamborghini brands, and developed the Phaeton luxury model, constructing its own special glass-clad factory in Dresden.

The whole enterprise proved to be a disaster costing billions. VW only sells 6,000 Phaeton models a year. The fact the SPD and IG Metall supported this project is an expression of their fascination with luxury and big money during the speculative stock exchange boom.

Secondly, in collaboration with Hartz and the works council, Piech well understood how to cut labour costs.

In 1993, when sales slumped, he threatened to slash 30,000 jobs. The outcome was the introduction of a four-day week. The working week sank to 28.8 hours, and the trade union proudly announced this meant "compulsory redundancies" had been avoided.

At a stroke, the company solved several problems: It saved nearly 3 billion deutschmarks ($1.9 billion) in developing a social plan, it could employ workers more flexibly, since if the order books were full they had to work up to 40 hours a week without qualifying for overtime bonuses, and the job cuts continued, albeit without the need for compulsory redundancies. The entire process was financed by the workforce, which had to swallow wage losses of approximately 18 percent.

The fleecing of the VW workforce was supplemented by putting massive pressure on the supply chain. In 1993, again with support from the IG Metall and the works council, VW headhunted Jose Ignacio Lopez from General Motors, where he was notorious for cutting costs and specialised in wringing the last cent out of the supply chain. In the long run, it was the workers in the factories supplying parts to VW—who were also IG Metall members—that had to bore the brunt of the attacks. But this was of no concern to the union representatives at VW.

In the end, Lopez proved costly for VW. Accused of industrial espionage by the German GM-subsidiary Opel, VW had to sack him in 1996, and pay $100 million in compensation to GM, as well as buying auto parts valued at $1 billion from its competitor.

In 2001, the next blow fell—the introduction of the "5,000 times 5,000" contract, which was highly praised by politicians and big business. The VW board and the works council were now working together like clockwork. Launching the production of the new Touran model at the Wolfsburg plant, VW committed itself to employing up to 5,000 new workers on conditions that differed fundamentally in many respects from past collective agreements. The new workers would be paid by results and no longer according to time worked, their rate of pay was clearly lower than the previous norm at VW and they could be assigned duties far more flexibly.

Management consultant Roland Berger described the new contract as signalling how new jobs could be created with "more flexibility over incomes and how staff are deployed." Chancellor Schröder praised the contract as an "innovative solution."

At the end of last year—Piech had since been replaced by former BMW boss Bernd Pischetsrieder and merely retained the chair of the supervisory board—the third blow came, the so-called "future contract." This time, Hartz and Volkert largely abandoned the usual rigmarole and openly put the staff under duress with the threat "jobs instead of cash" (Volkert).

The contract envisaged annual wage savings of €1 billion ($1.2 billion). Existing wages and salaries were frozen for 28 months, bonuses cut by several hundred euros, additional benefits comprising 1.4 percent of the total wage slashed, apprenticeship pay lowered, work time made more flexible, and new workers paid at substantially lower rates, thus further dividing the workforce.

In return, VW gave assurances that it would retain 99,000 jobs plus apprentices at its German factories until 2011. On closer inspection, however, such guarantees proved nothing more than a bluff. The contract contains a clause permitting VW to cancel it within three months if there are "significant changes in basic assumptions or the business environment."

VW chief Wolfgang Bernhard's announcement that the company wants to save a further €7 billion ($8.4 billion) a year makes clear that just six months after it was signed, the "future contract" probably belongs to the past. The "VW system," with its cosy relations between the board of directors, the works council and the trade union, is of little use in the coming disputes and can only be seen as a burdensome cost factor. Hence the reason the festering boil of corruption has been lanced.

The workforce must draw the political lessons from the Hartz and Volkert era of the last 15 years. The answer to the threatening attacks cannot be a return to the old forms of workers' participation and social partnership. That would be like telling a patient with terminal lung cancer to start smoking low-tar cigarettes once again.

This is the perspective advanced by the works council under Bernd Osterloh, Volkert's successor. It has dissociated itself from some of the worst excrescences—only to carry on as before.

For example, the works council chairman at VW's Braunschweig plant, Uwe Fritsch, has called for financial transparency, and in the same breath praises Hartz and the past practices of the works council.

"The VW model for which the former personnel chief Peter Hartz stood meant securing lasting profits while taking into consideration social aspects, maintaining factories and avoiding dismissals," he told *Junge Welt* newspaper. "If the 'VW system' is to be eliminated, this means implementing the principle of quick maximum profits by utilising all possibilities—-including factory closures and mass sackings."

"The structures must become more democratic and transparent," he stressed. "Nevertheless, I wouldn't speak of 'co-management,' but of a qualified form of workers participation. That is, we don't play the role of a fundamental opposition, but try, within the context of the capitalist system, to get the best out for our colleagues. We have already achieved something in the jobs' guarantee."

It is precisely this perspective that has completely failed with the "VW model." For 15 years, VW was a model operation for the Social Democrats and the unions (more than 90 percent of the workforce are IG Metall members) and showed the way nationally in reducing wages, undermining existing contracts and implementing flexible working conditions—always with the argument of "getting the best for our colleagues within the context of the capitalist system." In this endeavour, the works council and the union have merged ever more closely with the management, until it has resulted in the unappetising mess that has now become visible.

Personal characteristics may have played a role, but in the long run, this development results from the whole perspective of the trade union bureaucracy. The globalisation of production has robbed it of the possibility of negotiating social compromises within the national framework, which take into consideration the interests of the workforce. Under the pressure of global competition and the constant threat of transferring jobs to low-wage countries, the union bureaucracy regards its task as defending German factories by "securing lasting profits" (Fritsch) in their own enterprises, becoming an auxiliary to the management. This development can be observed in all trade unions throughout the world.

To oppose attacks on jobs and wages, a completely different perspective is necessary. It must proceed from the international character of modern production and the common interests of the working class of all countries and unite them internationally. And it must strive for the socialist transformation of society, in which social interests take priority above the profit interests of the corporations. Only on the basis of such a perspective is it possible to genuinely oppose the attacks of the Volkswagen management.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact