



The German System of Chambers of Skilled Crafts - An Impact Assessment -

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ABSTRACT

This paper explores how to best analyze the impact of the German system of Chambers of Skilled Crafts on the German economy. Among the main characteristics of the system are the contributions-related mandatory membership for companies subject to the Skilled Crafts Act (Handwerksordnung) and a territorial monopoly of the regional chambers. The central question to be investigated is: What are the benefits of this German chamber system and what are its costs? An examination of the following issues provides a tentative answer. First, the functions of the system and, correspondingly, the aims it pursues are identified. Secondly, the costs and benefits of the institution are classified and evaluated qualitatively. Finally, potential policy implications are derived. This systematic cost-benefit approach to evaluating an institution is based on the regulatory impact assessment as defined both in the Joint Rules of Procedures of the Federal Ministries and at European Union level. Our main finding is that the benefits of the system exceed the costs caused by this same institution. Of particular importance is the apprenticeship system along with the advisory services offered to SMEs and business start-ups in several business-related and legal fields. In addition, the voluntary commitment supplied by members of the crafts chambers strongly contributes to their positive performance. We therefore conclude that upholding the system of mandatory membership is beneficial. In fact, within the competition of chamber systems the German model might have a competitive advantage as regards its inducement of higher SME performance via its comprehensive provision of services.

Keywords: chamber systems, skilled crafts, cost-benefit approach

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I. Introduction

The German crafts sector comprises around 923 thousand businesses employing over 4.8 million individuals. This corresponds to an employment share of 12.4 per cent. Moreover, almost one third of all apprentices receive their vocational training in the crafts sector¹. These figures show that the crafts sector forms a significant part of the German economy, in particular in terms of human capital formation. Moreover, the large majority of crafts businesses are SMEs. Therefore, the organisation representing the businesses of the crafts sector simultaneously constitutes one of the main representative bodies of SMEs. The respective German organisation representing the general interests of the crafts sector are the chambers of skilled crafts and their umbrella organisation, the German Confederation of Skilled Crafts. The Skilled Crafts Act forms the legal basis of this chamber organisation. Because of its degree of regulation, the system of chambers of skilled crafts represents an example of the so-called Continental Model of chamber organisation. Yet, recent amendments to the Skilled Crafts Act primarily aimed at de-regulating the system.

More precisely, in view of increasing demand for more comprehensive services, businesses active in one craft were allowed to expand their services to neighbouring crafts. Moreover, debates about the impact of the full-scale proof of competence (Master craftsman diploma) have led to a limitation of trades subject to this proof of proficiency². Furthermore, a partly exemption of business start-ups from their mandatory contributions was an additional measure to facilitate start-ups in order to counteract the difficult employment situation.

However, such amendments require considerations about their impact on the institutions involved, in particular the future efficiency and capacities of the skilled crafts chambers and, in consequence, their member companies. In view of the ever growing relative importance of SMEs in the German economy, it should be assured that reforming the chambers of skilled crafts, which constitute one of the main SME-representing organisations, does not adversely affect SME performance. Moreover, certain existing functions of the chambers may be desirable with respect to their impact on the economy or individual businesses, and should therefore not be jeopardised. Validation of these hypotheses necessitates a status-quo analysis of the chamber organisation, i.e. its functions have to be identified and evaluated with respect to their impact on the aggregate economy in general and its members in particular. More importantly, and in view of the recent de-regulation tendency, the specific benefits actually arising from regulation, i.e. the particular advantages of Continental-Model-based organisation, must be identified and contrasted to the features of the liberal system of chamber organisation – the Anglo-Saxon Model. Our methodological approach has a ‘better regulation’ background. It cannot only be justified economically, but also has a legal basis both at national as well as at European Union level. Some more details about our methodology will be given in *Section II*. The two models of chamber organisation will be described and contrasted in *Section III*. In addition, a general discussion of the German system of chambers of skilled crafts, as one specification of the Continental Model, will be provided, mainly in order to gain a perspective on the specific functions of the German system. Then, our attention will focus on the evaluation of these specific functions of the chamber system, also in order to identify the particular benefits of the German system relative to its counterpart. The analysis will involve both qualitative as well as quantitative elements, the latter aspect being restricted by the current lack of comprehensive data (*Section IV*). *Section V* summarises the most important findings and offers conclusions.

II. Methodology

Among the most ambitious aims of the European Union are to become the most competitive region in the world economy by 2010, as described in the Lisbon Strategy, as well as to consistently pursue its Sustainable Development Strategy. The introduction of so-called regulatory impact assessments as standard procedures in 2005 might be viewed as one of the Union’s own contributions to achieve these goals. Accordingly, all major policy proposals are subject to an impact assessment, i.e. they must be comprehensively evaluated with respect to their economic, social and environmental impacts. Thus, impact assessments form an essential part of the policy making process and serve to enable the legislative bodies to make better informed decisions and thereby improve regulation.

At national level the Regulatory Impact Assessment framework finds its equivalent in the Joint Procedures of the Federal Ministries³. The impact assessment framework and corresponding requirements are described in Art. 44 of the Joint Procedures. It represents a mandatory instrument federal ministries must adhere to, in order to comply with the obligation to substantiate any draft bill (Art. 43). Impact assessments frequently are of an ex-ante nature. However, existing institutions or laws may also be subject to an assessment as regards their overall impacts. Evaluating the functions of the German system of chambers of skilled crafts represents such an ex-post impact assessment. Since the chamber system constitutes a specification of the Continental Model, we

¹ Zentralverband des deutschen Handwerks (2005a)

² Appendix A to the Skilled Crafts Act 2005 contains 41 trades subject to restricted admission. Before 1998 there were still 127 trades subject to the full-scale proof of competence.

³ Legislation procedures are laid down in Art. 40 – 44 of the Joint Procedures of the Federal Ministries.

simultaneously provide a critical assessment of this Model. Some aspects will also be compared to the Anglo-Saxon Model. Yet, as a start, some considerations with respect to the general role of chambers will be delivered.

III. Chamber systems – general considerations and the case of German skilled crafts

Interest group organisations – on the understanding of their role

What kind of role do chambers, i.e. interest group organisations, play in a society? Do they make any contribution to welfare? Or are they just self-centred, rent-seeking institutions wasting otherwise potentially productive resources and ignoring general welfare? This view corresponds to the neo-liberal critique which would also predict that chambers, conditional on their power, would excessively intervene in economic policy, with negative repercussions on the economy. Yet, the theoretical background of this critique is based on static assumptions, i.e. *rent-seeking behaviour* is related to the existing allocation of property rights. It does not assume that economies are dynamic and are forced to regularly adapt to a constantly changing environment. In fact, 'rent-seeking' behaviour by interest groups such as chamber organisations might even contribute to an economy's adjustment.

Another way to better understand the role of interest groups would be to incorporate them into the framework of decision-making processes within a society. In a pluralistic society political decision-making processes constitute the organised mediation between government interests and a multitude of individual interests. It is assumed though that individuals with similar preferences or interests form groups to better voice their concerns. A chamber organisation would represent such a group and could facilitate decision-making processes by bundling or pre-selecting interests. In this way, chamber organisations may contribute to reducing political transaction costs. The political decision-making process would then be a balancing act of compromising between competing group-related interests. In the *pluralism* concept it is accepted that some groups might be underrepresented because of organisational deficiencies or a lack of resources. In contrast, the corporatist approach attempts to overcome these representation asymmetries by integrating organisations more strongly into the political process. In addition, organisational structures are determined by government authorities in such a way that they represent more general interests. Moreover, a higher degree of division of labour is promoted between the state and interest group organisations⁴. Similar to the concepts of pluralism and *corporatism*, two different chamber systems have evolved internationally. While the so-called Anglo-Saxon Model is based on the concept of pluralism, the Corporatist view is provided with analogies by the Continental Model of chamber organisation. Their development and their features will be the subject of the next subsection.

The Anglo-Saxon vs. the Continental Model – an international perspective

In the international chamber landscape two fundamentally distinct forms of chamber systems emerged⁵. On the one hand, the Continental Model's origins can be traced back to early 19th-century, post-revolutionary France. On the other hand, in Great Britain the Anglo-Saxon Model evolved at about the same time. In fact, these two models represent two poles of how chambers can be organised. For this reason, they do not have anything in common except the fact that they are membership-based business-representing organisations both providing services to their members and executing representative tasks.

One main characteristic of the *Continental Model* is that chambers are established by an act of state. They are thus corporations under public law and have to perform sovereign tasks delegated by the government. Therefore, they are also subject to supervision by state authorities. In addition, the chambers are representatives of their members and therefore must adequately represent their members' interests. As a consequence, there might be some trade-off between these two functions. Chambers may also provide additional services to their members. Yet, an implementation of those services is not legally enforced. This is also the reason why, e.g., chambers in Germany provide somewhat heterogeneous services. Furthermore, chamber membership is mandatory in the Continental Model and members are subject to continuous financial contributions. There is no competition between chambers as regards the attraction of members, because chambers enjoy a status of regional monopoly with respect to their area of activity, usually being a district or city.

In contrast, in the *Anglo-Saxon Model* chambers have a private law status and usually do not perform delegated assignments. Thus, they are independent of state intervention. Moreover, membership is voluntary. Competition between chambers arises where areas of activity are overlapping. This may happen on a regular basis, since regional coverage is not limited to a single chamber. In this manner, Anglo-Saxon chambers basically devote their actions to service provision and lobbying activities for their membership. Yet, their existence and performance strongly depends upon their members' contributions.

Besides the two standard chamber models, there is also a third form of chamber organisation, a so-called Mixed System incorporating characteristics of the two other systems. However, only very few countries such as Thailand or Japan have implemented these hybrid forms. In fact, the Anglo-Saxon Model is the most widely

⁴ See Meier (1997) for a more detailed discussion.

⁵ This subsection is based on Pilgrim & Meier (1995).

spread of the systems. It is prevalent in North and Latin America, many Asian countries as well as Australia and New Zealand. Yet, European and African countries are somewhat divided as to their model affiliation. Chamber systems in Northern and West African countries such as Algeria, Morocco or Senegal can be classified as belonging to the Continental Model, whereas chamber systems in the Southern part of Africa rather display characteristics of the Anglo-Saxon Model. European countries such as Germany, Austria, the Netherlands and, of course, France have Continental systems, whereas the U.K., the Scandinavian countries or Switzerland are advocates of the Anglo-Saxon Model. In part, these classification patterns reflect colonial history. Moreover, having the general characteristics of the two basic systems in mind, the form of chamber organisation in a country sometimes also mirrors more general degrees of state regulation and interventionism with respect to the welfare state and social security systems.

Contrasting essential features of the Anglo-Saxon and Continental Models

In the following, advantages and disadvantages of the Continental Model are presented and contrasted to the Anglo-Saxon Model. Clearly, any definite judgement as to whether one or the other model is superior seems difficult for a variety of reasons. First, both models have distinct degrees of organisation and reflect different institutional infrastructures. Consequently, their range of tasks and activities is rather diverse. Moreover, their existence and evolution should always be viewed in an historical context. The lack of comprehensive data represents a further limit to a full analysis of the two systems. In the following, we focus our discussion on the essential and debatable features.

Membership regulation is the first feature to be discussed. While membership is mandatory in the Continental model, the Anglo-Saxon Model advocates voluntary membership. Assuming that certain activities or services of a chamber have a public good character, their provision might be jeopardised by free-riding behaviour. This problem can be overcome by forcing all potential members into membership. Furthermore, mandatory membership leads to a complete membership base. In this way, actual or full representation is ensured. Yet, some effort-related problems may arise from this structure and if monitoring is not sufficient, resources may be diverted. Demand-orientation of the chambers may thus decline, a problem not occurring in the case of voluntary membership. If businesses are free in their choice of a representative body, they will choose the one which best represents their interests or simply found their own chamber. However, this may lead to a multitude of competing small chambers, with each having only a very limited scope of power, even though they potentially work efficiently.

Since chambers have a regional monopoly in the Continental Model, i.e. there is only one chamber per district or city, there is no direct *competition* between chambers. Clearly, this enhances their potential influence since their membership base will be much larger relative to regional chambers in the Anglo-Saxon Model. Yet again, a guaranteed clientele may cause disincentive effects among chamber officials. Therefore, there is some trade-off between the degree of representation and power on the one hand, and an efficient performance on the other hand. At the same time, mandatory membership allows economies of scale and hence an efficient provision of public goods and services, while voluntary membership may cause sub-optimal provision of such goods and services. Generally, long-term chamber stability plays a crucial role in the Continental Model. This stability, in conjunction with the possibility to build long-term strategies, is intensified by continuous financial flows from members' contributions. These features may enable chambers to provide several services beyond their representative tasks and to assume *delegated responsibilities* otherwise executed by public authorities. In the Anglo-Saxon Model this would not be feasible to the same degree or would not be desired politically, respectively. In Anglo-Saxon chambers resources are devoted almost exclusively to fulfil representative duties. Consequently, no conflict can arise as to whether representative or delegated responsibilities should be prioritised in the Anglo-Saxon Model, whereas this may well happen in Continental chambers. Nonetheless, because of their close relations to the businesses they represent and consequential informational as well as knowledge-related advantages, overall benefits may accrue from the delegation of specific tasks to chamber organisations.

In the next subsection a comprehensive description of the specific features and functions of the German chambers of skilled crafts, as representing one of the chamber organisations inspired by the Continental Model, will be given.

The German chambers of skilled crafts – their functions

The German skilled crafts and its associations have a long tradition in the German economy. The first legal enactment of a system of chambers of skilled crafts and (voluntary) guilds was adopted in 1897. However, the idea of such crafts organisation can be traced back even to the Middle Ages. The major reasons for the establishment of the chamber system were the quantitative and qualitative decline of the skilled crafts sector mainly due to the introduction of unlimited freedom of trade at the beginning of the 19th century. In particular, the vocational training system suffered from a loss in standards and there was a lack of qualified personnel. The legal requirement of the establishment of regional chambers and their corresponding umbrella organisation then aimed at rebuilding a skilled crafts identity and an efficient vocational training system to restore high-quality provision of goods and services supplied by the skilled crafts sector. The (re-)establishment of the German

Confederation of Skilled Crafts after the Second World War and in particular the coming into effect of the Skilled Crafts Act in 1953 constitute the basis for today's form of organisation of the skilled crafts. There are now a total of 54 chambers of skilled crafts in Germany whose functions and tasks are laid down in the Skilled Crafts Act. During the last decades there have been several amendments⁶ to the Act, mainly to make crafts businesses adapt more easily to changing economic structures.

The organisational structure of the German skilled crafts is analogous with the federal levels of the Federal Republic. Furthermore, within the skilled crafts organisation two independent pillars have to be distinguished. On the one hand, there are the voluntary guilds representing professional interests. On the other hand, the chamber organisation is the non-technical body representative of the entire skilled crafts sector. The 54 chambers of skilled crafts constitute the regional authorities at district level. It is their functions we will be concerned with in the following.

The scope of functions of the chambers can be separated into four different categories most of which are listed in Art. 91 (1) of the Skilled Crafts Act. First, they have self-governing responsibilities delegated by the state. Secondly, they have to fulfil their representative duties. Furthermore, the chambers supply a range of consultative and other services for their members. Finally, the skilled crafts chambers play an important role within the system of vocational training. For this reason, vocational-training-related activities will be treated separately, even though both delegated as well as service-related tasks are involved in this area. Each category will be analysed in turn⁷.

Among the listed, *delegated functions* are the keeping of the Skilled Crafts Register, the establishment of conciliation boards to settle disputes between skilled craftsmen and their customers or the assignment and putting under oath of experts to deliver expert opinions on products, services and prices of skilled crafts businesses. Further, chambers have to issue certificates of origin on request of skilled crafts businesses mainly for export purposes. In addition, chambers have the possibility to issue exceptional permissions, e.g. for the carrying on of a business without a Master craftsman diploma⁸.

The second category comprises the *representative tasks* of the chambers, comprising a complex range of activities. More precisely, Art. 91 (1) cl. 1 states that the skilled crafts chambers particularly shall 'promote the interests of the skilled crafts businesses and ensure fair accommodation of interests among individual skilled crafts businesses and their organisation'. Further, they have to 'assist authorities in the promotion of skilled crafts by providing suggestions, proposals and expert opinion, as well as submit regular reports detailing the situation of the skilled crafts' (Art. 91 (1) cl. 2). In accordance with cl. 2 of Art. 91 (1), Art. 91 (3) declares that 'the chamber shall be heard in all important matters pertaining to the skilled crafts and the trades resembling skilled crafts'. Realisation of those responsibilities mainly takes place via communication with the authorities at either community, federal state or federal level, and via the provision of requested information.

Services constitute the third pillar of the chambers' functions. Three kinds of services can be distinguished, namely consulting services, information and other services⁹. To a large part, services are free of charge; many consulting services are publicly funded. Often, service activities are supplied in cooperation with regional partners, e.g. banks, chambers of industry and commerce or other chambers of skilled crafts. Consulting services comprise brief consulting between a half hour and 3 hours and full consultation lasting a minimum of 3 and up to 32 hours, of which only the latter are subject to public support. The answering of specific questions requiring special knowledge represents a third form of advice. Currently, about 580 consultants are active in German chambers. Overall, 80 per cent of the consultations take place over the phone. In terms of frequency, the transfer of specific knowledge dominates brief consultations. Detailed consultations are the least frequent, yet in terms of time use they cause the greatest effort. In 2005 the large majority of the consultations were concerned with managerial issues (86.5 per cent), whereas technical issues were the subject in about 6.5 per cent of the consultations. Other areas of consultation were environmental issues (1.5 per cent), innovation and technology (3.4 per cent) or internationalisation (1.3 per cent)¹⁰. In the latter case, chambers themselves often show initiative in order to convince crafts businesses of their opportunities, i.e. the participation in an international trade fair. Moreover, in order to better promote international activities of skilled crafts businesses, chambers have established special institutions in some federal states, providing internationalisation-related services¹¹. Within the

⁶ The latest amendment was published in September 2005 (BGBl. I pages 2725f.).

⁷ The analysis of the functions will not be complete, mainly because of lack of space. Yet, the essential responsibilities are considered.

⁸ These exceptional permissions are laid down in Art. 7 and 8 of the Skilled Crafts Act, however it is stated that public authorities at federal state level are responsible for their issuing. Increasingly though, chambers are appointed for this task by a legal regulation of the federal state government.

⁹ Education is the fourth kind of service, but will be analysed separately as the last category.

¹⁰ Zentralverband des deutschen Handwerks (2005b)

¹¹ Müller (2004)

area of management-related issues, business foundation consultations play a considerable and increasingly frequent role.

The chambers also compile information material in the form of brochures or guides to keep interested individuals informed, to facilitate informational selection or to provide basic and summarised information on a wide range of topics, for instance 'How to start a business?' or country studies to facilitate international activities. In addition, events or seminars are organised to inform about topics such as EU enlargement. Increasingly, newsletters are distributed online and internet platforms gain importance. Further, chambers act as distributing and pre-selecting institutions of crafts-specific government action or promotional programmes.

Among the other services provided by the chambers, the establishment of so-called bourses to facilitate the search for business successors, cooperation partners or crafts businesses by customers, organising co-participation at trade fairs, the delivery of statements concerning crafts-related issues or the conclusion of framework agreements¹² are the most significant.

Finally, the chambers of skilled crafts are strongly engaged in the field of *vocational training*. The chamber jurisdiction for the administration of vocational training in the skilled crafts is defined in Art. 71 of the Vocational Training Act. The delegated functions are specified in Art 91 (1) of the Skilled Crafts Act. More specifically, chambers have to 'organise vocational training (...) and keep a Register of Apprentices' (cl. 4), issue regulations governing the examinations required as part of further training or retraining programmes (...) (cl. 4a), issue regulations governing the apprenticeship examinations (...) and ensure that apprenticeship examinations are properly conducted' (cl. 5), and 'issue regulations governing master examinations in the various trades (...) (cl. 6). In addition, many further educational measures are supplied for both business owners and their employees to ensure high levels of employability in the skilled crafts sector. The German apprenticeship system is a dual system, in which the technical, firm-specific part of the training is provided in skilled crafts businesses, whereas the non-technical, more general part of the training is taught in the vocational training centres of the chambers¹³. The quality of the examinations heavily relies on the commitment of voluntary examiners. In the field of further educational measures, the most relevant is the degree in crafts business management. Other activities are preparatory measures for the youth, the qualification of long-term unemployed or the promotion of highly talented apprentices.

IV. Evaluating the functions of the German system of chambers of skilled crafts

In accordance with the *subsidiarity* principle, delegating responsibilities from higher to lower levels of administration is usually economically sound. There are several reasons why this also holds for the case of the regional chambers of skilled crafts. First, it can be assumed that chambers enjoy a higher level of acceptance by companies as well as employees relative to public authorities at federal state or federal level, mainly because of more comprehensive personal contacts with their member businesses and thus higher trust. Moreover, administrative burdens such as the time needed to execute a task are supposedly lower at chamber level as incentives are higher to provide efficient services. This might also reduce administrative costs. Another factor potentially contributing to lower administrative costs is the degree of voluntary commitment from members. Besides these general benefits, what kind of economic impact does each delegated function have? Are there alternatives with respect to their execution? If not, does their fulfilment need improvement?

The keeping of the *Skilled Crafts Register* ensures that all skilled crafts businesses, as listed in Appendix A of the Skilled Crafts Act¹⁴, are recorded. The register is not only a pure membership register, but also contains additional data concerning the recorded skilled crafts businesses, as defined in Appendix D of the Skilled Crafts Act. In this way, the register offers a data base which can be used in official as well as sector-specific statistics. Even though this data base has its deficiencies¹⁵, it constitutes an important tool for economic policy. At community level there is another business register, where all businesses, irrespective of their sector, have to report. In order to reduce effort made by businesses to fulfil their reporting duties, so-called one-stop-shops could be established, so that businesses have to register only once. Nonetheless, the responsibility to establish sector-specific statistics should stay with the chambers, because they have the necessary competences and incentives to satisfactorily perform this task.

Conciliation boards lower transaction costs of the two parties involved, if arising disputes between skilled crafts businesses and their customers can be settled and lawsuits can be avoided. Invocation of skilled crafts conciliation boards often is free of charge. Moreover, the boards benefit from voluntary activities of skilled crafts masters who contribute their technical as well as non-technical competences. In addition, the chambers are very active in performing informal conciliation work. According to one chamber, there are about 2.500 informal

¹² Here, chambers make use of their comprehensive networks to negotiate financial advantages for their members (e.g. electricity, communications etc.)

¹³ These are strongly funded by the public authorities.

¹⁴ Appendix A of the Skilled Crafts Act lists those trades whose carrying on is bound to the full scale proof of competence. A second register is kept for trades listed in Appendix B. Appendix B contains trades which are either subject to freedom of trade or resemble skilled crafts.

¹⁵ Müller (2000) states that not all kinds of business start-ups can exactly be identified (e.g. in case of reestablishment or renaming).

inquiries per year. Unfortunately, no aggregate data are available on the total number of formal and informal conciliations. It is known however that disputes primarily occur in construction or motor vehicle reparations. Overall, the impact of conciliation boards is considered positive, because lower transaction costs potentially raise the business volume.

Similarly, with the appointment and putting under oath of *experts* chambers contribute to increasing legal security. The services of the chambers surrounding the expert activities are not charged for by the chambers. Their overall impact on the economy is thus positive. Expert opinions are mainly demanded by insurance companies or private persons and are delivered by highly-qualified skilled crafts masters.

The issuing of certificates of origin is of importance for exporting businesses in case they are demanded by foreign public authorities. The internationalisation of skilled crafts businesses has however not yet reached significant levels. As a consequence, the demand for such certificates is rather low. Yet, the issuing of such certificates requires special knowledge and accuracy. Most chambers lack these skills, because the resulting costs would by far exceed the potential benefit. For this reason, chambers tend to pass businesses over to the respective chamber of industry and commerce. Therefore, the benefit of delegating this task to the skilled crafts chambers is at best marginal.

Finally, the main benefit of delegating the issuing of *exceptional permissions* to the chambers accrues from the fact that execution times are non-negligibly reduced. Consequently, in cases of positive notice, business start-ups are accelerated. Moreover, the total cost of starting a business might thus be lowered and the total number of business start-up may increase. Even though the administrative burden of chambers is assumed to slightly rise, the overall impact on the chambers is likely to be positive, since they receive the charges from executing demands.

In conclusion, the aggregate impact on the economy of the self-governing responsibilities of the chambers is positive. A chief contribution is made by those members of the chambers who commit themselves voluntarily to accomplish many of the chambers' duties. Would these tasks be fulfilled by other authorities, they would most likely incur considerable costs.

With respect to the chambers' representative obligations, the following questions need to be analysed. First, in how far do the chambers succeed in incorporating interests reflecting the entire skilled crafts business community? Secondly, are the chambers capable of providing authorities with balanced and profound information which can be usefully employed in the political decision-making process?

There has long been a strong *corporate identity* in the skilled crafts. This identity was mainly built on the participation of employees in the decision-making processes, similar vocational training structures across trades and particularly, the establishment of a business being conditional on the full-scale proof of competence, i.e. the Master Craftsman examination. This high degree of homogeneity has somewhat decreased during the last years. Three reasons are responsible for this development. First, through the 2004 amendment to the Skilled Crafts Act 53 of the 94 trades in Appendix A were transferred to Appendix B of the Act, exempting business owners in these trades from the obligation of a master craftsman education. Today about one third of all business founders in the crafts sector dispose of a Master Craftsman Diploma, while in the mid-1990's this share still amounted to about 70 per cent. In addition, crafts business owners increasingly graduate from university, implying some form of upgrading of skill requirements in the skilled crafts sector. Moreover, sizes of business have gradually diverged. Still, chambers of skilled crafts seem to remain sufficiently homogeneous to ensure a balanced representation of their membership – mostly small and medium-sized enterprises. In contrast, chambers of industry and commerce may find it difficult to ensure SME representation, because large enterprises form a powerful part of their membership base. Nonetheless, decision-making processes within the crafts chambers are still dominated by master businesses, owners with equivalent education or owners, who at the same time are members in one of the guilds. Therefore, it is doubtful that the three kinds of crafts businesses¹⁶ are equally represented by the chambers.

The degree of legitimacy of political decisions depends upon the degree of incorporation of as many interests as possible. Therefore, public authorities should prefer a bunch of large interest groups reflecting general concerns to many small organisations representing specific interests. The chambers of skilled crafts constitute such representative bodies reflecting *general interests* not only of the skilled crafts or small and medium-sized enterprises, respectively, but also crafts employees. In addition, their reporting to the public authorities can be assumed to involve a relatively high degree of objectiveness as well as high quality, because of the chambers' closeness to crafts businesses and thus specific knowledge about their members' situation. Moreover, promptness of provision of information is assured by the availability of own data and particular commitment of voluntary staff. Alternative sources of information such as research institutes or the trade-specific guilds would at least partly be less reliable. While the former would have difficulties to provide immediate information, the latter would tend to provide information that is too specific.

¹⁶ Remember, since the 2004 amendment three forms can be distinguished: businesses or trades, whose carrying on are conditional on the Master Craftsman Diploma (Appendix A to the Act), trades exempted from this proof of competence (Appendix B, part 1) and trades resembling skilled crafts (Appendix B, part 2).

Many of the services supplied by the German chambers of skilled crafts, especially the above mentioned bourses, as well as the information gathering, selecting and processing activities, facilitate business activity and thereby reduce transaction costs. Yet, of greater relevance and impact are the *consultation services*, in particular business foundation consultations, brief consultations and the regular supply of specific knowledge. Among other things, their importance is based on the fact that the market does not supply these services, because transaction costs would be too high. Therefore, these services will be analysed more thoroughly in the following. Business start-ups and young innovative enterprises contribute considerably to employment dynamics in the German economy and to raising job creation levels. However, information asymmetries can impede market entrance of (small) businesses. The costs of gathering information can additionally hamper the establishment of new businesses. Free consultation services supplied by chambers of skilled crafts attempt to overcome these deficiencies and have the following additional advantages. First, the chambers are mostly known and trusted by the potential founders. In fact, the chambers are the first address for crafts business founders¹⁷. In addition, the chambers perform some kind of ex-ante selection of potentially successful business projects. Besides the Master craftsman Diploma, it might be for this reason that crafts businesses have a higher probability to survive relative to businesses from other economic sectors¹⁸. It can also be assumed that the consultants are independent, because they do not personally benefit from favouring any specific business or a certain number of foundations per period. Moreover, the chambers have gained specific experience in consulting business start-up as well as established businesses. Therefore, their competencies should be comprehensive in these areas and knowledge synergies can be exploited in either of the two.

Information not only is decisive for business start-ups, but for all business units in an economy. In fact, in a globalising and knowledge-intensive world, information tends to become a major indicator for competitiveness. Certainly, small businesses have an informational disadvantage relative to large enterprises, because their possibilities to divert productive resources in order to gather and evaluate information are very limited. Usually, human resource capacities are fully used to create value added. Moreover, because of its partial fixed-cost character, the cost factor information weighs more heavily in businesses with relatively low levels of value added. The service of making such specific knowledge available to skilled crafts businesses via brief consultations or knowledge transfer activities eases this problem.

Finally, the German skilled crafts contribute significantly to *human capital formation*. Within the skilled crafts organisation, the chambers of skilled crafts play a decisive role with respect to human capital formation via their functions in the fields of vocational training and further education¹⁹. In knowledge-intensive societies, human capital gains ever more importance as a factor of production. The chambers' contribution has long even been over proportionally, since they often trained apprentices who later found employment in the industry. It is less likely though that this is of similar importance today. Besides the vocational-training-related activities of the chambers to enable young individuals to enter the labour market, there are other activities which have a positive impact on the economy. The chambers strongly engage in the acquisition of qualified skilled crafts businesses to participate in vocational training, i.e. to train apprentices. Among other things, vocational training consultants personally contact (promising) businesses in order to inform them about their opportunities. Also, marketing campaigns supporting vocational training and the Master examination are initiated by the chambers. The fact that the apprentice share in the skilled crafts is high relative to the share in other economic sectors speaks strongly in favour of the relevance of the skilled crafts in human capital formation. In addition, the duality of the vocational training system guarantees a high degree of practical experience of apprentices, which would be less feasible in a purely publicly provided system.

In the field of further education, the chambers also make a non-negligible contribution. In 2004 about 32.000 examinations were taken in this field, showing that their importance has increased as compared to the mid-1990's²⁰. However, skilled crafts chambers are not the only suppliers of further educational measures in Germany. It can be assumed though, that this leads to a higher degree of competitiveness and thus quality among suppliers.

Overall, the chambers' commitment in the areas of vocational training and further education has a positive economic impact. In particular, apprentices in the skilled crafts often would have difficulties in finding a vocational training position elsewhere. In this way, the chambers have an easing function as regards youth unemployment. Moreover, their efforts to increase apprenticeship shares also have a desirable impact on society. Finally, the chambers can rely on voluntary help in this field of activity as much as in the other areas of their activity.

¹⁷ See Prognos AG (1999: 16), Gries et al. (1997: 77) and Müller (1997: 161).

¹⁸ According to Müller & Heyden (1999: 184f.) this is at least true for businesses active in Appendix A trades.

¹⁹ See Kucera & Stratenwerth (1990: 31).

²⁰ See Zentralverband des deutschen Handwerks (2005c: 93).

V. Conclusion

Generally speaking, there are three competing systems of chamber organisation throughout the world: The Anglo-Saxon Model with voluntary membership and without state intervention, the Continental Model with mandatory membership and a precise catalogue of functions set up by the state, and finally the hybrid model. All three of them correspond to certain institutional arrangements of political decision-making and the provision of public goods for member businesses. While the general neo-liberal argument is in favour of the Anglo-Saxon Model, we showed that there is a sound economic argument for either model.

With our case-study approach, namely the identification and evaluation of the functions of the German system of chambers of skilled crafts, we simultaneously intended to critically assess the Continental Model. In fact, some features of the German system, e.g. the consultation services or the vocational training system, seem especially beneficial and are supplied at a comparatively low cost. It is thus likely that alternative institutional arrangements, be it within the German economy or in countries with Anglo-Saxon-based systems, would not be as beneficial as the incumbent German system. Therefore, German SMEs very likely have considerable advantages with respect to their chamber membership. In view of the increasing internationalisation of SMEs, the German system of chamber organisation may provide German SMEs with some form of competitive advantage relative to foreign SMEs.

Yet, these hypotheses necessitate an in-depth comparative analysis of the two opposing systems of chamber organisation. In particular, empirical research is needed to better identify the specific benefits of either system. Moreover, country studies identifying the particular benefits of the Anglo-Saxon Model are required. Indeed, our results represent merely a good starting point within this research agenda and provide some important, though tentative, results for the German system, with specific attention paid to the chambers of skilled crafts. However, they also need foundation, preferably through a more precise and comprehensive quantification. To date, such data base is not available.

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