Globalisation and the social contract

edited by David Foden,
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Foreword

The articles brought together in this book were originally prepared for presentation at the fourth International Progressive Policy Conference, held in March 2000 in Hamburg. Many organisations and individuals contributed to make the conference possible, and we would like to take this opportunity to express our appreciation to them. In addition to the Economic Policy Institute (Washington, D.C.) and the European Trade Union Institute (Brussels), which launched the initiative, and the Hamburg School of Economics and Politics (HWP), which hosted the event, a number of other organisations contributed to the organisation of the conference and provided financial support. The Hans Böckler Foundation (Dusseldorf), the Friedrich Ebert Foundation (Bonn), the Hamburg Senate and Bristol Business School, University of the West of England, all fall into this category.

We would also like to thank the following individuals: Jeff Faux, President of the EPI, and Reiner Hoffmann, Director of the ETUI, for their, indispensable support, as well as their active participation in the conference; Anne Ernst, Heike Goeckel and Thomas Guenter for their practical assistance during the conference and their preparation of the facilities; Karin Spieler who provided editorial assistance for the publication; and, of course, the authors and other participants in the conference.

In the period which has passed since the conference took place, the issues raised by the ongoing process of globalisation have become more central to political debate rather than less. It is our firm belief that for globalisation to command public support, the rules and institutions which shape it must include a “social contract” of some form. We hope that this volume will help to stimulate further debate both as to what such a “social contract” should include and as to how it can be brought into being.

David Foden
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Rob Scott

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"Organising global responses to globalisation"

What responses can trade unions, political parties and other movements on the political left offer to the phenomenon of globalisation? And what assistance can scientific analyses provide in formulating these responses? This publication gathers the main papers presented at the fourth "International Progressive Policy Conference" (IPPC), held in March 2000 in Hamburg's School of Economics and Politics (HWP).[1]

The intention, as with previous IPPC events was to seek international policy alternatives to the predominance of "neo-liberal" economic concepts in worldwide politics. Clearly this is a matter of great interest to the trade union movement. But their role cannot be only a "passive" one. Global challenges – and this became particularly clear at the Hamburg conference – call for regional, international and global answers, not least from trade unions, who have always inscribed international solidarity on their banners, and who feel themselves increasingly cornered by internationally mobile capital into national labour markets, where they are in danger of being reduced to irrelevance.

The Hamburg conference produced two specific outcomes in response to these concerns. First, we agreed to form a new association of researchers who are closely linked to labor and progressive movements, including all participants in IPPC events. This new group, which was launched in Hamburg, is the Global Policy Network (GPN). A steering

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[1] The conference, which was organised and financially supported by the *European Trade Union Institute*, the *Economic Policy Institute (EPI)* (Washington, USA), the *Hans-Böckler-Stiftung*, the *Friedrich-Ebert-Stiftung*, *Bristol Business School* (GB) and the *Hamburg School of Economics and Politics (HWP)*, gathered more than 40 researchers, trade unionists and policy-makers from some 20 countries.

committee was constituted, and its members are representatives from The European Trade Union Institute (Brussels), The Economic Policy Institute (Washington D.C), Inter Trade Union Department of Statistics and Socio-Economic Studies or DIEESE (São Paulo, Brazil), National Labour and Economic Development Institute (Johannesburg, South Africa) and the Research Institute for the Advancement of Living Standards (Tokoyo). EPI agreed to serve as the first secretariat for the network, and to develop a new website, globalpolicynetwork.org. The GPN is making a special effort to include research groups and think tanks from developing and middle-income countries, and more than twenty groups from the North and the South are now producing quarterly "labor market" reports for its website.

The second IPPC product is this conference volume. The theme for both the conference and this publication is "Globalisation and the social contract". This is intended to focus attention on the consequences of globalisation – both risks and opportunities – for trade union movements. In practice not all aspects of the globalisation challenge were discussed. In particular we are aware that ecological and gender-specific questions related to the globalisation discussion have not been included.

But if the range of topics covered is limited, we see considerable variety in the specific proposals which are advanced in the following pages. If this makes it difficult to summarise the results, perhaps to attempt such a "neat" conclusion is to miss the point: we are no longer looking to find *"standardised"* solutions, but to analyse multi-facetted, differentiated global and regional processes, which are calling for a policy of *regulation of multiplicity*, without losing sight of the goal of global solidarity. But what do we mean by global solidarity, when workers in the USA are defending themselves against cheap imports, which are destroying their jobs, but which at the same time are creating new jobs in third world countries? What do we mean when human rights groups rightly seek to ban child labour, when it is precisely this child labour that underpins the subsistence incomes of poverty-stricken families in the least-developed countries? Concepts too such as solidarity and justice have still to be tested against a global view – and the conference, which brought together representatives of the First and Third Worlds, was only a beginning here.

The contributions in this volume are grouped according to subject matter, beginning with two chapters which provide a introductory overview, and followed by contributions dealing with economic and monetary issues; employment and labour market policies; the future of welfare states; industrial relations developments and trade union policies; and participation. Of course, not all the chapters fit neatly into this scheme, but nevertheless, we believe this structure gives a coherent picture of the themes discussed in Hamburg.

The overview chapters offer both a general assessment of the ambivalence of the globalisation process by Jurgen Hoffmann, who analyses the risks and opportunities involved; and Dieter Laepple's essay based on the example of Hamburg, sketching the relationship between a region and economic globalisation. In pointing to the meaning of the region, of its "endogenous potential" and of networks in the globalisation process the contribution is in contrast to the macro orientation of many of the following chapters.

The chapters on economic and monetary issues include Tom Palley's ingenious suggestion for a model of minimum reserves on assets, designed to give the monetary authorities a tool to combat asset-price inflation without recourse to generalised monetary tightening. This, and Rob Scott's discussion of the damage being wrought to America's industrial structure by the trade deficit, both underline the hightened awareness among trade unions of the growth of interdependence and changes in the economic environment which have come about in recent decades, along with the need for international regulation of financial flows and the development of new instruments to control financial instability. Finally, the contribution by Fujikazu Suzuki on the conditions for sustained recovery in Asia's largest economy highlights another source of instability in the system by linking the weakness of the macro-economy to the insecurity generated by reductions in social security provisions.

The contributions on employment and labour market policies range from the critique of the Third Way by Roy Green, Matthew Steen and Andrew Wilson to the descriptions of policy reform in the very different settings of the EU (by David Foden) and Brazil (by Antonio

Prado). Green, Steen and Wilson convincingly trace the Third Way's neo-liberal antecedents, while Foden discusses European efforts to coordinate employent policy as part of the response to global pressures. The Brazilian case reviews the impact on the economy and the population of the sort of orthodoxy so frequently propogated by the world financial institutions.

The contributions on welfare states by Andrew Glyn and Ingemar Lindberg both assess the problems which "the European model" has encountered, but insist that the demise of the welfare state is far from inevitable. Certainly, to blame "globalisation" without fuller analysis would be to run away from a political challenge which both authors stress can be successfully met.

The section on the consequences of globalisation on industrial relations and the future of trade unions includes five contributions, ranging from analyses of developments in particular countries or supra-national regions (see Graciela Bensusan on Mexico, Kuriakose Mamkoottam on India, and Arnold Wehmhorner on Central and Eastern Europe) to chapters with a more specific focus on a sector (in the case of Martin Upchurch and Andy Danford) or theme (Peter Fairbrother's contribution on trade unions and the privatised state). Of course, not all these contributions achieve a sharp distinction between economic modernisation ("post-Fordism"), the effects of the development of macro-regional markets (e.g. the European internal market) and globalisation. This is inevitable: as the processes of globalisation are themselves the outcome of economic modernisation (e.g. oursourcing strategies) and regional liberalisation, which then rebound to affect economic and social life. In conjunction with economic modernisation strategies, globalisation processes lead, in particular in countries extremely dependent on world markets, to new splits within the working population. Whole groups of workers of both sexes, who until now had secure workplaces, are being excluded and marginalised, along with the trade unions representing them (e.g. Mexico, but also India), whilst labour productivity is being ratcheted up in assembly plants which are dependent on world markets.

Michael Wortmann's contribution draws several strands of discussion together, and argues that the negative consequences for labour of globalisation are not inherent to growing economic interdependence, which he sees as an ongoing process in any case. Rather it is the failure of labour institutions to ensure that productivity gains are distributed equitably which has promoted the perception that globalisation and social dumping are one and the same.

The final section brings together chapters on various aspects of participation demonstrating clearly that such concepts have by no means lost their interest in an age of globalisation. Rather the opposite: the Italian example described by Volker Telljohann speaks for a growth in the importance of such concepts, whilst research in US enterprises shows that participative workplace systems (see the contribution here of Eileen Appelbaum, Thomas Bailey, Peter Berg and Arne L. Kalleberg, "High Performance Workplace Systems) also pay in terms of high profitability – but at the same time (as is also shown by SOFI research in France) are under pressure from and are in danger of being brought to nought by a shareholder value culture. Finally, Udo Rehfeldt discusses the role of European Works Councils, and whether they may prove capable of supporting union bargaining strategies.

The contributions cannot – as was already made clear above – be summarised in a single, new political concept, with which we can march out to grapple with the problems of globalisation. We hope, however, that they will go some way towards achieving a common language about the topics and problems. In this way we hope to promote a more intensive global discussion, that recognises the challenges and risks of globalisation for trade unions and which throws up policies to counter this, but that at the same time seizes the opportunities that globalisation has to offer.

Jürgen Hoffmann

Ambivalence in the globalisation process – the risks and opportunities of globalisation

1. Neither 'nightmare scenario' nor 'carry on as usual'

Since the beginning of the nineties when the term 'globalisation' was first coined by the media and subsequently also became the subject of academic scrutiny, three interpretations of the problem have emerged that could not be more different. In the first interpretation, the globalisation of the markets in goods and financial services is considered to be a brand new phase of social development ("comparable to the discovery of America" – Beck 1998:10). Often it is even seen as a 'nightmare scenario' of future economic, political - and also cultural - development which will make national politics obsolete and, according to Ralf Dahrendorf, lead to a 'squaring of the circle' (Dahrendorf 1996) of competition between nation states. This would result in the collapse of social security systems and of social cohesion in general. In contrast, the second interpretation alleges that all this "talk" about globalisation is merely a ploy aimed at forcing national policies, and particularly trade union policy, to be more business-friendly. These two positions, described here only briefly and in general terms, have led to similarly diametrically opposed conclusions being drawn by policymakers. Whilst the first position tends to call for resistance - albeit in a fatalistic vein - ('you have no chance, but make the best use of it anyway!'), the second insists that one should 'carry on as usual'. Thus neither offers a realistic alternative for shaping the process. There is a third position, that of the (neo-)liberal free-market economist, untroubled by any doubts or scruples, who celebrates the globalisation process as the rebirth of the market following its release from the constraints of the supposedly 'overregulated' national economy, and who defines policymaking as being merely a question of responding to economic global market forces.

The present article attempts to go beyond such polarised interpretations and show the ambivalence and contradictions inherent in these economic and social developments. For it is this ambivalence that not only contains the much-cited social and political risks, but also allows for 'corridors' of political action that go beyond the old national concept of policymaking, in so far as this is understood to be more than merely a response to the constraints of market conditions. The article restricts itself to considering the political-economic motives for globalisation[1)]. Five not easily differentiated economic reasons are usually put forward to explain the globalisation process, and these reasons also form the basis of this article. The following are discussed as evidence of globalisation: (1.) the development of international trade ('internationalisation of commodity capital'), (2.) the development of direct investment abroad ('internationalisation of productive capital') and (3.) developments in the world financial markets ('internationalisation of monetary capital') and the increased role of international share capital, which can be abbreviated to 'shareholder value capitalism'. In addition, (4.) the new forms of international production networks ('global sourcing', 'integrated international production') based on new and more cost-effective communications and transportation technologies and (5.) the mutation of nation states into 'competing states' (Hirsch 1995) as a result of the pressure of global competition will be discussed as the reasons for a change in the nature of the process of internationalisation. Assuming the existence of 'ambivalence' in the globalisation process makes it possible to avoid two errors of analysis which afflict both of the above-mentioned extremes, the 'strong globalisation theory' and the 'globalisation sceptic'. The first of these errors is to see globalisation as a state and not as a cyclical process, and the second is to talk of perfectly integrated global markets, either believing them to exist or empirically

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1 In so doing, this article draws in particular on the following: Altvater / Mahnkopf 1996; Beck 1998; Hirst / Thompson1996; Hübner 1998; Held, McGrew, Goldblatt, Perraton 1999.[1] For a more comprehensive version of this study see Läpple (1999).

refuting their existence - as if there had ever been such a thing as a 'perfect' market (Perraton et al. 1998: 136 f.; Held et al. 1999: 10).

2. The development of trade

The development of world trade may be statistically hard to describe, with growth rates which are sometimes multiples of the growth rates of global GNP or even the GNP of the OECD countries, but it is generally considered to be the most important indicator of the existence of globalised markets. First of all, however, the undeniable trend towards an intensification and consolidation of world trade has to be qualified historically and geographically as well as from a sectoral perspective. From a historical point of view, it must firstly be emphasised that world trade actually develops cyclically like all other capitalist growth processes, and that the phase of high export and import levels since the mid-1980s can thus be interpreted as part of a cyclical process. This growth subsided in the 1990s at least in the EU countries (in which integration had an effect until the end of the 1980s) and in Japan, and only now are the export and import levels of the developed countries again approaching those achieved before 1914. Furthermore, in the EU and Japan at least, the percentage of gross domestic product accounted for by foreign trade has again been falling since the end of the 1980s (Hirst/Thompson 1996: 128; Hübner 1998: 60). Indeed, as far as the EU's single market is concerned, at present only 8 to 10% of its gross domestic product is exported (Foden 1998: 90; Europäische Kommission 1999: 116/116). From a geographical point of view, world trade is not distributed 'globally' at all, but is instead concentrated regionally in the OECD Triad, namely the EU (with a share of over 40%), North America (just under 20%) and Japan and the newly industrialised countries of south-east Asia (around 35%) (Küchle 1996). Finally, in sectoral terms, it should be stressed that important areas of economic growth such as the service industries and the public sector are normally very limited in their international scope – in Germany for example the international component of the services sector is between 2 and 3 % (DIW 1997: 414).

Even if all this does not constitute evidence of dramatic change, there are certainly many indications of a qualitative transformation in the structure of world trade, despite what the globalisation sceptics say. Although the structure of world trade still largely follows the classical international industrial division of labour and although wage levels still play a relatively unimportant role (in 1990, only 1.2% of imports into OECD countries came from 'low-wage countries'; Altvater/Mahnkopf 1996: 248 - figures from P.Krugman), nevertheless a new quality is evident not only in the dynamism and consolidation of trade relations which are accompanying the rapid growth in trade, but above all in the shift from intersectoral (trade between industries) to intrasectoral trade - i.e. the complementary share of world trade is falling as the substitutive share rises (Hübner 1998: 64). This has caused competition in the different sectors of the world market to intensify, something which will also be the case in future for certain areas of the service industries, particularly the information sector which has long since been potentially international in scope. Furthermore, as companies widen their international production networks in the future, at least the so-called 'newly industrialised countries' with their lower wages will be competing with low-skilled jobs in the developed countries. This may explain, at least in the case of the EU, the current increase in unemployment in the low-skilled sector. The above-mentioned comparison with the pre-1914 period also falls down in the sense that the trade regime in those days was always determined by nation states. Today, in contrast, following the successive dismantling of trade barriers and political instruments (tariffs and non-tariff barriers) under the auspices of GATT and now the WTO, and in the face of increased demands for regulation based on social and environmental concerns, it is increasingly difficult for national or regional (e.g. European) policies to attempt to pursue independent paths of socio-environmental market regulation.

3. Foreign direct investment (FDI) and labour markets in the globalisation process

Foreign direct investment (FDI), which has risen dramatically since the mid-1980s in absolute as well as in relative terms, constitutes further evidence of the globalisation process, of the increased mobility of capital and - in the German debate on production locations - of the way that jobs are 'exported' to competing locations. However, on closer inspection it becomes clear that wages and unit labour costs play only a very limited role in companies' decisions to invest abroad. 95% of the investors and 75% of the recipients of foreign investment are developed industrialised nations (OECD countries) and not 'low-wage countries' (Evans 1998). Furthermore, over a third of worldwide direct investment is intraregional. In regional terms, therefore, foreign investment, like world trade, is concentrated in the countries of the OECD Triad (Hübner 1998, section 3.6.; Härtel/Jungnickel et al. 1996). Quite apart from the fact that German foreign investment, for example, mainly takes the form of takeovers of existing companies and does not therefore cause any jobs to be exported (Wortmann/Dörrenbächer 1997: 32 ff.), the main reasons behind such foreign investment (according to 80% of German companies questioned) are related to securing and expanding market share (IFO 1996). In addition, the strength of the Deutschmark during the nineties was an incentive to invest abroad, whilst the lack of foreign investment in Germany can often be put down to the difficult conditions of entry into the German business and financial sectors (Hübner/Bley 1996; Hübner 1998, section 4). To point to the relatively low unit labour costs and the share of GDP taken up by welfare in Germany to explain investment trends is to fail to understand that those countries which - in relative terms - have the highest real wages and welfare spending are at the same time the countries with the highest labour productivity and (as a result) relatively low unit labour costs - there is a clear correlation between these two factors (Krätke 1997: Alber 1998).

The argument concerning a need for a greater downward spread of wages as a way of getting the low-skilled into work also carries little conviction. As Ganßmann and Haas (1999) have shown, a comparison between typical European countries with a high degree of regulation and a relatively small wage spread supports this argument only if Germany is contrasted with the USA, while a comparison of rates of "non-employment" of the low-skilled between highly-regulated France and the USA, shows the USA lagging far behind. Observation of labour market developments alone certainly does not support a distinction between success and flexibility on the one hand and lack of success and sclerosis on the other; in the 80s and early 90s unemployment in the USA and also Great Britain has been on average higher than in the countries of Rhineland capitalism (particularly Western Germany) and of Scandinavia, even though the latter have the highest level of welfare state spending and corresponding levels of regulation.

It may be stated in general terms at present that the labour markets of the developed industrialised nations and in particular the "Rhineland capitalist countries" in continental Europe have suffered, as a result of the process of globalisation, no ill effects worth mentioning – on the contrary, the direct investment designed to secure and expand markets might be expected to have led to an increasing number of secure jobs in the countries concerned. Which does not mean that in the future firstly – in conjunction with the various forms of internationally integrated production – labour-intensive and low-wage sectors in these countries might not come under pressure and, secondly, the high-skilled-high-quality-high-wage production sector might not also, on account of the above mentioned "substitutive" competition, lose its international monopoly position, this latter being an argument developed by Wolfgang Streeck in particular (Streeck 1997) – although there is no evidence yet!

4. 'Casino capitalism' - the development of international financial markets

There is no doubt that the financial markets have changed. The emergence of Eurodollar markets in the wake of US debt from the Vietnam War, the collapse of the Bretton Woods agreement - with the subsequent return to floating exchange rates - the world debt crisis of the 1980s and the development of offshore banking have resulted in enormous free-floating masses of finance and venture capital being created at the cost of mounting national debt. These have led to exorbitantly high movements of capital (and have been expanded to form a kind of 'derivative capitalism'). As a result of this, the levels of returns on international financial investments and speculation have been able to achieve a relative measure of independence from the profitability of national production. The policy of deregulating the money markets led to highly elastic interest rates, a rapid expansion of the money supply, and the development of privately-operated systems for transferring funds. All of this led in turn to financial investments offering relatively high returns which were also relatively independent of production, (with the prospect of making a quick profit, but also the danger of suffering huge losses) and therefore to a growth in this type of investment, to the detriment of investments in production (the ratio of the value of financial transactions compared to GDP worldwide rose from 15:1 in 1971 to 30:1 in 1980 and 78:1 in 1990, whilst foreign currency turnover is currently 50 times that of world exports; every day, transactions totalling a gross figure of 1,400 billion US dollars are carried out, of which 85% is short-term 'hot money') (Heine/Heer 1996: 207ff., Held et. al.1999; Guttmann 1996: 183). This development is in turn leading to a heightening of the risks inherent in the banking system, since individual players are now able to accumulate risks, and speculation promises above-average returns - which reduces the attractions of investing in the real economy. The likely result of the dominance of this 'casino capitalism' (Susan Strange) is increased instability in the global markets for money and goods and in investment rates in the real economy. This is because the 'exit options' (Hirschman 1970) of investors - i.e. the opportunity to opt out of the production-related area of capital investment - are multiplying. The slump in investment levels (net investment/GDP) which has been apparent in the EU since the mid-1970s can largely be put down to investors exercising these exit options.

However, in qualification of the theory that investment trends are determined by an international interest rate - a conclusion frequently drawn from the circumstances mentioned above - it should be pointed out that a single international interest rate does not yet exist and that a significant trend towards an international form of investment behaviour cannot be empirically proven. This was shown in the analysis published in 1980 by Feldstein/Horioka (1980) and by the on-going academic debate which it provoked. According to them, national investment behaviour in the industrialised nations is still mainly guided by domestic savings levels. Likewise, the role of 'opaque' financial products which are mostly available on local markets is often overlooked in the debate.

Many of the 'financial products' traded are restricted to local markets, requiring certain information to gain access to them, and are therefore not available on the international markets(Hübner 1998: 49f.). In addition, the horrifically large sums of money invested in speculation which, according to the literature, are supposed to prove the theory of the financial sector no longer being linked to the real economy, turn out to be gross figures which, on closer examination of the net profit and loss figures, actually involve much lower levels of risk than they appear to (Hübner 1998: 50f.). Most of all, however, the growing insecurity which is inherent in casino capitalism leads investors to develop strategies to safeguard their investments, along the lines of bank hedge funds.

The dramatic developments in the financial markets, however, not only have repercussions for investment trends, but also cause far-reaching changes in corporate culture. The decisive factor behind the dramatic changes which are increasingly apparent in the corporate culture of the European countries (Germany, the Benelux countries, France, Northern Italy) that practise models of capitalism as the "statist" and the "Rhineland capitalism" (Albert 1993; Coates 2000), is the tendency for more and more businesses to obtain the capital they need from a stock market flotation rather than by taking out capital loans on which they must pay interest. This means that they are increasingly confronted with the short-term interests and considerations of their shareholders when drawing up their corporate strategy. This is above all an international process - as is evidenced by the fact that international trade in shares and bonds as a percentage of gross domestic product rose from 5.1% in 1975 to 169.6% in 1993. The rapid spread of the process known as 'securitisation' has led to a six-fold rise in bond issues between 1980 and 1993 and has contributed to the increasing importance of international investment funds to the economy (Guttmann 1996, Heine/Heer 1996: 208f.). Alongside increased competition for the markets for goods caused by the deregulation of the international markets, this is leading to a 'commercialisation' of social relations in companies and a business strategy dominated by short-term considerations and variable costs. But of course the most variable part of these costs are wage costs and this is leading to what is often a dramatic change in the corporate culture of the countries that practise

'Rhineland capitalism', which have traditionally adopted a medium-term perspective and sought to promote a culture of cooperation. They are now increasingly guided by the short-term dividend interests of the shareholder - 'shareholder-value capitalism' - and as a result tend to view the worker, who in the years of post-war prosperity was a valued part of the company, as nothing more than a 'production cost' - and one which they seek to eliminate wherever possible.

5. 'Global sourcing' - the internationalisation of production networks

The rapid fall in transport and communications costs in the sixties and seventies and the development of new communications technologies meant that worldwide production networks were now possible. In introducing 'lean production' and 'new production methods', transnational companies in particular, but also companies which previously only had a national focus, are now able, with the help of modern transport, information and communications technology, to take their policy of cross-border 'external flexibilisation' of production to a new level. It was against this background that cross-border 'intra-firm' and 'intra-industry' trade expanded so rapidly in the eighties and thereafter, despite significant differences between the western European countries (with high levels of international networking) and the USA and Japan (with a relatively low level – cf. OECD 1996, table 17), As a result, it has become possible for the transnational companies in particular to make the most of the differences in productivity, qualification levels and wage costs in the different countries by means of transfers of production and 'intra-firm' networks. Typically, however, this has not happened on a global scale, but has instead been concentrated on production sites in western Europe and the US! In this way, manufacturing operations which are particularly labour- and wage-intensive can be transferred to countries in which there is both a sufficiently qualified workforce and, at the same time, labour costs are low, or unfinished goods can be sourced from such countries ('global sourcing'). (An example is provided by Indian engineers, who have become famous for working on blueprints for European companies via the Internet, without having to leave their home country). The combination of economic globalisation and the opportunities created by communications and information technology has allowed international labour markets in certain sectors to open up across great distances, making it possible for companies to evade legal action brought by national unions opposing plant closures. Companies which pursue such strategies can circumvent the provisions of national labour markets and social security systems - a move which could have major consequences for the national reproduction systems developed during the years of post-war prosperity. This is because employment-based national wages and social security systems are now in danger of being put under pressure, owing to the fact that the small and medium-sized enterprises in each region, which are particularly affected by 'global sourcing' strategies, and which were until now indirectly involved in the global market success of the big companies, often have very labour- and wage-intensive methods of production. This means that they must carry the main burden of non-wage labour costs (which are used to finance the social security system) and taxation (the greatest proportion of tax revenue comes from income tax on wages and salaries). At the same time, for example in Germany, it is in these companies that most of the training of skilled workers takes place. This divide between large companies and small and medium-sized enterprises is systematically promoted by an economic policy which, instead of strengthening productive ties - which are often regionally based - focuses exclusively on ensuring high productivity for the large companies. The high levels of productivity in key sectors of export-driven economies are now actually contributing to unemployment, owing to the adoption of 'shareholder-value' attitudes by management and a policy of deregulation by national governments. Under these circumstances, productivity gains are no longer part of the solution to the problem (of mass unemployment), but part of the problem itself (Hoffmann 1998).

At the same time, however, it must be stressed that the 'external flexibilisation' processes described here are still tied to regional production centres and that the theory that modern companies 'have no nationality' (as alleged by Robert Reich (1993)) or 'have no location' (as alleged by Altvater/Mahnkopf (1996)), has to date found little empirical proof, as a number of critics have been able to testify. This is even true in the case of the multinationals which, as Hirst and Thompson have shown, are still a long way from being genuinely 'transnational companies' (Hirst/Thompson 1996, ch.4). Moreover, it is also the case for the countries that practise 'Rhineland capitalism' in general. The high productivity of the regional centres of production in these countries will prevent, at least for the foreseeable future, the kind of 'global sourcing' described above in the case of the qualified Indian engineer from becoming a mass phenomenon and thereby leading to waves of redundancies. This is because in today's developed capitalist economies a productive manufacturing site involves more than just wage costs in one particular profession. Much more important are the regional networks of small, medium-sized and large companies mentioned above, the university research facilities, the high levels of production skills acquired from training, a developed infrastructure, high standards of labour regulation and social security, and - most importantly - (still) a high degree of social and political stability (Läpple 1996 and his contribution in this book). It is certainly possible for these regional factors, upon which the high productivity of the countries of continental western Europe is still based, to be complemented or indeed - as has been described - threatened by the kind of 'global sourcing' alluded to above. For the time being, however, they will not be replaced by it. The fact that companies' production is still 'embedded' in these regional economic and social networks means that it is wrong to assume - as do nearly all the proponents of the 'strong globalisation theory' - that businesses have unlimited mobility. Indeed, the turbulent markets and exchange rate fluctuations associated with globalisation and the 'disembedding' of companies from their regional context, as well as the trend towards production networks, more complex products and shorter innovation cycles could even lead one to conclude that being embedded in a regional network offers a continuity that could become an important requirement for firms to be innovative, precisely because this embedding offers the productive potential and reliability which are the 'price of entry' for firms wishing to compete in the global markets. Thus, rediscovering regional potential becomes a precondition for meeting global challenges.

This argument is also supported by studies which assess the possibility of globalisation strategies differently depending on the extent to which the various bargaining and control strategies chosen by the major "key undertakings" in relation to suppliers, workers and trade unions, traders, financiers and government actually allow them to move along such an internationalised path. In any case, according to Ruigrok & van Tulder (1995; also Dörre 1999), it is certainly not possible to speak of a single general "globalisation option". Rather, because of the high level of uncertainty inherent in the globalisation path once a decision has been taken to follow it, such an option is feasible only for a few key undertakings with the requisite "microfordist" profile, while other corporate concepts can go no further than export policies, "glocalisation" options (global plus local) or "internationally extended workbenches". And yet all continue to experience the globalisation option as a potential threat at home, a situation which may well turn against its instigators, insofar as it can serve to undermine successful bargaining concepts and produce an increase in insecurity.

6. Competing nation states - democracy in retreat

In the face of the internationalisation of financial capital that has been described above - and with the investment strategies adopted by global players (e.g. transnational companies) - nation states and regional confederations such as the EU are increasingly competing with each other for this capital. They try to keep their currency as hard as possible so as to attract financial investment and - under the additional pressure of high interest rates on government bonds - they seek to cut back on budgetary expenditure. The individual nation state (and its democratic structures), which used to determine and regulate external market conditions, is now in danger of being left at the mercy of international speculation and losing its autonomy in a world dominated by international 'casino capitalism'. This is especially the case if these competitive pressures lead to politicians drawing the fatal conclusion that there is no need for international regulation of the new competitive environment, preferring to expose themselves to its pressures still further by pursuing a policy of deregulation and trying to adapt their local conditions (i.e. cost factors) to its needs.

Paradoxically, the policy of deregulation pursued by individual nation states and confederations of states since the mid-1970s can even be said to be an essential prerequisite for the development of the very globalisation process which is now threatening their political autonomy. On the other hand, national governments' efforts to respond to the trend towards globalisation which they themselves caused has merely engendered a new form of internationalisation of economic policy, i.e. the internationalisation of the disastrous race between national economic policies to drive down costs, as described above. It is like a zero sum game which threatens to become a 'negative sum' game, by the end of which all the players have sacrificed their production resources (infrastructure, training, social and political stability), only to find themselves standing before an economic, social and environmental desert, empty-handed and with empty coffers, but with full jails. Since the growing number of 'exit options' for businesses means that it is possible to avoid the "cooperative discipline of business" (Streeck 1998a: 187) - and indeed in today's world of flexible production methods, compared to the Fordist production model, it is true that this cooperation is no longer as necessary as it used to be - the compromise solution of the welfare state is in danger, and the ability of the regulatory systems created by the State and civil society to redistribute wealth is declining.

Irrespective of the consequences of this competitive scenario, nation states are at any rate threatened with a loss of sovereignty as a result of the process of economic globalisation (Beck 1998: 26ff.) and this also poses a threat to democracy, since democratic systems lack a socio-cultural basis other than their organisation into nation states (the sense of identity of a "sovereign" people). This loss of sovereignty will favour a) the uncontrolled power of globalised markets and/or b) a trend towards bureaucratic supranational bodies or committees of academic experts(Beck 1998: 29ff.; Scharpf 1998, Streeck 1998b) The "disappearance of national boundaries from the democractic process hinders the development of an informed democratic opinion and sense of political identification. At the same time, however, and for this very reason, it encourages the development of bureaucracies and (apolitical) political decision-taking processes" (Beck 1998: 39f.).

7. The political task of 're-embedding'

The constellation of social players that forms an intrinsic part of the 'complex process of globalisation' (Hübner 1998) is radically different to what existed during the period of post-war prosperity. The situation can be summarised as follows: the emergence of new, expanded exit options ("globalisation as an option" - Dörre 1999) for businesses compared with the politicans of nation states means that previously unheard-of threats to the welfare state and industry now exist. What matters here is the existence of a 'real possibility' (Beck 1998) that the abovementioned groups may choose no longer to respect the rules of the welfare state or environmental regulations, although two important qualifications must be mentioned in this respect: not all of the players are equally able to take such a step, and not all those who could take it choose to do so (Hübner 1998: 24). Moreover, those who try to overexploit the situation may be faced with high opportunity costs in the shape of uncertainty and follow-up costs. Overall, this means that there are opportunities for political intervention in the sense of some form of 'governance' of the globalisation process.

The reason for the emergence of different players is the increased room for manoeuvre which businesses have - which itself causes growing instability in the economy. However, growing instability and uncertainty also inevitably lead the players in society to develop political and economic strategies which offer the prospect of more stability amid all this uncertainty. As Karl Polanyi describes in "The Great Transformation" (Polanyi 1978), historically there has never been such a thing as the absolute 'disembedding' of the economy. Disembedding has always inevitably led to a subsequent process of re-embedding. For example, the establishment of the competition-based, property-owning society of the early bourgeois period resulted in the emergence of the 'rule of law', which was already identified by Thomas Hobbes in "Leviathan" as a process of 'embedding' of the competitors on the free market. Indeed, as bourgeois society developed and the results of social conflicts were codified into labour and social legislation, this 'embedding' became deeper and deeper. Hence, a political response to the ambivalent globalisation processes that have been described needs to adopt, support and promote economic and political 're-embedding' strategies at all the different levels at which globalisation occurs, i.e. the region, the nation state, regional confederations and the international level. As such, 're-embedding', by means of regulation of the increasingly international independence of economic and political players, may be described both as a basis and a goal for political action. However, this approach is not without its own pitfalls, since ultimately regulation at a regional level (e.g. within the EU) is also always a form of social exclusion of others. Indeed, as was seen in the case of the conflict during the WTO negotiations, even international or genuinely worldwide regulatory bodies can be guilty of discrimination if, despite their best intentions, they fail to take into account the different stages of development of national economies and do not provide for material compensation for these differences. Consequently, to avoid causing new inequalities, any 're-embedding' process would have to be based on concrete (i.e. redistributive!) international solidarity.

At present, this international 're-embedding' by means of regulation is especially hindered by the fact that the 'Hobbesian solution' of a 'state' that would act as a regulator for the global markets does not exist and is not necessarily even desirable, at least not in the form of a 'world state'. Consequently, the crucial role beyond the level of the nation states falls to bargaining structures which, although they have no direct democratic legitimacy, can claim to be independent, owing to the fact that their members have veto rights (Scharpf 1998: 237). These structures fall into three categories: firstly regional agreements between existing states and within confederations of states or economic communities (EU, Nafta, Mercosur), secondly negotiations under the auspices of international organisations (WTO, ILO/OECD, IMF, etc.) and thirdly ad-hoc international agreements (Rio, Montreal) that nevertheless allow individual states (the 'other groups' that may suffer discrimination) the possibility of opting out. At the same time, it is hard for organisations like the unions, which are still tied (and with good reason) to their national political arenas and markets, to gain access to the negotiating levels described above, and even when they manage to do so, it is often at the cost of being able to square their members' interests with the political priorities of these seemingly exalted circles. It is therefore no coincidence that it is non-governmental organisations (NGOs) that are particularly active at these levels. They have proved to be enormously successful at achieving their goals by means of ad-hoc agreements and by resorting to their own ability to make threats (e.g. by using consumer power as a bargaining counter in the environmental debate). In this way, internationally regulated minimum social and environmental standards may come about as a result of international negotiations, but they may also emerge from the conflict between NGOs and transnational companies, eventually becoming enshrined in *'Codes of Conduct'* for companies. The further removed these negotiations are from the level of the nation state, the more moral arguments tend to take precedence over economic considerations, which is why organisations like the unions have trouble coping at these unregulated international levels. Yet they are forced to accept that it is in their own best interests to join with the other relevant groups in defending civil rights at an international level so that they can defy the challenges of the market (also Hoffmann/Hoffmann 1997).

Hence, it might be possible to incorporate political regulation measures into the debate on globalisation, since - as Helmut Wiesenthal showed in a sociological examination of the problem - the globalisation debate provides us with the insight "that the consequences of actions are never really externalised and that once global space has been conquered, significant progress will only be possible through more intensive action, qualitative innovation and greater equality of opportunity" (Wiesenthal 1996: 52). This insight may well turn out to be the greatest opportunity offered by the 'complex process of globalisation'.

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Dieter Läpple

Globalisation and the urban economy - the case of the metropolitan region of Hamburg

1. Introduction

Out of the perspectives of macro-economics *globalisation* directs the attention mainly to the *supranational level*: The spread of transnational production networks, the international trade flows, the globalisation of financial markets and international migration.

In my paper I will stress the *subnational level* of the economy - especially the *regional* and *urban* level. At the first glance, one could expect that I will try to focus on countervailling forces to globalisation. My intention – however – is to show, that globalisation and regionalization in fact often stem from the same sources and may reinforce each other.

There is no doubt, globalisation does foster the disembedding of economic functions and social relationships from their locally bound contexts. However, when looking at a city as a local or regional "socio-economy", forms of re-embedding and new forms of local governance can be found at the same time. In this sense I will try to show, that globalisation can lead to revalorization of urban and regional economies.

In my case study of the city of Hamburg I will show how globalisation processes reshape the urban socio-economy in very different ways. In an empirical analysis the urban economy will be subdivided into "urban clusters" according to their specific historical traditions and linkages as well as their different forms of integration into global, national, and local contexts. This approach will facilitate highlighting the interplay of disembedding and re-embedding processes.[1]

2. Globalisation versus "neo-regionalism"

In view of the dynamism of international transactions, the growing performance of worldwide telematics, and the increase in mobility of people, goods and capital, the current debate on globalisation suggests that traditional ties to places dissolve, and working and living conditions are being de-anchored from their established local and regional contexts.

Transnational firms are considered the key players in these globalisation dynamics. Such "global players" organise their value chains through a targeted fragmentation and dislocation that transcends national borders as well as the boundaries of industries and firms. They mutate, as it were, into transnational network corporations, "into a temporary, constantly changing, more or less loose cooperation of teams, teleworkers, subcontractors and suppliers" (Altvater/Mahnkopf 1996: 356). According to this view, transnational corporations become "placeless" since their actual "location" is a constantly changing transnational network that is integrated into a "global space of flows".

As a result of the restructuring dynamics and negotiating power of transnational corporation, the time-space barriers of the production process are not only losing importance, but towns and regions also become subject to an increasing dependence and control from "outside", and thus come under increasing pressure to adapt. These, in summary, are the arguments put forward by *"globalists"*.

In contrast to this conception of production structures becoming "fluid" and place-bound economic linkages being questioned, in the discourses of the *"new regionalism"* a revival of space as a category of social analysis is postulated and a new logic of territorial development is claimed. Innovation-oriented regional research, in particular, links the network idea to the concept of regions as spatial systems of synergies and innovation. This implies that the key matrix of technological and economic progress is no longer the firm, but the region, or rather, regional innovation systems, are considered the actual innovators. Although innovation processes are driven forward by individual firms, the success of their efforts is dependent on their embedding in a suitably innovative "regional milieu". Global development logics, displacement, time-space compression (Harvey 1989) and creation of fluidity versus regionality, valorization of local peculiarities, and the logics of territorial embedding - these, roughly speaking, are the contradictory *leitmotifs* that determine the controversial discussions on globalisation and regionalization.

When taking a closer look at these discussions, it becomes obvious that those propagating globalisation usually restrict their considerations to globalisation trends and their inherent processes of socio-spatial "disembedding", whereas "regionalists" primarily observe forms of regional "embedding" or "reembedding". Both sides do this through a selective choice of illustrative examples. Paradigms of such one-eyed perspectives are, on the one hand, the remarkable book "The Globalisation Trap" by the two journalists of "Der Spiegel", Martin and Schumann (1996); and, on the other hand, studies on "industrial districts" that follow the new orthodoxy of neo-regionalism (cf. the critical view of Amin/Robins 1990: 187).

In my paper I will discuss the terms globalisation and regionalization in view of their ideological content, and examine the possible interrelationships that may exist between the two processes. So as not to create an essay that is suspended in mid-air, I shall illustrate some of the problems encountered in articulating globalisation and regionalization by means of an example, a region that has been oriented on the world economy for many centuries, the seaport region of Hamburg.

3. Globalisation: myth or reality?

"Dis-enclosure" and "Dis-embedding" - two central topics in the globalisation debate

Notably two - more or less connected - topics run through the discussion of causes and effects of globalisation: "dis-enclosure" and "dis-embedding". The notion of "dis-enclosure" aims to describe, in particular, the relationship of national states, national economies and the world market, and basically means a restriction or questioning of a national economic policy, due to a globalised and "deterritorialized" economy. The concept of "disembedding" focuses on social activities becoming disclocated from their traditional and place-bound contexts. In the globalisation debate, "disembedding" is also characterized as a process whereby the world market is becoming independent from society and its political system of institutions. (cf. Altvater/ Mahn kopf 1996: 133ff.)

Let us begin with the issue of "disenclosure". This notion is linked to an interpretation of modern history which is characterized by Wallerstein "as a story of widening economic circles, in which the major jump was to go from a *"local"* economy to a *"national"* economy, a national economy located of course in a national state." (Wallerstein 1984: 83) Taking up this perception of modern history, we are told, that today for the very first time in the history of humanity we will have a *"global"* economy at our disposal (cf. Thurow 1996). According to this idea, the increasing internationalization of the economy is accompanied by the disenclosure of the assumed relationship between national societies, national economies and national states. Beck defines the concept of globality in the same sense: "Globality means a breaking-down of the unity of national state and national society." (Beck 1997: 9)

Wallerstein calls the interpretation of history, on which the concept of disenclosure is based, a "historical myth" or "great distortions of what really happened" (1984, 83). Against the background of his historic research into the emergence of the modern world-system (cf. also Wallerstein, 1974 and 1980), he formulates his criticism as follows: "The transition from feudalism to capitalism involved, first of all (first in both logical and temporal terms), the creation of a world-economy. That is, to say, a social division of labor was brought into being through the transformation of long-distance trade from a trade of "luxuries" to a trade in "essentials" or "bulk goods", which tied together processes that were widely dispersed into long commodity chains. ... Such commodity chains were already there in the sixteenth century and predated anything that could meaningfully be called "national economies"" (1985: 84).

The metal image of the widening circles that may be illustrated as a small core adding on outer layers, is contrasted by Wallerstein with an image of a "thin outer framework gradually filling in a dense inner network." (ibid: 85)[2] This imagery is supposed to show that the various "societies" as well as the institution of the sovereign national state only developed within an existing world system. "That is, once created, the capitalist world-economy first became consolidated and then over time the hold of its basic structures on the social processes located within it was deepened and widened. ... It is within that developing framework that many of the institutions we often describe quite mistakenly as "primordial" came into existence." (ibid.)

In my view, Wallerstein's approach not only contains a very apt criticism of the concept of disenclosure; his illustrative metaphor of a "thin outer framework gradually filling in a dense inner network" also seems to me a very fruitful approach for gaining a more differentiated understanding of the interrelationship of globalisation and regionalization. An intensification of worldwide economic and social relationships will not only require expanding supra-national regulation and governance structures beyond national states, but will also demand a "deepening" and "widening" of "inner" regulation and governance structures. (Cf. the exposition by Braczyk and Heidenreich, "Regional Governance Structures in a Globalised World" (Braczyk/Cooke/ Heidenreich 1998).

The notion of "disembedding", the second central topic in the globalisation debate, contains the statement that the intensification of worldwide social interactions between businesses, institutions and social

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[2] In a critical reference to the social sciences, Wallerstein comments on this image symbolising the capitalist world economy: "To contrast *community* (Gemeinschaft) and *society* (Gesellschaft) in the way conventionally done not only by Germans but by all of world sociology is to miss the whole point. It is the modern world-system (that is, the capitalist world-economy whose political framework is the interstate system composed of sovereign states) which is the *society* (Gesellschaft) within which our contractual obligations are located. To legitimate its structures, this *society* (Gesellschaft) has not only destroyed the multiple *communities* (Gemeinschaften) that historically existed (which is the point normally stressed) but has created a network of new *communities* (Gemeinschaften) (and most notably, the nations, that is, the so-called societies). Our language is thus topsy-turvy" (Wallerstein 1984: 85f.)

groups will dissolve traditional working and living conditions, "disembedding" these from their former local and regional contexts. Since many authors refer to Giddens with regard to the theory of "disembedding", I shall briefly outline his reasoning.

By disembedding, Anthony Giddens (1990) means the "lifting out" of social relationships from local contexts of interaction, and their restructuring across indefinite spans of time-space. Giddens introduced the concept of "disembedding" to characterize the close correlation between modernity and the transformation of time and space, especially the *distanciation of time and space*. In sociology, the transition from the traditional to the modern world is often discussed in terms of the concepts of "differentiation" or "functional specialisation". According to Giddens, the notions of differentiation or functional specialisation are not well suited to handling the phenomenon of the *"bracketing of time and space"* by social systems. "The image evoked by disembedding" - says Giddens - "is better able to capture the shifting alignments of time and space which are of elementary importance for social change in general and for the nature of modernity in particular." (ibid: 22) In this sense, Giddens associates the concept of "disembedding", above all, with the intention of making time-space relations a constitutive part of social analysis.

For Giddens modernity is inherently globalizing. He criticizes the idea of "society" that prevails in the social sciences as a bounded system, confronting it with the problematic of time-space distanciation that characterizes modernity: "The conceptual framework of time-space distanciation directs our attention to the complex relations between *local involvements* (circumstances of co-presence) and *interaction across distance* (the connections of presence and absence).(ibid: 64) With a rising level of time-space-distanciation the relations between local and distant social forms and events become correspondingly "stretched". "Globalisation" – as Giddens points out – "refers essentially to that stretching process, in so far as the modes of connection between different social contexts or regions become networked across the earth's surface as a whole." (ibid.)

He emphasises, however, that this does not mean "that localized influences drain away into the more impersonalized relations of abstract systems. Instead," – says Giddens – "the very tissue of spatial experience alters, conjoining proximity and distance in ways that have few close parallels in prior ages." (1990: 140) In the same way, the disembedding processes that are characteristic of modernity do not necessarily lead to a "dislocated" and "anti-social" development logic. According to Giddens, the disembedding mechanisms lift social relations out of specific time-space contexts, but at the same time provide new opportunies for their *re-embedding*.

In the light of Giddens' concept of disembedding, the fixation on dislocation and disembedding mechanisms prevalent in the globalisation debate (cf. Thurow and Altvater/Mahnkopf) is obviously only half the story. The "killing of distance" (Beck) or the transformation of "geographical space" into a "technological speed space" (Altvater/Mahnkopf) does not lead to a "despatialization" of social relationships, but – on the contrary – to an updating and an increasing importance of concrete social, economic and political spaces as well as a revalorization of the issue of embedding a location in a regional or urban milieu.[3]

The organisation of transnational value chains and logistics networks really only makes sense because there are marked spatial differences, and because their reconciliation is limited. Correspondingly, the strategies of global players are primarily aimed at systematically exploiting differences and inequalities between the various national and regional production, regulation and living conditions. (On this subject cf., inter alia, Veltz 1996)

Castells, who introduced the concept of a "global space of flows" in the debate, also emphasises that his concept does not mean that organisations become *"placeless"*. "On the contrary, we have seen that

[3] Amin/Thrift argue along the same lines, in refering to further authors: "Globalisation, therefore, does not imply a sameness between places, but a continuation of the significance of territorial diversity and difference. Indeed, for some observers (...) globalisation, as the compression and transgression of time and space barriers, ascribes a greater salience to place, since firms, governments, and the public come to identify the specificity of localities ... as an element for deriving competitive advantage." (Amin/Thrift 1995: 6)

decision-making continues to be dependent upon the milieu on which metropolitan dominance is based; that service delivery must follow dispersed, segmented markets; and that large-scale operations in back offices are highly dependent upon specific pools of labor that are concen

trated in some suburbs or large metropolitan areas. Thus, each component of the information-processing structure is place-oriented." (Castells 1989: 169) This varying place orientation will require a specific embedding or "reembedding" in the respective location.

4. The revalorization of regional economies in the context of globalisation

There can be no doubt about the fact that we live in "global times". However, "there is no such entity as a global economy 'out there', in some space that exists outside nation-states." (Sassen 1994: XIII) Nor does globalisation lead to a "fluidity" and "despatialization" of production structures and forms of living. However, the actual places[4], local living and regional production contexts do not simply persist in their traditional forms, but they, too, are affected, and transformed, by the "time-space distanciation" produced by the globalisation process.

In the sense of this research perspective I am suggesting, *regions* are neither passive bodies responding to macro-economic or global development processes, nor are they autonomous spatial economic entities. Rather they are *active socio-economic fields* with a multiplicity of endogenous potentials that are directly or indirectly integrated, through a great variety of forms, into supra-regional, national or global competition relationships. Regions thus have the character of intermediary societal levels with specific economic, social and political linkages , institutions and communication channels. They constitute systems of

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[4] In the context of globalisation, places and locations may only be meaningfully understood as relational concepts. Giddens formulates this insight as follows: "In conditions of modernity, place becomes increasingly phantasmagoric: that is to say, locales are thoroughly penetrated by and shaped in terms of social influences quite distant from them." (Giddens 1990, 18f)

communication, learning and action for the various regional actors, and present a cooperation and innovation milieu to regional firms.

From the point of view of firms, the global orientation of production, research, administration and distribution functions and the increasing importance of inter-firm cooperation will entail the crucial problem of integration and achoring of their networks. The issue of integration, anchoring and social "reembedding" of globally oriented business functions forms one of the central starting-points for the hypothesis of the revalorization of regional economies.

Due to the turbulent market conditions and unstable currency systems of the global economy, and due to the trend towards ever more complex products and shorter innovation cycles, the possibility of integrating production and service functions into regional linkages and forms of cooperation will become an important condition for a firms' capability to innovate and adapt. These interrelations point to a paradox that Porter (1999) has called the "location paradox"[5] in a global economy. In an era where "globalisation allows companies to source capital, goods, and technology from anywhere and to locate operations wherever it is most cost effective" (Porter 1998: 197), their specific competitiveness often depends on their respective local or regional "embedding". Orientation on a region is thus not opposed to globalisation, but means to fall back on regional abilities and potentials in order to meet global challenges.

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[5] "Economic geography in an era of global competition, then, involves a paradox: ... the enduring competitive advantages in a global economy are often heavily local, arising from concentrations of highly skills and knowledge, institutions, rivals, related business, and sophisticated customers in a particular nation or region. Proximity in geographic, cultural, and institutional terms allows special access, special relationships, better information, powerful incentives, and other advantages in productivity and productivity growth that are different to tap from a distance. Standard inputs, information, and technologies are readily available via globalisation, then, while more advanced dimensions of competition remain geographically bounded." (Porter 1998: 236 f.)

To avoid misunderstanding I would like to emphasize that the hypothesis of the revalorization of regional contexts must not be understood to mean that regional policy will have a greater scope for action than it currently does. For conventional regional policies this will not be likely. This hypothesis initially applies to the action prospects of firms in the sense of Porter's "location paradox" in an era of global competition.

5. Urban regions in a globalising world

Polarisation and Fragmentation of the Cities

One important cause for the phenomena of social polarization and disintegration, which now also characterize German cities, is certainly increasing globalisation in the the economy. However, increasing globalisation does not immediately effect urban society; rather globalisation trends are refracted and tempered - although sometimes also intensified - through a complex nexus of different markets, political and social forms of regulation and social arrangements. In this nexus, the mediation processes between labor markets, housing markets, social policy and urban living milieus take on a central importance.

Increasing forms of social polarization and disintegration in German cities indicate that the combined effects of intensified globalisation, the political questioning of the welfare state and the world market orientation of urban policies that can be found in almost all large cities, all erode the filtering effect of the urban nexus. For an increasing part of the population, problems in the labor market arising from globalisation now are no longer tempered, but rather intensified, as a consequence of housing market problems and a cumulative interconnection with other forms of social, cultural and political disadvantages. In the city context, such cumulations of problems act as downward spirals focusing on certain areas, resulting in the erosion of the integrative forces of neighborhoods, and threatening to break down the sense of community in urban societies.

5.1. Urban economies:

"The Economy of Cities" or "Economies within the cities"?

Following on from the conceptualization of regions as active socio-economic fields of interaction, the specific characteristics of the urban economy are generated by its embeddedness (cf. Grabher 1993) in a social, institutional and cultural urban context. These urban forms of embeddedness produce a multiplicity of untraded external effects. The specific difference of the economy of cities - as opposed to economies within the cites - may initially be defined as a nexus of "untraded interdependencies" (cf. Storper 1997). This characterization of the urban economy is analogous to Storper's theoretic conceptualization of a region „as the locus of what economists are beginning to call 'untraded interdependencies', which take the form of conventions, informal rules, and habits that coordinate economic actors under conditions of uncertainty; these relations constitute region-specific assets in production." (Ibid: 5)

To separate this concept from that of agglomeration economies used in traditional approaches, the various "factors" of this nexus are not viewed as an additive relationship of effects, but rather as a constellative one, since individual "factors" overlap and are interlinked through a variety of feedback mechanisms.

The theoretical concept of a nexus of untraded interdependencies focuses, above all, on two central peculiarities of the urban economy: its specific productivity, that is the "free productive power" of the urban nexus, and the "reflexivity" of the urban economy resulting from its embeddedness in the specific institutional and cultural context of urban society. The concept of reflexivity is supposed to explain that economic players do not act "out of context", but that their respective actions are mediated by a specific urban context, in particular by mutally recognised or internalized conventions, standards, cognitive patterns of interpretation and well-practised forms of cooperation. Such institutional, cognitive and cultural forms of regulation make up the specific characteristics of the urban economy. In regional research this kind of nexus is described by the concept of "milieus" that has been transferred here to the analysis of the urban economy.

In urban development processes, these reflexive urban forms of regulation feature, above all, as *"amplifiers"*. As a result of the nexus of untraded interdependencies they produce positive feedback effects, i.e. parallel feedbacks that amplify each other in a cumulative process. This can result in synergy effects and thus an increase in urban productivity and innovative power. However, parallel feedbacks built up over an extended period may also produce sclerotic blockages in development. For example, if a city or urban region has specialized in a certain economic field due to specific historic reasons, parallel feedbacks may block a correction of or departure from that path of development (*functional "lock-in" effect*).

Such reflexive urban forms of regulation not only act as *"amplifiers"*, but also as *"filters"* that may produce highly complex and varying effects. Initially they enable or facilitate meaningful action for economic players in highly insecure conditions and under great pressure of time. Decision or action imperatives from the outside world that would lead to a questioning of mutual trust or consensus structures are filtered out by reflexive forms of regulation. In the same way, however, they act as shutting-out mechanisms for new ideas and new players that do not fit the practised repertoire of interpretations and actions. In certain historic constellations, this may lead to an intensification of the development blockages described earlier (*cognitive "lock-in" effect*).

Cities have a potential antidote to such "lock-in" syndromes or endogenous development blockages. An important feature of big-city economies - as opposed to the economy of non-urban regions - is their enormous diversity that generates a special quality relating to development; I would like to describe this by using the term *contingency*. What this means is a specific openness to development that links the *not-necessary*, as it were, to the *not-impossible*. Big cities may thus be viewed as manifestations of a plurality of development paths, resulting in a high variance of development options and thereby a contingent openness to development. In that sense, the contingency of a big-city economy may help to overcome "lock-in" syndromes, or at least put them into perspective. (Cf. also the concept of redundancy in Grabher 1994)

5.2. "Urban clusters" - the case of Hamburg

In view of the processes of differentiation and segmentation found in urban economy and society, in the sense of an archipelago economy, it does not make sense to try to answer the question of what effects are produced by globalisation in terms of *"the"* economy of an urban region. The economy of cities consists of a number of "partial economies" in the sense of urban clusters, each with specific historic traditions and highly diverse forms of integration into global, national and local competitive and developmental contexts. This, in turn, results in correspondingly diverse problem constellation and reshaping opportunities.

But how can such "partial economies" be identified? In a study on the development prospects of the urban region of Hamburg my research group and I attempted to identify and empirically grasp the "partial economies" of a big city. (Cf. Läpple/Deecke/ Krüger 1994 u. Läpple 1996) We started from the idea that the differentiation and segmentation processes found in the urban economy cannot be at all satisfactorily grasped when using the statistically prescribed structures of sectors and industries. In our study, the traditional "top down" approach, in which the macro-economic concept of industries and sectors is projected, as it were, onto the urban economy, was corrected or supplemented by a "bottom up" approach; this ensured that our analysis took into account specific urban conditions of development - in particular historically grown production and value creation structures as well as linkage relationships.

Based on the concept of function clusters (cf., inter alia, Porter 1990), the aggregates of industries and sectors were regrouped so as to provide the most coherent possible overview of the proportions and development trends found in the various functional areas of the urban economy as a whole. The results of our study have been visualized in fig. 1 ("Urban clusters in the city of Hamburg"). The relative size of the circles corresponds to the respective proportion of employment provided by an cluster compared to the total number of employed.[6] A

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[6] The statistical basis of this aggregation of clusters is a division of all employees registered with social security into 96 economic sectors that were

dark outer ring indicates the growth in the employment volume between 1980 and 1997, while a white ring shows a decline in employment in the same period. Circles bordering closely on each other or overlapping suggest functional linkages between partial economies.

I will discuss three urban clusters in the light of my theme, "Globalisation versus Regionalization". These will be the clusters of "Ports, Transport, Warehousing"; "Technology Industries"; and "Local and Quarter Economy".

5.3. The urban cluster of "ports, transport, warehousing"

For 800 years, the city of Hamburg has been characterized by its seaport and the international economic relations connected to it. Paradoxically, this particular economic sector is a major loser in globalisation. The cluster of "Ports, Transport, Warehousing" combines all employees of the port, connected services and supra-regional transport functions. Providing 54,000 jobs, this cluster employs just 7.4% of those registered with social security in Hamburg. Since 1980 this sector has seen a loss of 22,000 jobs.

The port system was traditionally viewed as a guarantee for development in urban employment and value creation. The introduction of containers and computers initially led to an enormous increase in opportunities for time-space distanciation in the world economy, and thus to an enormous increase in transport flows. At the same time, the introduction of containers resulted in spiralling labor productivity, with a consequent loss in jobs in the operative core area of the port economy. Despite a sharp increase in handling figures for Hamburg seaport in the 1980 to 1998 period, the number of dockers decreased from 11,400 to 4,950.

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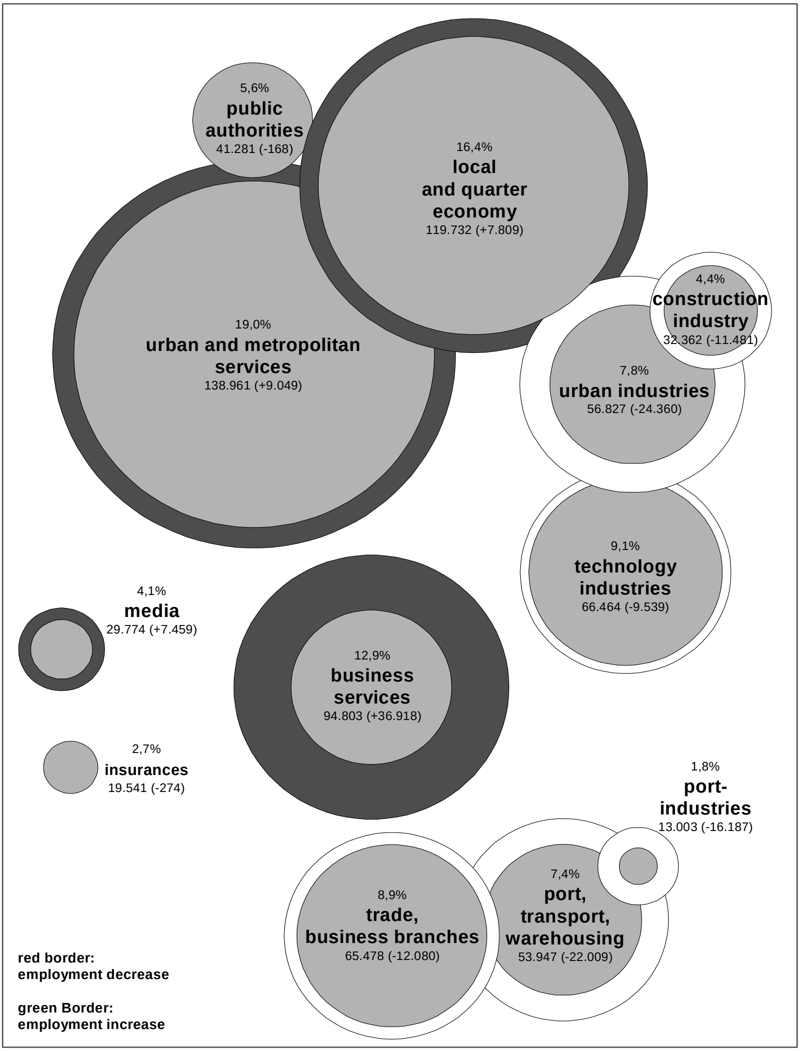
functionally divided, in their turn, into functional or professional groups. The statistics of employees registered with social security provides a highly differentiated and exact database; however, they only record some 80 percent of the total number of employees. The self-employed, formal "freelancers", civil servants and employees whose wages are below the tax threshold are not considered by these statistics.

Urban Clusters of the City of Hamburg

Percentage of Total Employment
Employees 1997 (Changes 1980-1997)



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Moreover, the integration of the transport chain ensuing from container and computer use enables so-called door-to-door transport, with cargo packed into containers by shippers and not unpacked until it reaches the recipient. This eliminates the need for traditional activities, or these are relocated from the ports to the locations of shippers and recipients. The loss in functions caused by the advancement of door-to-door services has affected the port regions all the more because the lost or relocated activities often provided the starting point for goods processing beyond handling or handling-related storage. These developments have greatly reduced the opportunities for value added goods processing in the ports over the last twenty years.

For centuries, the port and port community accumulated expert knowledge on world market developments and related transport systems and goods flows. This "world market competence" of the port economy was an essential aspect of the port's economic strength in the context of its position as interface between the national economic area and the world economy. The global orientation of business strategies pursued by industry and trade increasingly relativizes and weakens this world market competence, because industry and trade increasingly plan their own, internationally oriented value creation chains in connection with new logistics strategies. The transport operations required for this are handled by multi-modal transport groups (such as major shipping groups) that are no longer bound to a specific port.

Due to this development, ports increasingly assume the character of "container floodgates" - at least in the container sector. This means that ports become part of a "logistic channel" through which cargo passes - as a result of integrated transport chain logistics and increasingly automated container handling - with as little disruption as possible. Growing investment in port technologies, now highly mechanized and partially automated, lead to an ever widening gap between, on the one hand, regional expenditure on resources such as land, natural potential and taxpayers' money, and, on the other hand, regional effects on employment and added value.

Most port regions are attempting to counteract the job decline in the operative function sector by developing the services offered towards "value-added logistics". In contrast to operative functions, the new service functions are not necessarily tied to port locations. This means that port regions not only compete among each other for the establishment of such logistic and distributive functions, but they compete, above all, with locations in the hinterland, especially the large industrial and population agglomerations.

The functional changes of ports outlined above also modify economic linkages of ports and regions. The immediate linkages of ports and sea-oriented industries are decreasing, due, not least, to the decline in importance of this economic sector. The chances of seaport regions playing a significant role as logistic service centres greatly depends on whether it will be possible to integrate and to “re-embed” logistic port functions into a developed regional economy that would, preferably, have a high and high-quality volume of Loco transport. In that respect the causal relationship of ports and regional economies has been reversed: ports are no longer the "economic engines" of the seaport regions. Today the differentiated production and service networks found in urban regions constitute an essential prerequisite for ports producing developed economic benefits in terms of employment and added value.

Quite obviously, the port economy is dominated by a very marked global development logic. This not only leads to a revaluation of the port region, but, as a consequence of distinct “disembedding” and “defunctionalization” processes, also to a devaluation of economic relationships. What remains to be seen is whether future development processes in international goods transport (e.g. the “road to sea” concept) and new developments in international trade and distribution logistics will produce new opportunities for regional re-embedding.

5.4. The urban cluster of “local and quarter economy”

The cluster of “local and quarter Economy” presents a contrast, as it were, to the subject of globalisation. It is a sector of urban economy that is deeply “embedded” in a city’s, or city quarters’, economic and social structures and interactive relationships. This cluster includes service companies and trade businesses that are locally integrated through local sales, employees' places of residence or existing, low-cost business premises. Local and quarter economy include parts of the retail trade, the health service, the catering industry, and manufacturing or repair companies. Such businesses are largely tailored to local needs relating to everyday life, and characterize the urban quality of their respective districts to a great extent. Most of these businesses have been based in the various quarters for some time, and often have long-standing customer relationships. (Cf. Läpple/Walter 2000)

Employing more than 120,000 people - that is 16% of all Hamburg employees registered with social security - this sector is one of the largest partial economies of the urban economy, and with an increase of 7,800 jobs it is also one of the few sectors that expanded during this period. However, in spite of its importance for the urban job market and the supply quality of districts, this sector was, until recently, in a "blind spot" of urban policy. If such businesses became topics of urban policy at all, they were usually considered in terms of locations to be included in individual urban refurbishment schemes. Otherwise it was often purported that those businesses developed 'piggyback style' in the wake of the export and world market oriented businesses of the city, without taking into account that in recent years, local and quarter-based businesses have been subject to strong displacement processes - not least because of the outwards orientation of urban economic policy. The increasing social polarization of the city, and the related downward spiral of economic, social and building erosion found in various districts, has had a particularly negative effect on the survival of locally oriented businesses.

By definition, as it were, this cluster is thus deeply embedded in the urban context. In the sense of Giddens, however, the local orientation of businesses that form part of this partial economy definitely has a "phantasmagorical" character. The reason is that local relationships are simultaneously defined by a multiplicity of supra-regional and global contexts. These range from the "global world of goods" of the retail trade, through the "foreign" culture and way of working embraced by ethnic businesses up to the integration of small, innovative quarter businesses into global communication processes via the Internet. However, integration into a varied tissue of time-space distanciation does not alter the dominance of local forms of embedding.

5.5. The urban cluster of "technology industries"

This cluster comprises industrial businesses with a high proportion of technically skilled employees and a strong orientation on international markets. They include companies in the fields of mechanical engineering, the aeronautical and automotive industries, electrical engineering, the chemical and pharmaceutical industries etc. Employing 66,500 people, this partial economy makes up 9% of the total employment figures. Since 1993 there has been a decline in jobs in this sector. We must assume that this development of the employment situation will partly benefit business-oriented services as a result of relocation policies.

I shall discuss this cluster on the basis of just one example, a highly successful mechanical engineering firm that holds a leading position in the market in its specialist field.[7] This example is best suited to illustrate the complementary relationship of globalisation and regionalization. To strengthen its position in the world market and make its product orientation more flexible, the firm built up a network for cooperation and innovation that integrates other companies, to a greater or lesser degree – through development partnerships, ownership and control linkages, or simply through supplier relationships. Corresponding to the global commitment of these "global players", this network is internationally oriented. Nevertheless it has a very distinct regional basis. In view of the complexity of its products and their short life cycles, the regional basis of the cooperation and innovation network, with its well-practised forms of cooperation; well-balanced qualifications; and joint understanding of quality, provides an important precondition for the company's ability to innovate and adapt in a

[7] The position of this firm is described in Läpple, 1996, in the context of linkages in Hamburg mechanical engineering and in the light of a similar theme.

situation where it constantly needs to defend and reassert its "system competence"[8] in a highly globalised market.

To remain competitive, the globally oriented firm is obviously highly dependent on its ability to "embed" itself in regional supplier and development co-operations; in a regional labor market with a corresponding repertoire of qualifications; and in the region's network of scientific, social and technical infrastructures. Conversely, the firm also has a central role to play in the region. Businesses that provide "system competence" fulfil a kind of "anchoring" function in a region through developing and stabilising regional networks of cooperation. Their "system competence" is significant for the future development of both industry and services.

Above all, this brief description of individual clusters is supposed to illustrate that the interrelationship of globalisation and regionalization is highly complex, and cannot be reduced to a simple formula. Even a rough outline of three clusters showed highly diverse forms of expression when comparing global and regional development logics, or rather - to stick to the 'globalisation jargon' - highly diverse forms of "embedding", "disembedding" and "reembedding".

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[8] In the context of a globalised economy, "system competence" comprises the following aspects:

- technological control of the systemic character of the product or service;
- organisational competence and the corresponding market power to organize inter-firm linkage systems; and
- logistic control of the development, manufacturing, sales and service relationships.

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Thomas I. Palley

Industrialised country financial markets: the missing dimension in the stabilising global finance debate

1. Introduction : pointing the finger

The global financial instability that has marked the last three years has prompted calls for a new international financial architecture. Thus far, the debate over the new architecture has focused almost exclusively on the structural failings of developing country capital markets and on international financial transactions with these countries.

Such a focus is flawed because it misses the fact that industrialised country financial markets have also become increasingly unstable as a result of the twin processes of financial innovation and deregulation. Moreover, these markets provide the finance that fuels the global system, and it is instability in these markets that poses the greatest threat owing to their enormously larger size. Measures that improve developing country financial systems will help reduce global instability, but they cannot address the ultimate cause of global financial instability, namely instability in the financial markets of the developed countries.

The implication is clear. Restoring global financial soundness requires restoration of a coherent, stable, and comprehensive regulatory framework for industrialised country financial markets. This paper proposes such a framework based on the concept of asset based reserve requirements (ABRR). Financial instability arises because of undue risk-taking by lenders and investors who invest in assets without proper regard to risk and return. Consequently, there is a need for policy instruments that can discourage asset accumulations deemed unduly risky. A system of ABRR can do this. By varying the level of reserve requirements on each asset type, monetary authorities (or an appropriate national financial regulator) can adjust the relative attractiveness of asset categories, thereby altering private sector asset allocations. This framework should be applied across all financial intermediaries (FIs) on the basis of the assets they hold rather than on the basis of how they describe themselves (i.e. banks or brokers). This would create a level playing field among FIs, thereby voiding incentives to shift business across FIs simply to evade regulations.

Lastly, a system of ABRR has the added advantage of providing monetary authorities with additional tools of monetary policy. This can facilitate the conduct of macroeconomic policy at a time when monetary policy is being asked to do more in terms of ensuring economic stability and prosperity, even as the power of monetary policy is being blunted by financial innovation and by the shrinking of the banking sector relative to the financial sector as a whole.

2. Revisiting the diagnosis: are developing countries the cause of global financial instability?

The East Asian crisis of 1997, the Russian crisis of summer 1998, the near melt-down of Wall Street in October 1998, and the Brazilian crisis at the beginning of 1999, have collectively served to provide vivid evidence that the global financial system is unstable. This string of crises comes quickly on the heels of the 1994 Mexican crisis, which itself threatened to generate a repeat of the 1982 Latin American debt crisis which cost the continent a decade of growth. Since the late 1970s the world has seen 69 banking crises (defined as a situation where a banking system has zero net worth), and since 1975 there have been 87 currency crises (defined as a situation where the currency depreciates 25% in a year and 10% more than the previous year).[1]

Such numbers provide overwhelming evidence of financial instability, and the depth of the dislocations in east Asia provide ample evidence of the enormous cost in terms of lost growth and impoverishment. Now, in the wake of the most recent string of crises there has come

[1] These numbers are cited by Rodrik and Velasco (1999).

recognition of the state of affairs, and hence the debate over a new financial architecture. However, a striking feature of this debate has been its tendency to focus on the failings of developing country financial systems, with little attention being given to the issue of financial instability in industrialised economies. This is a tendency that is shared by both conservative and progressive diagnoses.[2]

This feature is clearly visible in the IMF's diagnosis which has emphasized the inadequacy of institutional arrangements governing developing country financial markets, and which has called for better accounting standards, greater transparency, and improved regulatory supervision in these markets. Critics of the existing system have a different take, emphasizing the pattern of incentives governing transactions with the developing countries. Their argument is that repeated recourse to IMF and government funded "bail-outs" has created a profound "moral hazard" in international financial markets that has led northern investors to chase the higher yields available on developing country investments without proper regard to the risks. The logic is that the implicit promise of bail-outs has led investors to believe that they will be protected in the event that their investments turn sour, and they are therefore willing to chase the higher yields because they know are protected. For die-hards among this group of critics, the solution is to abolish the IMF and end the practice of bail-outs. For the more moderate, the solution is to "bail-in" existing lenders so that they bear the costs, and this is to be done by new international bankruptcy laws that treat lenders collectively and equally. Yet, both solutions are problematic. Abolishing the IMF will not get rid of the problem of periodic liquidity crises which calls for a lender of last resort (i.e. an institution resembling the IMF) that can prevent the crisis spiraling out of control. Meanwhile, establishing a workable international bankruptcy law involves changing national legal systems, deciding where legal

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[2] See for example the report of the Council on Foreign Relations, *The Future of the International Financial Architecture* (1999). An exception, from the progressive side, is Blecker (1999).

jurisdiction lies, and altering creditor property rights. Such changes are so complicated and contentious that they are unlikely to occur.

The focus on developing country capital flows as the source of instability has been shared by both conservatives and progressives, with the principal difference between the two being one of prescription rather than diagnosis. Thus, in addition to bailing-in lenders, progressive critics have also argued for restoration of country capital controls, a Tobin tax on foreign exchange transactions to discourage exchange rate speculation, and Chilean style speed bumps that oblige investors to commit their funds to countries for a given period of time. Though these measures would also apply to transactions between developed countries, the fact remains that the focus is very much on international transactions, and that transactions with developing countries are viewed as especially problematic.

Such a focus is unduly narrow. At best, it represents a partial treatment of the problem, and at worst it misses the real cause. First, there is a need to recognize that for every borrower there is a lender. Blaming developing countries for global financial instability amounts to looking at just one side of the transaction, and ignores the role of developed country lenders. Second, the facts are that increased financial instability has afflicted industrialised countries every bit as much as it has developing countries. Thus, Japan's extended recession is attributable to the bursting of its asset price bubble and the debt over-hang that was left in the wake, and Japan's recession in turn served as one of the precipitating factors behind east Asia's troubles. The global financial market crisis of October 1998 was squarely centered on Wall Street and the imprudent actions of Long Term Capital Management, an American based hedge fund. In the early 1990s the American economy experienced its own banking crisis. The Federal Deposit Insurance Corporation faced the prospect of insolvency and was forced to raise deposit insurance premiums to cover bank losses, while Citibank - America's largest bank - was technically insolvent. Moreover, this banking crisis came quickly on the heels of the Savings & Loan crisis of the late 1980s, which cost U.S. taxpayers between 2 and 3% of GDP. In Europe, foreign exchange market speculation forced an end to the European exchange rate mechanism in 1992, while the British property market underwent a collapse at that time. In 1990 there was a deep banking crisis in the Scandinavian countries, and Sweden still endures higher rates of unemployment as a result. Finally, the stock market crash of 1987 revealed how equity prices in mature industrialised countries can be subject to speculative run ups and rapid collapses, indicating how this is not a phenomenon that is restricted to developing country markets.

The above record of financial instability indicates that all is not well within industrialised country financial markets, so that having the international financial architecture debate focus exclusively on the problems afflicting developing country markets misses the point. In particular, it misses how increased global financial instability has been driven by the deregulation and financial innovation that has occurred within developed country markets over the last twenty years. This process of financial market deregulation has piggy-backed on the wave of goods market deregulation of the last two decades. In the U.S., trucking, airlines, telecommunications, and gas and electric utilities have all been deregulated. In other countries, from the U.K. to Brazil, there has been extensive privatisation of government owned enterprises. In many instances there have been significant efficiency gains as a result of goods market deregulation, but one side effect has been to spawn a copy-cat movement for deregulation of capital markets based on the argument that the economic logic driving deregulation of goods markets also applies to financial markets.[3] The same argument has also been made regarding the parallelism between international trade and international capital mobility.[4]

Within the U.S., the process of financial deregulation began in 1980 with the Depository Institutions Deregulation and Monetary Control Act which allowed banks to compete more easily for funds. The push for deregulation was predicated on the grounds that financial innovation was

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[3] Qualifying these positive observations about goods market deregulation is the fact that it has also had significant deleterious consequences for the distribution of income. Thus, price gains for consumers have been partly paid for by reduction of wages in deregulated industries.

[4] Bhagwati (1998) has eloquently pointed out the mythical nature of the argument that trade in goods and trade in finance are parallels.

producing new products that escaped the existing regulatory net, and that the existing regulatory rules placed those who fell under their ambit at a competitive disadvantage. However, instead of redesigning the rules to encompass the new innovations and extend the regulatory net to cover those outside, deregulation took the form of "leveling down" rather than "leveling up." Thus, with non-bank FIs increasingly engaged in bank-like business and providing bank-like services and products, the process of financial deregulation has taken the form of removal of restrictions on the activities of banks who have been permitted to become more non-bank-like. This process has been completed with the passage of the Gramm - Leach Act (1999) which repealed the prohibitions of the Glass - Steagall Act preventing commercial banks from engaging in the business of equity underwriting and insurance.

The above process of deregulatory leveling down has come at a time when financial innovation has introduced new instability into the system, and it has also rendered economic governance more difficult. Financial innovation promotes instability through the creation of automatic destabilizers. These are mechanisms that amplify the business cycle, magnifying upswings and exacerbating downturns.[5] Thus, financial markets move pro-cyclically (i.e. they boom when the economy booms, and slump when the economy slumps), and these markets now have a bigger impact on the real economy. For instance, increased placement of household wealth in variable price assets (such as equities) instead of bank deposits, means that household wealth now rises more pro-cyclically as the economy booms and equity prices rise. The increase in wealth in turn induces households to reduce saving and increase consumption at a time when the economy is already booming. It can also be used as collateral to underwrite loans that are then used to finance additional consumption spending.

Another financial innovation that has a similar effect is home equity loans. Such loans have increased the liquidity of household real estate wealth by facilitating borrowing against accumulated home equity. In

[5] The growing importance of automatic destabilizers in the U.S. economy is discussed by Palley (1999).

booms, house prices rise which increases home equity, and consumers are then able to borrow against this equity to finance additional consumption. This mechanism works in a strongly pro-cyclical fashion. The risk is that in the a recession when home prices fall, households may be saddled with debts that restrict consumption and lower demand.

Another innovation in the financial sector that has increased the systems ability to finance economic expansions is securitization of loans. In the old days banks used to make loans and hold them on their books, and as lending volumes increased banks became loaned up which then restricted their ability to lend. Now when banks make loans, they quickly bundle the loans and sell them in the secondary markets. As a result, a steady stream of liquidity is injected into the banking system, thereby permitting it to finance more lending.

In the international arena financial innovation may also have worked to increase instability. The growth of investor interest in emerging markets has raised the debt ceilings of borrower countries. This has enabled countries to persist longer with policies that are ultimately unsustainable, so that when the constraint is ultimately hit the crash has been greater. At the same time, when the world economy booms and developing country terms of trade improve, countries are able to borrow even more. However, when the cycle goes into reverse, these countries are then left with larger debt over-hangs.[6]

Innovation and deregulation have also made economic governance more difficult. The introduction of new financial products and services that fall outside the traditional regulatory net has made it more difficult to exercise domestic monetary control. More and more financial activity now takes place outside the banking sector, which has been the historic domain of monetary control. Thus, banks are subject Federal Reserve supervision, and the Fed controls interest rates by setting the banking sector's cost of funds. This setting of rates is then supposed to ripple through the financial sector and the economy. However, as the banking

[6] Tamirisa (1999) provides evidence supportive of this argument. She reports that capital account liberalization stimulates capital inflows, thereby enabling countries to sustain larger fiscal and current account deficits.

sector has shrunk in relative size, the ripple effect has gotten smaller. Side-by-side, the share of financial activity subject to the stricter rules associated with bank regulation has also shrunk.

Changed composition of financial activity is one source of loss of control. Another is the increase in capital mobility resulting from lowered costs of electronic money transfer and the abolition of controls on international movements of capital. This has resulted in two developments. First, monetary authorities now have reduced ability to control the creation of credit within the domestic economy owing to international capital flows, and this has reduced their ability to control the business cycle. Second, financial capital has strengthened its ability to veto policies that it deems unacceptable by voting with its feet and exiting an economy. In fact, it is not necessary for capital to actually exit: all that is needed is the inferred threat. This development explains the trend toward justifying monetary policy in terms of what financial markets expect. Thus, markets now form expectations of monetary policy, and monetary policy then has to conform to these expectations or risk destabilizing financial markets. Through this mechanism markets increasingly get to set policy.[7]

The difficulties of exercising monetary control are clearly evident in recent concerns with asset price inflation. Within the U.S., these have been at the fore of monetary policy since Chairman Greenspan first mused about an over-valued stock exchange in December 1996 with his references to "irrational exuberance," and these concerns appear to have deepened and widened over the course of the current economic expansion (Greenspan, 1999). The problem for the monetary authority is asset price inflation may produce a large wealth effect on consumption, and a consumer boom funded by borrowing that uses increased asset values as collateral. It may also generate financially fragile balance sheets as individuals take on debt (which is fixed in price) to purchase assets which have flexible prices. The dangers are that this can be inflationary by over-stimulating demand, and agents

[7] The impact of financial capital movements on the conduct of policy is explored in Palley (1998a, 1998b).

may find themselves over-borrowed should the asset price inflation reverse itself. However, the single instrument of policy central banks have is their control over the general level of interest rates. This means slowing the entire economy and raising unemployment to control a consumption boom by the wealthy driven by asset appreciation, and to prevent the emergence of unstable balance sheet positions predicated on over-optimistic asset valuations. Worse yet, if balance sheet developments are viewed as an imminent threat, such action may be needed before the economy has reached full employment. This amounts to sacrificing public well-being in order to check financial market speculation.

Finally, not only have financial innovation and deregulation contributed to the emergence of greater financial instability, they have also contributed to the emergence of a new regulatory paradigm. The old paradigm (call it the New Deal paradigm) had government regulating finance, with finance being harnessed to work for full employment. The new paradigm works in reverse, with finance now regulating government. This is an important part of the new political economy espoused by the IMF where open international financial markets are seen as a means of disciplining governments. Thus, Stanley Fischer, First Deputy Managing Director of the IMF, writes: "International capital flows tend to be highly sensitive to the conduct of macroeconomic policies, the perceived soundness of the domestic banking system, and unforseen economic and political developments. Accordingly, market forces should be expected to exert a disciplining influence on countries' macroeconomic policies (Fischer 1997: 4)."

3. The missing dimension: regulating industrialised country financial markets

The recent repeal of the Glass - Steagall Act marks the last act in the slow death of the regulatory framework established in the wake of the Great Depression. That regulatory framework rested on the division of the financial system into three sectors: banking, securities broking, and insurance. It created a comprehensive system of regulation predicated on segmenting the three sectors through creation of fire walls. Over time, the process of financial innovation led to the breakdown of this system as financial firms sought to evade the firewall restrictions, and banks claimed that the regulatory rules placed them at a particular disadvantage in the new environment. The prospect of continuing erosion of the firewall system, the handicap placed upon banks, and claims that removal of the firewall system could reap significant synergies and economies of scale, all contributed to making the case for repeal.

However, having repealed the system of financial regulation that ensured financial stability in the fifty years after the Great Depression, nothing of matching comprehensiveness has been placed in its stead. As a result, the U.S. financial system is now open to financial instability, and this has consequences for the stability of the international financial architecture given the global economic significance of the U.S. economy.

In light of this, a new comprehensive regulatory framework is needed, and a system of asset based reserve requirements (ABRR) that is uniformly applied across all domestic FIs can provide this framework. Since it would be applied uniformly, it would not discriminate between FIs and give any one group a relative advantage in capturing the business of others. It therefore avoids the major failing of the earlier regulatory framework.

A system of ABRR would enhance regulatory concern with the asset side of FIs' balance sheets, and in doing so shift the focus away from the traditional concern with the liabilities side of FIs balance sheets. Though financial regulators have always had a concern with the asset side of regulated firms' balance sheets, this interest has tended to be restricted to questions of whether assets are properly valued in balance sheets. Also, under the earlier Glass - Steagall regulatory framework there was a question of whether the FI was legally entitled to hold the asset, but this issue is now greatly reduced in light of Glass - Steagall's repeal. Under a system of ABRR the "valuation" concern would remain prominent, but regulators would also have the capacity to alter the incentives for holding different asset types, and thereby change the risk composition of balance sheets. This new capacity would address the fact that excessively risky investments that are vulnerable to significant asset impairment constitute the real source of financial fragility today. Runs on financial systems are not the result of quixotic actions by wealth holders, but instead reflect investor beliefs about the inadequacy of the underlying assets.[8]

A system of ABRR has both macroeconomic and microeconomic advantages. At the macroeconomic level, it can provide policy makers with multiple additional independent policy instruments. This is particularly useful in light of recent concerns about the dangers of asset price inflation and the growing realization of the need to target asset prices. At the microeconomic level, it has important stability properties that mitigate the impact of financial crises. Moreover, not only can it contribute to domestic financial stability, but by levying reserve requirements on international investments made by domestic FIs it can also contribute to greater global financial stability. Thus, ABRRs can be used to discourage short term lending and overly risky foreign portfolio investment, two factors which have been blamed for the east Asian financial crisis. Finally, a major institutional advantage is that a system of ABRR can be implemented unilaterally, thereby avoiding the complexities involved in multilateral reform of the financial architecture.

How does a system of ABRR work? Financial firms can be thought of as multi-input multi-output firms. Their inputs are their liabilities which consist of the funds they obtain from depositors, bond holders, equity holders, and other creditors. Their outputs are the assets they acquire including making loans and investing in companies through the purchase of equities. As profit maximizing firms, they equalize the marginal revenue (MR) across asset categories with the marginal cost

8 Our existing system of reserve requirements is predicated on a liability based approach which imposes reserve requirements on bank deposits. This approach is rooted in a belief that bank runs are the result of sudden quixotic depositor withdrawals. Even with this system, required reserves on deposits offer incomplete protection because banks still have to come up with the cash on that part of deposits not covered by reserve requirements.

(MC) of different liability categories. This results in the following rule for allocating and raising funds:

(1) MR from asset type 1 = = MR from asset type m
= MC from liability type 1 = ... = MC from liability type n

Since revenues at the margin are equal across all different types of assets, firms have no incentive to rearrange their combination of asset holdings. Since costs at the margin are equal across all different types of liabilities, firms have no incentive to rearrange their pattern of financing. And since marginal revenues equal marginal costs, firms have no incentive to acquire further funds (i.e. incur further marginal costs) to fund further business (i.e. earn further marginal revenues).

ABRR work by exploiting the fundamental logic embedded in this rule. ABRR require FIs to hold reserves against each class of asset, with the reserve requirement being set by the regulatory authority. The settings in turn reflect the authorities concerns with each asset class. One concern may be that the asset class is to risky, while another concern may be that the asset class is expanding to fast and producing asset price inflation. By forcing FIs to hold reserves, the system requires that they hold back some of their funds in the form of non-interest earning deposits with the central bank, and they thereby forego earning interest income on these funds. This is an implicit cost that has to be charged against investing in a particular asset category, and it therefore reduces the marginal revenue from that asset type. This in turn prompts FIs to reduce their holdings of that asset type which is now relatively less profitable, and shift funds into other asset types which are now relatively more profitable.

Given the above, it is now possible to examine the regulatory and systemic benefits of ABRR. At the macroeconomic level, ABRR can provide monetary authorities with multiple independent additional tools of monetary control that can supplement existing control over the short term interest rate. Thus, if the monetary authorities want to check stock market inflation because it is resulting in excessive consumption, they can impose reserve requirements on equity holdings. This would force

FIs to hold some cash to back their equity holdings, which would lower the return on equities and discourage such holdings.[9]

Exactly the same could be done if the authorities thought the property market were over-heating. In this case, rather than raising interest rates and slowing the entire economy, the monetary authority could impose higher reserve requirements on all new mortgages and thereby raise the cost of mortgage lending. In the United Kingdom this offers a real solution to an existing pressing dilemma. Booming house prices in London and the south east threaten to cause inflation, but raising interest rates to cool London's hot property market will further depress economic conditions in Scotland and the North of England. However, if ABRR were imposed on all mortgage loans in south east England, this would cool the region's property market without raising interest rates in the rest of the country.

Moreover, just as conventional methods of dealing with the overheating property market in the south east of the U.K. pose a problem for Scotland and the north of England, so too they pose a problem for British manufacturing industry. Raising interest rates appreciates the sterling exchange rate which makes British manufactured exports uncompetitive and increases the competitiveness of manufactured imports. A system of ABRR would also avoid this problem as the monetary authority would simply raise the reserve requirement on mortgage loans while leaving the general level of interest rates unaffected. Consequently, there would be no appreciation of the exchange rate. These examples regarding equity and property markets illustrate how ABRR can provide central banks with additional policy instruments that can be surgically honed to target those sectors in which

[9] If individual investors are the problem, then they can be mandated to hold reserves against equities held in brokerage accounts. Of course this might induce some investors to register equity holdings to their home address, but the leakage is likely to be small as there are significant transaction costs to holding equity certificates at home. These include depositing dividends, keeping the certificates in a safe place, keeping tax records, and getting the certificates to a broker when time to sell comes.

imbalances exist. This avoids the need for recourse to the economic amputation associated with raising the general level of interest rates.[10]

At the microeconomic level there are also significant advantages. One long recognized advantage is that ABRR can be used to promote the allocation of credit to areas deemed socially deserving (Thurow, 1972: Pollin, 1993). This could be done by having those allocations deemed socially desirable subject to low or zero requirements. Such a credit allocation function clearly links with recent discussions linking the problem of financial instability to inappropriate asset allocations. Thus, the 1997 east Asian financial crisis is now widely attributed to excessive reliance on short term lending, combined with overly risky portfolio investment. This suggests a need to regulate the asset side of financial intermediaries' balance sheets, and ABRR do exactly this. Imposing higher reserve requirements on short term loans can raise the cost of short term loans relative to longer term loans, thereby discouraging short term borrowing. Likewise, making risky foreign country portfolio investments subject to reserve requirements can lower returns to such investments, thereby discouraging holdings.[11]

A last microeconomic advantage of ABRR concerns their financial crisis properties. In particular, ABRR have valuable incentive-consistent properties that can help stabilize financial systems. In recent years, monetary authorities have emphasized the need for capital requirements to mitigate the problem of moral hazard in lending, and these new capital requirements were formalized in the Basle agreement of 1988 which introduced risk based equity requirements. The aim was to

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[10] The above argument can be formally constructed in terms of Tinbergen's (1952) targets and instruments approach to economic policy. If policy is to be successful, policy makers need one independent policy instrument for each independent policy target (i.e. one stone for each bird). Today, the monetary authority has multiple targets but only one instrument - the interest rate. ABRR can alleviate this problem by giving it multiple additional instruments that can be targeted on areas of the financial sector as and when they exhibit problems.

[11] This proposal has recently been advanced by D'Arista (1999) and it represents a specific application of ABRR.

counter moral hazard and discourage banks from adopting excessively risky asset compositions by obliging them to put up more equity capital as the riskiness of lending increased. However, these requirements are potentially unstable and may exacerbate the business cycle (i.e. they may be a regulatory automatic destabilizer). Thus, in a recession asset quality can deteriorate rapidly, requiring banks to raise more equity capital. Yet, this is exactly when it is most difficult for banks to raise more equity, and the result can be a credit crunch that exacerbates the recession.

ABRR don't have this problem, but they can do the same job. Thus, they can be structured according to risk, thereby making risky loans relatively more costly and discouraging excessive risky lending. However, if a risky loan defaults, the reserves on that loan are freed up, giving banks the liquidity they need when they most need it. Contrastingly, under risk based capital standards loan defaults reduce equity and force banks to find more.

Moreover, it is also easier to expand the banking system's capacity to lend in times of recession under a system of ABRR than under a system of capital requirements. Under ABRR the monetary authority can inject reserves through open market operations, whereas bank equity holders must be willing to supply capital under a system of capital requirements. However, as noted above, this is when equity holders may be most reluctant to supply capital, and this makes counter-cyclical management of the banking system more difficult.

4. Further issues

Another advantage of ABRR concerns it implications for collection of seignorage and the conduct of monetary policy. Under existing arrangements, government collects seignorage on cash held by the public and through reserve requirements levied on bank deposits. Over the last decade, as cash needs have fallen owing to the introduction of new transactions technologies (such as credit cards), and as bank holdings of reserves have fallen away owing to lowering of reserve requirement ratios and reduced demand for bank deposits, seignorage collection has declined. Introduction of ABRR on the spectrum of financial assets held by FIs would reverse this, and hugely increase the demand for reserves. In doing so, it would create a seignorage windfall that would benefit the public purse. Moreover, seignorage revenues would grow as the economy's holdings of financial assets grew.

With regard to monetary policy, the declining significance of banks threatens to make the future conduct of monetary policy more difficult.[12] Monetary policy works through central banks exchanging government bonds for reserves, and thereby altering the supply of reserves. A key requirement is that there be a demand for reserves, so that the change in supply causes a market imbalance that in turn causes interest rates to adjust. However, the demand for reserves has been shrinking as banks have shrunk relative to the overall financial sector, and as reserve requirements on deposits have been lowered. This means that central banks (including the Fed) have an increasingly tenuous hold on the economy because their policies work via the banking system, and banks are increasingly small relative to the financial system. This trend will likely persist, making the conduct of future monetary policy more difficult. Imposing a system of ABRR on all FIs would re-establish the Fed's hold over the entire financial sector, and monetary policy would work rapidly and forcefully since any change in the supply of reserves would be felt by all FIs across the board.

Another issue concerns the place of capital requirements in a system of ABRR. In principle, the two can co-exist, and they can even be viewed as complements. Thus, ABRR can be used to impact asset allocations, the criteria for use being asset risk considerations and the existence of market imbalances. Capital requirements can also affect asset allocations, but in addition they can also address moral hazard concerns. In particular, there is a belief that banks take excessive risks when lending depositor money rather than equity holder money. Increasing the amount of bank equity that is on the line through imposition of capital standards can help reduce such excessive risk taking. However, all the pro-cyclical problems of capital standards (described above) would remain.

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[12] This is an issue that has been recently raised by Friedman (1999).

5. Conclusion

The financial instability of the last three years has prompted a debate over need for a new international financial architecture. Thus far, the debate has focused almost exclusively on the structural inadequacies of developing country capital markets and the effects of international capital mobility, and it has ignored the growth of financial instability in industrialised country markets. Yet, it is these latter markets that are the source of the finance that fuels the new system, and it is instability in these markets that represents the greatest danger owing to their massive size. This suggests the need for a new comprehensive regulatory system that can control instability in them, yet which retains the benefits that stem from efficient allocation of capital.

This paper has argued for the construction of a new regulatory framework centered on asset based reserve requirements. Such a system can be used to reduce financial instability by providing policy makers with the instruments needed to discourage excessive risk taking. It can help policy makers in their task of macroeconomic management by allowing them to target particular areas of the economy that are over-heated, thereby avoiding the need to slow the entire economy when inflation appears in just one sector. It can also raise significant seignorage that benefits the public purse, and enhance the traction of monetary policy in a world in which banks are becoming a smaller part of the financial landscape. Finally, it also has the desirable stability property that liquidity is automatically released in times of financial distress, thereby acting as an automatic stabilizer vis-a-vis financial crisis.

Finally, effective working of ABRR as an instrument of monetary control requires application to the entire financial system. If placed on just banks, this would encourage the shift of financial intermediation outside the banking sector so that the effectiveness of monetary control would gradually diminish. For these reasons, a new system of ABRR should be applied to all financial intermediaries including banks, insurance funds, and mutual funds. Reserve requirements should be set by asset type, not by who holds the asset. Within the U.S., the financial regulations of the New Deal era have been largely bypassed by innovation and legal repeal. A comprehensive regulatory system based on ABRR can fill the regulatory void that now exists and contribute to the restoration of stable domestic financial markets that are the prerequisite of stable international financial markets.

No doubt, objections will be raised against a system of ABRR on the grounds that this interferes with the free functioning of financial markets. But these objections ring hollow. Monetary authorities already intervene through reserve requirements on deposits. Even more importantly, they intervene through the setting of interest rates which impacts bond prices, equity prices, and housing prices via mortgage rates. Financial markets are also governed by rules, including capital standards, and these rules affect asset prices and allocations. Indeed, it is impossible to imagine a financial market without rules, and therefore impossible for asset prices and allocations not to be "interfered" with. All of this shows that the interference is not the issue. Instead, the issue is what are the economic advantages and disadvantages of competing rule based regulatory frameworks, and on this score the case for ABRR is compelling.

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Rob Scott

Impact of globalisation on the industrial structure of the United States

1. Introduction

The protests in Seattle demonstrated that the costs of globalisation are rising in the North, as well as the South. There is little doubt that trade has displaced a large number of workers from high-tech, high-wage manufacturing jobs in the U.S., in particular, over the past several decades.

Trade has also had a depressing effect on U.S. wages in this period, as workers have been forced out of manufacturing industries into low-paying occupations in services such as restaurants and the rapidly growing health care industries.[1] In addition, the growth in trade with low-wage countries, which are also responsible for a large share of the U.S. trade deficit, has had tremendous depressing effect on wages in manufacturing and other sectors of the economy.

Over the long term, and especially in an economy, such as the U.S., which is near the peak of its' business cycle, trade has a much larger affect on the distribution of incomes than on the level of employment. Workers displaced by trade can be absorbed by other industries, but usually at the cost of a reduction in their standards of living.

Surprisingly, U.S. trade deficits have not been good for workers in developing countries, either. Recent research has revealed that globalisation is associated with rising levels of income inequality in

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[1] Note that wages have declined for most male workers in the U.S. since 1973 (Mishel, Bernstein and Schmitt 1999: 133). However, wages have improved for most female workers in this period, except for those in the bottom two deciles of the income distribution (*ibid,* 134). Thus, male workers have apparently borne the brunt of the impacts of globalisation on wages in the U.S.

many countries, and the recent Mexican, Asian, Brazilian and Russian financial crises have shown that increased openness may have increased macroeconomic instability, as well.[2] I will briefly review this evidence because it is important to establish that globalisation confronts workers in poorer nations with many of the same problems facing their counterparts in the U.S. Hence, the solutions to these problems must also be global in nature.

Trade deficits and employment

Proponents of recent trade initiatives have consistently used misleading job numbers to support their case. For example, the Clinton Administration claimed in 1997 that 2.3 million jobs in the United States were supported by exports to Mexico and Canada, 311,000 of them attributable to increased trade under the North American Free Trade Agreement (NAFTA). It also claims that rising exports to NAFTA countries have created jobs in every state in the Union (EOP 1997). These figures are biased and misleading, because they only include jobs related to exports, while ignoring job opportunities lost due to rising imports.

EPI has prepared a number of detailed studies in the past several years which show that the growth in the trade deficit over the past two decades has destroyed millions of high-wage, high skilled manufacturing jobs in the U.S.[3] When the economy is at full-employment, and in the long run, workers whose jobs have been eliminated by the trade deficit will find jobs in industries producing non-traded goods. Thus, trade deficits are responsible for a change in the *composition* of employment, but are unlikely to cause a rise in the *level or rate* of unemployment, in the long run, even though large numbers of jobs have been destroyed.

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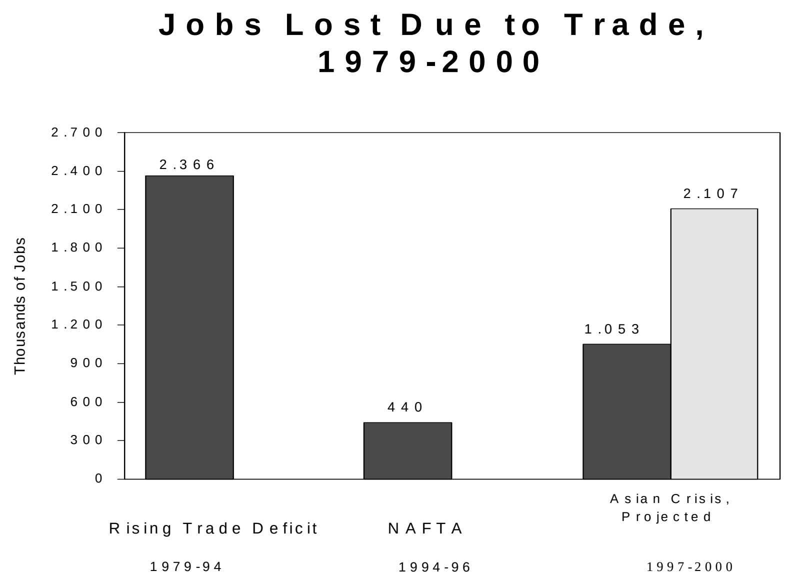
[2] The growing frequency of financial crises suggests that capital market liberalization and the rapid growth of international capital flows (especially short-run capital) may have increased the variance of income in many developing countries. See Jason Furman and Joseph E. Stiglitz "Economic Crises: Evidence and Insights from East Asia," *Brookings Papers on Economic Activity, Macroeconomics*, 2:98.

[3] The EPI reports cited herein are available through the library link on the epi homepage: < epinet.org >.

Recent and prospective job losses due to rising trade deficits are summarized in **Figure 1**. Between 1979 and 1994, the growing trade deficit eliminated 2.4 million jobs in the U.S. (Scott, Lee and Schmitt 1997). Almost all of these jobs were concentrated in the manufacturing sector.

Figure 1:



Source: Economic Policy Institute

After NAFTA was implemented, on January 1, 1994, the U.S. trade surplus with Mexico turned into a deficit. Rothstein and Scott (1997a) showed that between 1994 and 1996, changes in trade with the NAFTA countries eliminated an additional 395,000 jobs, as shown in Figure 1. Growing trade deficits with China (not shown) also eliminated several hundred thousand jobs in this period (Rothstein and Scott1997b).

Since 1997, the Asian financial crisis has greatly increased the U.S. trade deficit. At the beginning of that crisis EPI forecast that it would eliminate up to two million jobs in the U.S., with most of the losses concentrated in the manufacturing sectors of the economy (Scott and Rothstein 1998). These job losses have begun to materialize, despite the continuing boom in the rest of the economy. The U.S. has lost more than 500,000 manufacturing jobs since March of 1998, due to the impact of the rising trade deficit.[4]

In sum, trade has eliminated more than three million U.S. jobs in goods producing industries in the past two decades. Many more will be lost in the future unless the long-term growth in the U.S. trade deficit is halted. The expansion of output in other sectors of the economy has been sufficient to absorb most workers dislocated by trade, in the past. However, trade-related job loss has become a lightening rod for public discontent about the consequences of globalisation for several reasons, in addition to the direct costs of job loss. Trade and globalisation are associated with an increase in the insecurity of workers, particularly in industries subject to foreign competition. In addition, trade deficits are directly linked to falling wages for non-college-educated production workers, and to recent increases in the inequality of income distribution in the U.S.

2. Trade and wages

In the 1950s and 1960s, the U.S. was the world's leading export powerhouse. The Marshall plan helped provided the capital needed to rebuild Europe and Japan, and fuelled a tremendous demand for U.S. exports.

During this period, the U.S. ran a substantial trade surplus, of about one percent of Gross Domestic Product, as shown in **Figure 2**. The U.S. also benefited initially from strong export demand in a wide range of industries, from low-tech textiles and apparel to sophisticated aircraft and machine tools.

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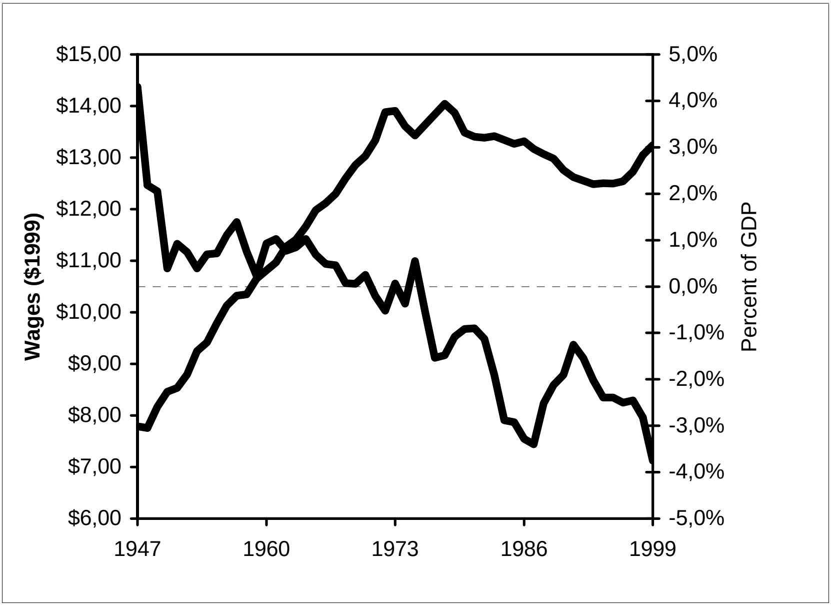
[4] For changes in manufacturing employment, see the U.S. Bureau of Labor Statistics homepage: http://stats.bls.gov/.

Figure 2: Real Wages & Trade Deficit, U.S., 1947-99



Since the 1970s the U.S. moved from a trade surplus to a deficit position, as Europe and Japan began to compete effectively with the U.S. in a range of industries. The trade surplus of the 1960s was transformed into a deficit that reached 2.9% of GDP in 1998, as shown in Figure 2. This deficit will grow rapidly in the future as a result of the continuing global financial crisis.

Trade deficits also have a direct impact on wages, especially for non-college educated workers, who make up three-quarters of the U.S. labor force. The other line in Figure 2 shows that the average real wage for U.S. production workers peaked in 1978, declining more or less steadily through 1996. Real wages have begun to increase in the past 4 years. However, the 6% upturn in real wages since then was not enough to offset a decline of more than 11% since the 1978, nor to return workers to the path of steadily rising wages they experienced from 1950 through 1973.

3. Recent trends in U.S. trade flows

The U.S. trade deficit has surged to record levels in the past two years, both in absolute terms, and as a share of U.S. output (GDP). The U.S. goods deficit (exports less imports) reached $347 billion in 1999, or 3.8 % of GDP, as shown in Table 1.[5] The deficit increased by 40% in 1999, alone. The deficit in goods and services increased by 65%, to $271 billion, as the U.S. surplus in services declined. The U.S. current account balance, the broadest measure of trade flows, which will be released on March 15, is expected to total about $350 billion, and probably equaled 4.0% of GDP in the fourth quarter of 1999. Table 1 also shows that the U.S. trade deficits grew rapidly in 1999 with the U.S. NAFTA partners (Mexico and Canada), and with China, Japan, Latin America and OPEC. The U.S. lost 341,000 manufacturing jobs last year, continuing a trend that began in March 1998. The trade deficit expanded most rapidly in 1999 in motor vehicles, computers and office machines, televisions and VCRs, and aircraft and parts.

Some government officials have blamed the recent growth in the U.S. trade deficit on the Asian financial crisis, and the rapid expansion of the U.S. economy, relative to rest of the world. While these forces have clearly contributed to the rapid run-up in the deficit in the past two years, the U.S. trade deficit also reflects a long-term process of globalisation that has eroded the U.S. manufacturing base and contributed to a steady decline in the earnings of production workers, as shown below.

The rest of this paper will examine the effects of globalisation on output and employment in U.S. manufacturing industries since the 1970s, and discuss the implications of these trends for U.S. workers.

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[5] Source for Table 1: U.S. Census Bureau, "FTD - FT900 Press Release, U.S. Foreign Trade Highlights, December 1999." < http://www.census.gov/foreign-trade/www/press.html >

4. Long-term trends in U.S. trade and wages

While there is an obvious correlation between the growth of the U.S. goods and services trade deficit and the sharp break in the trend of U.S. wages shown in Figure 2, there are also many other factors that have also contributed to these trends. For example, the recent increase in production worker wages is closely related and to the recent decline in U.S. unemployment rates, which reached 4.0% in 1999, a level not experienced since the early 1960s. Several recent increases in minimum wage levels in the U.S. have also improved the real incomes of low-wage workers.

Other types of structural change, such as deregulation and a steady decline in the share of the U.S. labor force represented by labor unions have also played an important role in the decline of production worker wages shown in Figure 2. However, it is also difficult to separate the effects of trade from these other forces.

There is a large amount of economic research on the links between trade and wages in the U.S. and other countries.[6] Some economists have claimed that trade has had no significant effect on the wages of U.S. production workers, while others claim that this effect is significant.[7] Much of this research has focused on the gap between production worker wages, and those of non-production workers, which grown throughout this period

For example, Feenstra and Hanson examined the effects of outsourcing on the relative wages of non-production workers. They used a broad, general definition of outsourcing that included "all intermediate or final goods that are used in the production of, or sold under the brandname of, an American firm." Feenstra and Hanson (1995, 20).

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[6] See Schmitt and Mishel (1996) for a review of this literature.

[7] Mishel, Bernstein and Schmitt (1999, 181) find that trade is responsible for essentiall all of the 7.7 percentage point increase in the gap between production and non-production worker wages between 1979 and 1989.

Specifically, their model regressed the annual change in the non-production worker share of the wage bill on the change in shipments/(shipments + imports), and several other macroeconomic variables.[8] Feenstra and Hanson found that "15-33% of the increase in the relative wage of non-production (or skilled) workers in the U.S. during the 1980's is explained by the rise of imports." Feenstra and Hanson (1995, 1).

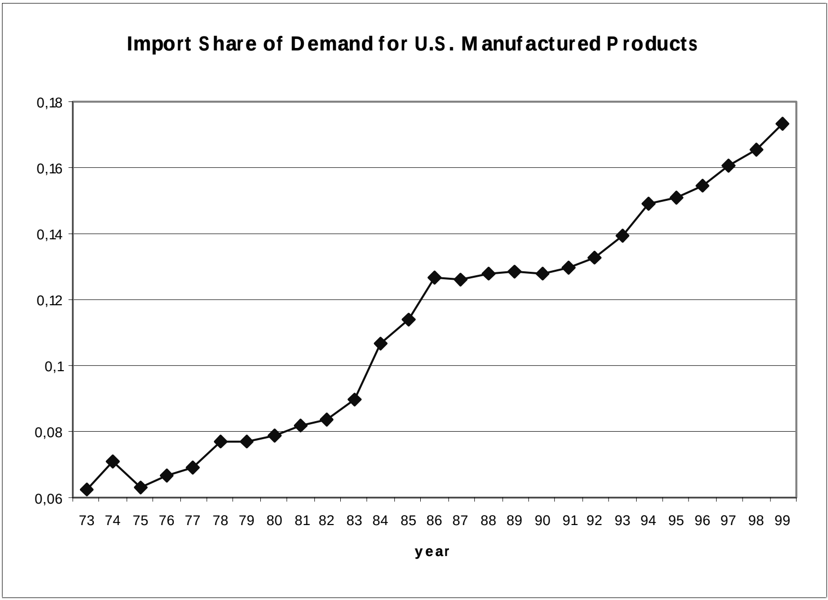
Feenstra and Hanson included data for the period 1973 through 1987, only. This paper examines outsourcing patterns between 1973 and 1999, using recently released data on U.S. trade at the 2-digit SIC level (for 20 manufacturing industries in the U.S.). These data are used to examine trends in outsourcing, and to develop a counterfactual-simulation that is used to generate a conservative estimate of the effects of trade and other factors on U.S. manufacturing employment in this period.

The import share of U.S. manufacturing demand rose steadily from 6.3% in 1973 to 17.4% in 1999, a shown in **Figure 3**. Although this share jumped by 0.9 percentage points in 1999, this increase is not a substantial deviation from the trend of steadily rising imports (outsourcing). Thus, the Asian financial crisis, and strong U.S. growth in the late 1990s have simply reinforced a sustained trend of increasing import penetration.[9]

[8] Other variables included the changes in capital stock/output, plant/real output, and equipment/real output ratios (Feenstra and Hanson, 38).

[9] Figure 3 includes all U.S. imports of manufactured products in SIC industries 20-39. Agricultural products, minerals (including crude petroleum) and all other non-manufactured products are excluded. The import share of manufacturing, excluding all petroleum products (SIC 29) rose from 6.1% in 1973 to 17.6% in 1999, a slightly rate of growth than is shown in Figure 2.

Figure 3:



5. Net exports reveal hysterisis and sustained impacts of financial crises

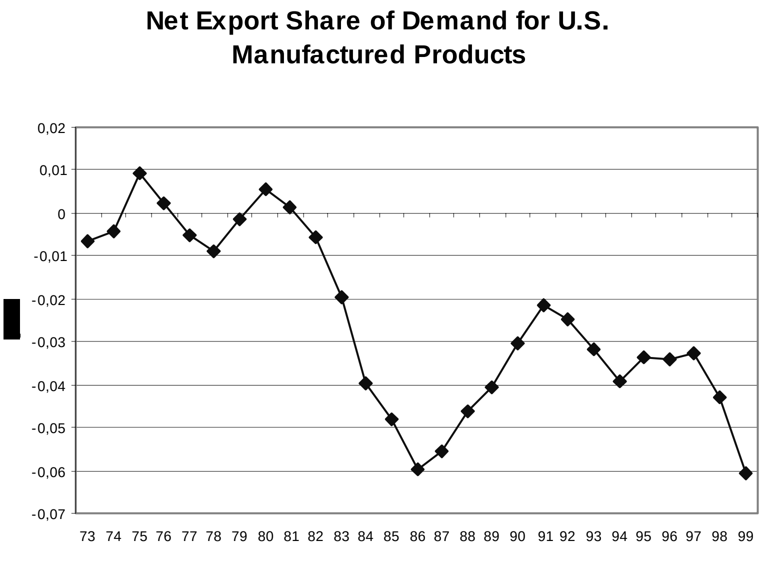
Imports and exports could have both grown rapidly, with balanced trade, and yet the import share could still exhibit rapid growth, as it does in Figure 3. Feenstra and Hanson did not distinguish the effects of outsourcing from shifts in the trade balance, at the sectoral level.

The net export (export less import) share of U.S. demand for manufactured products is shown in Figure 3. This ratio declines from a peak of 0.9% in 1975, when the U.S. had a surplus in manufactured goods trade, to a deficit of 6.1% in 1999. This series is also clearly affected by the business cycle - the U.S. deficit reached low points in 1975 and 1991, when the economy was near cyclical lows.

The net export share also reflects the clear effects of hysterisis on the U.S. manufacturing sector. The manufacturing trade deficit reached peak levels in 1986 and 1999 (Figure 4). The economy was growing strongly in each of these years, and the dollar was also at or near cyclical peak levels, which reduced the competitiveness of U.S. goods. However, the U.S. business cycle was not reversible. The U.S. never again achieved balanced trade in manufacturing after period of dollar over-valuation in 1980-85.

The net export share appears to follow a declining, stair-step pattern in **Figure 4**. If the U.S. trade deficit continues to expand in the future, the structural trade gap could exceed the range of 2% to 4% of shipments that prevailed between 1990 and 1997. Even a sharp decline in the dollar's value would be unlikely to restore the manufacturing trade balance to this level.

Figure 4:



6. Sectoral impacts of globalisation

This section examines trends in import and net export shares between business cycle peaks, as defined by the National Bureau of Economic Research. These occurred in 1973, 1980 and 1990.[10] Shares for 1999 are also used as the end point for the current business cycle. Average annual rates of change for import and net export shares (Figures 3 and 4, respectively) for all manufacturing industries during each of three business cycles are reported in the first two columns of Table 2.

Table 2: Impact of Globalisation on U.S. Industries, 1973 to 1990

	Average annual:		Number of industries with:		Share of industries with:	
year	change in import share	change in net export share	rising import share	falling net export share	rising import share	falling net export share
1973 to 80	0,24%	0,17%	18 out of 20	5 out of 20	90%	25%
1980 to 90	0,49%	-0,36%	18 out of 20	15 out of 20	90%	75%
1990 to 99	0,51%	-0,34%	12 out of 14	10 out of 14	86%	71%

Imports increased, on average, 0.24% per year between 1973 and 1980, while net exports actually improved. Thus, the effects of trade on employment and industrial structure was mixed in this period. The growth in the import share increased to 0.49% per year between 1980 and 1990. In addition, the net export share also fell by 0.36% per year in this period, confirming the negative effect of trade on employment and manufacturing output.[11]

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[10] The NBER has also determined that a business cycle peak was reached in 1981. The 1980-81 period is ignored here to provide adequate perspective on long-term trends.

[11] Feenstra and Hanson (1995, 21) found that the import share grew 0.656% per year, between 1973 and 1987, a similar finding. Differences in aggregation techniques may reduce the comparability of these estimates.

The growth in the average import share increased slightly, to 0.51% between 1990 and 1999, while the change in the net export share improved to -0.34%. Thus, the negative effects of trade on employment and manufacturing output have persisted in the 1990s. Competition from imports was widespread across industries, and grew increasingly pronounced in the 1980s and 1990s, as shown in the last two sections of Table 2. In each of the three business cycle 86% to 90% of the 2-digit industries considered experienced growing import shares over the cycle.[12] On the other hand, net exports declined in only 5 out of 20 (25%) of 2-digit industries between 1973 and 1980. This share jumped to 75% and 71%, respectively, in the 1980s and 1990s.

Returning to Figure 1, above, for a moment, the data in Table 2 suggest that moderate import competition in the 1970s, with rapidly growing imports and a smaller number of industries facing declining net exports, was associated with a leveling off of production worker wages. Real wages for these workers began to fall sharply after 1979, just as the level of import competition accelerated.

These data provide further support for Feenstra and Hanson's finding that outsourcing explains a significant share of the growth in the production/non-production worker wage gap. The continued growth of import competition in the 1990s has contributed to the continuing stagnation of production worker incomes in the U.S., despite improvements in the minimum wage and unemployment rates that have otherwise helped to improve the wages of these workers.

Further statistical analysis and modeling of the relationship between outsourcing and wages in the 1990s is an important area for future research. This work should also be extended to other countries, with different institutional contexts, to deepen our understanding of the trade-offs between globalisation and inequality.

[12] Industry-level shipments have not yet been reported for 6 of the 20 manufacturing industries for 1998 or 1999. These include several import-intensive sectors, such lumber, and apparel products.

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Fujikazu Suzuki

Economic rebirth with security and stability in Japan

1. Introduction

Japan in the '90s saw an unprecedentedly long and serious economic stagnation. All people are now concerned about how to revitalize the Japanese economy. This paper is an attempt to answer this question from a trade unionist's point of view. First, we will overview the current developments of the Japanese economy. Secondly, we will examine the basic conditions for medium and long-term economic developments. And lastly, some of the new items on the policy agenda for economic rebirth with security and stability will be discussed.

2. Current developments in the Japanese economy

(1) For the world economy in the 1990s, which was characterized by the rapid development in globalisation of national economies, optimistic views dominated, based on the general confidence in the future of the market economy. However, as evidenced by the turmoil in the international financial market triggered by the Asian financial crisis in 1997, the world economy over the past couple of years has been faced by a series of crises. The statement from the G8 Cologne Summit emphasized that "any economic development and reform must bring about benefits to all constituents of society", which indicated the retreat from the almighty market doctrine and the revival of a viewpoint that the economy should serve society.

(2) The Japanese economy, which slipped into recession in the spring of 1997, has experienced such business-stimulant policies as increases in public investment and improvements in housing investment since the start of 1999, and now the business cycle has stopped falling. This may confirm afresh the importance of macro-economic policy. Both

consumer and business confidence, which worsened significantly in the wake of the financial crisis, have improved, too, since their anxieties have been alleviated by a series of measures taken by the government and monetary authorities to regain the stability of financial systems since the fall last year. In the overseas environment, too, recovery of Asian economies has begun to help resume a favorable circle in the domestic economy through trade with Asian economies.

(3) Against the government's economic policy aiming at boosting aggregate demand, some argue that reforms in the supply side are much more important to get through current recession. They point to the "three excessive factors", i.e. bad debt on the reverse side of the non-performing loan issue, production capacity and employment. However, the current “problem of excess of production capacity and employment” is not a hangover from the past economic bubble period, rather, the problem of excess capacity has developed as a result of insufficient demand under the policy-led recession since fiscal 1997 (the year ending March 1998), so that it is essential for the Japanese economy to return to its potential growth path through appropriate administration of the macro-economic policy.

(4) The challenge in fiscal 2000 should be to seize the cues for economic recovery which surfaced in fiscal 1999, realize autonomous economic recovery, and further link the expected recovery with improvements in employment. One of the concerns in the course of these developments is that, with widespread arguments for the "three excessive factors", the mood for restructuring deeply remains in industry, and some people still believe that regaining vitality of business corporations even at the cost of employment would lead to full-swing business recovery. In this sense, the Japanese economy stands at the crossroads. Either it opts for creating a favorable circle in the entire economy through assuring a sentiment of security in households, and thus expanding consumption expenditures, or bets on the vitality of business enterprises through restructuring without any prospect for an increase in consumption demand.

3. The basic conditions for medium- and long-term economic developments

(1) In the debates on re-birth of the Japanese economy, the term "competitiveness" is often cited. Looking at the report from the Young Committee of the United States, which is said to be the model for the Congress on Industrial Competitiveness of Japan, the starting point of the Committee's considerations was how to achieve any sustainable advancement in American living standard, and in a sense its intention is similar to the high-road approach of pursuing higher productivity and higher wages. Attention to technology and human resources which form the ground for the improvement in productivity has led to a re-birth of the American economy in recent years.

(2) To maintain any sustainable economic growth, it is essential to achieve continuous technological progress. In comparison with the United States and European countries, research and technological development programs in Japan are characterized by smaller weight in basic research, smaller contributions to research and development by the non-manufacturing industries, less significant investment by venture capital which provides funds for the technology development type enterprises, smaller portion of government funds in overall R&D expenditures, and the inadequacy in coordination between industry and others, and with international partners. Major challenges to the government in this area are to support basic research and development which the private sector would not do satisfactorily, and develop an R&D infrastructure, as well as to structure a financial system to smoothly provide risk money for R&D ventures. Other challenges to the government include nurturing an innovation-oriented culture, facilitating proliferation of venture businesses specialized in networking and technological development, promoting partnership and exchange between the government, industry and academy, managing global coordination in research and technological development, and achieving harmonization between science & technology, as well as people & society.

(3) The long-term employment practice featured as one of the characteristics of the Japanese-specific employment system has been deepened rather than weakened, as evidenced by statistics of average

service years and labor turnover. The long-term employment system helps to facilitate human capital formation (competence development), which has long succeeded in supporting developments of the Japanese economy. The longer are average service years in an industry, the higher is its productivity increase, and this relationship between the service year and productivity growth has not much changed in the 1990s as compared with the first half of the 1980s, so that it can be reasonably concluded that the merit of long-term employment for human capital formation has not waned at all.

4. New dimensions in employment and social security policy

4.1. The need for more active labor market policy

During the period from 1998 to the early months of 1999, the already worsening employment situation deteriorated further. In the April-to-June quarter of 1999, the seasonally adjusted total unemployment rate stood at 4.8% (5.0% for men, and 4.4% for women), a level close to the 5% mark, or the worst level in the post-war history. The rise in the unemployment rate was essentially attributed to the substantial decline in demand for labor due to the worsening corporate performance and the intensifying uncertainties of business in the future. Also, when closely looking to recent unemployment, the jobless rate of the head of household, or the major income earner in a family, was higher than ever. Unemployment not only deprives workers of their means of living and of opportunities to accomplish their self-fulfillment, but also generates various social costs such as adverse effects on both demand and supply sides of macro-economy, loss of opportunities to accumulate skills over the long-term, and the worsening budget deficit. Addressing the fact that these social costs have been growing more than ever under the current recession, implementation of a comprehensive package of employment security measures, including job creation, is required. Compared to international levels, Japanese public spending on employment policy programs remains at a very low level. In order to support a substantial and active labor market policy designed to successfully manage the difficult economic situation at present, an expansion of public policy programs is urgently needed right now.

4.2. Seeking the Japanese model of "stakeholders corporation"

In recent years, under the rapidly evolving globalisation of economies and fiercer competition, there have been growing arguments for the necessity of reviewing corporate governance to put corporate management under stricter discipline supervised by representatives of shareholders from the viewpoint that "a business corporation belongs to its shareholders". This has not remained as mere abstract argument, but there evolve specific developments in revising the Commercial Code. But, stakeholders of a business corporation are not limited to shareholders alone. The form of decision making in corporate management exerts significant impacts on its employees, trade unions, consumers, creditors, suppliers, local communities and other various interests, too. One of the influential arguments in these days is that the objective of corporate governance is to facilitate the "prosperity of a business corporation", while taking into consideration diverse interests of these stakeholders. In this regard, in Japan nowadays those managers who believe that "the company is owned by shareholders, and its employees are one of the mere production factors" are very few, and an overwhelming majority of managers think that "as stakeholders of a company are not limited to its shareholders, the management is required to reflect appropriately intentions of these multiple stakeholders in their decision-making". Regarding employment of workers, the management is expected in general to maintain essentially long-term, stable employment. In the future, however, many companies are anticipated to promote tough internal reforms aiming at achieving "business prosperity", while retaining the framework of the Japanese-specific corporate system. In particular, in the area of employment, more emphasis will be placed on the performance principle for wages, as well as the individualized personnel administration, and in this regard personnel management practice shows a sign at Japanese corporations of shifting from collective industrial relations with trade unions to the individualized labor/management relations between the management and individual employees. Challenges to Japanese trade unions are to what extent unions are able to carry forward the interests of employees, and how they can fortify and develop the institutional framework of workers' participation into corporate decision making as a prerequisite for defending the interests of employees, under these internal reforms which are evolving at business corporations. Through the practice of tackling these challenges, it is necessary to find a Japanese human-centered corporate model.

4.3. Sustainable "flexibility" in the labor market

Globalisation of economies and the progress in innovations in information technology have forced important changes in corporate behavior and have encouraged modifications in production systems, which have brought about major changes in the arena of employment and labor. "A production system able to produce keeping abreast with speed of selling", that is instantly addressing daily fluctuations in the marketplace, is being aimed at. The "flexibility" for instantly meeting changes is surfaced as the keyword in every aspect of business. However, the problem here is what kind of "flexibility" should be acquired. How to acquire a "sustainable flexibility" in the labor market without causing stagnation in real wages, the inequality, and the instability of employment, as well as without damaging social integration has become a central concern among policy-makers in many countries. In the recent "Job Summit" talks, such a concern was increasingly articulated by political leaders. The Japanese employment system has realized the compatibility between stable employment and the flexibility through combining human capital formation by intra-company professional competence development with the flexible labor allocation function within the internal labor market and the quasi-internal labor market (a group of companies). Basically, this functioncontinues to operate. In order to make this function sustainable, it is essential to enrich public policy programs addressing employment. In this sense, Japan is urgently required to restructure its "active labor market policy".

4.4. How to deal with the national anxiety for the future

Under the reform of fiscal structure started from 1996, social security policy of Japan has been faced by a major backlash. That is, instead of arguing how a “sustainable social security” system should be structured against the rapid changes heading toward a Japanese society with a declining birth rate and an aging population, the decade-old argument is reduced to the claim that the responsibility and financial burden for people's living and employment life-long should be carried by "isolated individuals" and market principles, not by society and public systems. The Congress on Economic Strategy has chalked up a proposal to privatise the corporate/employee pension on the strange plea that "Japan is a society of perverted equality". In this proposal some may find the attitude of giving priority to the capital and financial markets, rather than respecting the logic of secure living. In the government's new economic plan, the position of social security policy is regressed to a passive one such as the safety net for the failed and socially vulnerable people. But, the "public's anxiety" developed through such a series of policy changes has further aggravated the current recession. In order to dispel this "public's anxiety" and resume social confidence in the social security system, it is necessary to clearly define a vision of social security and its principles in order to reach a national consensus in this particular area. On this occasion, it is essential to position social welfare in people's living on the whole and relate it to employment.

4.5. Toward a welfare driven growth path

One of the major elements causing excess savings in the Japanese economy is Japanese people's concern about their living in the future. Given the fact that the cause for many socio-economic problems in these days does not lie in excess of welfare, but in the insufficiency of a reliable welfare system, it is important to transform or guide such an inadequacy into effective demand. A systematic implementation of policy programs to this end is the key to put the Japanese economy on the next growth path. This means policy conversion from conventional public investment policy, industrial policy and regional development policy, which are biased in favor of constructing roads, ports and harbors, and buildings, to the development of the information infrastructure and information networks, human resources development and life-long education, social and welfare services, including health care and nursing care, and the development of conditions to save the global environment and realizing a "recycling-type economy". This is a conversion to a growth pattern which will have a broadly defined "social sector" as its leading sector. In this growth pattern, it is essential to make full use of the creativity of municipalities thanks to decentralization, and expand people's participation and responsibility. Also, freedom and equality must be assured in good balance. This growth pattern also requires entrepreneurship demonstrated by smaller capitalists, as well as partnership between NPOs and the public and private sectors. Such social consumption and investment must be combined with expanded consumption expenditures of individuals to achieve the return to a stable growth path. It is decisively required for the Japanese economy to have strategies for industrial structure conversion and job creation heading toward this direction.

Roy Green, Matthew Steen, Andrew Wilson

The third way in Europe: New Labour's employment and industrial relations strategy

1. Introduction

In the context of competitive pressures unleashed by globalisation, it is commonly argued that strong and sustained growth of the US economy - in contrast to the persistence of relatively high unemployment in Europe - has impelled social democratic governments to pursue reform of labour markets and the welfare state.[1] US economists Lawrence Katz and Alan Krueger have claimed that more 'flexible' labour markets and other demographic changes in the US have reduced the 'natural rate of unemployment', facilitating expansion without the reappearance of high rates of inflation (Katz & Krueger 1999). Similarly, reform of the welfare system has increased the supply of low-paid labour, preventing the build-up of wage pressures which might have choked expansion. Unless Europe adopts similar measures, the argument runs, unemployment will remain high and excessive burdens on European business will render it increasingly uncompetitive.

The purpose of the present paper is not to provide a critique of such arguments, although the authors consider them to be politically tendentious and unsound as a matter of economic analysis. A more convincing account of higher US rates of growth would focus primarily upon the perennial advantage of unrestricted access to the huge internal

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[1] The authors have criticised the concept of 'globalisation' as it is used in support of deregulation and 'third way' policies in R Green & A Wilson, ' Global facts and fictions: Trade, investment and industry policy', in C Shiel (ed), *Globalisation: Australian Impacts* [University of NSW Press, Sydney, 2000]

market and the restructuring of the US economy following the end of the cold-war. The leading position of the US in research and technology has flowed through to the benefit of US corporations in the productivity revolution, while the collapse of the Japanese stock market has allowed the acquisition of controlling interests in many Japanese firms. Moreover, the structure of US capital markets encourages the raising of equity finance for investment in new technology. In the US, equity capital in the IT sector is about three times bank loans, whereas in Europe the ratio is reversed. In the US, the technology share of stock market capitalisation exceeds 30%, whereas in Germany and Britain it is around 5%. European investment capital has therefore been exported to the US, depressing the value of the euro. These factors have reinforced the global dominance of US-based multinational corporations in more obvious and direct ways than any advantages derived from the state of labour markets. ‘Flexibility’ is a term of varying meaning, but if it is taken to mean primarily the availability of a suitable labour supply, the US as a high wage country is able to secure all the labour it requires, skilled or unskilled, simply by relaxing its immigration controls. This in fact has been occurring over the last few years in both the high technology and low wage sectors. Nevertheless, the claimed need for labour market and welfare reform is significant because it gives expression to real political pressure exerted by capital on the state to increase its control over labour and shift state expenditure from welfare.

Accommodation with these forces in the mid-90s by the Clinton 'New Democrats' produced a new concept of social policy known as the ‘third way’. This was a transformation of the original conception developed in the period up to Clinton’s election in 1992, based implicitly upon the Socialist International's 1951 programme, which marked out a distinct path for social democracy between US free market capitalism and Soviet Communism. Instead, the ‘third way’ became a ‘triangulation’ of the differences between Republicans and traditional Democrats. In turn, this formed the model for ‘New Labour’ in Britain following Prime Minister Blair’s abandonment of his brief flirtation with ‘stakeholder capitalism’ in 1995-6.

At first, the third way met with a sceptical response amongst social democrats on the Continent where it was seen as a residue of neoliberalism peculiar to the distinctive Anglo-American model of capitalism. However, the appearance of the Blair/Schroeder document (Tony Blair & Gerhard Schroeder, *Europe: The Third Way/Die Neue Mitte* 1999) demonstrated that this attitude gravely underestimated the potency of the third way as an ideological vehicle for reform in a social democratic dominated Europe. Significantly, there have been recurrent attempts over the last few years in Europe to place greater emphasis on the need for 'competitiveness' and 'flexibility'. In the short-term, the Blair/Schroeder document was buried in Germany by an adverse reaction of the governing party and a series of defeats in state elections. However, more recently the Lisbon summit in March was used to signal a more sustained assault on the traditional European model of 'social capitalism'.

Focussing on the experience of New Labour in Britain, this paper provides an outline of the political character of third way labour market policies. Firstly, though, we point to some of the difficulties in providing a coherent formulation of third way ideology to distinguish more clearly the real content and direction of the policies from their propaganda, which attempts to convince social democrats that the third way saves as much as possible from neoliberalism. This rhetoric was relatively successful for the first two years or so of the government's term, with the result that the implications of the 'third way' for the position of unions in Britain and in Europe as a whole are only now being widely appreciated. We shall argue that third way policies are not merely a cautious or watered-down version of traditional social democracy (Hall 1998), but essentially a consolidation and continuation in a different form of the neoliberal anti-trade union 'deregulation' agenda.

2. The third way: policy and ideology

The attempt by Professor Anthony Giddens to provide a theoretical formulation for New Labour's third way (Polity Cambridge; *The Third Way: The Renewal of Social Democracy* 1998, *The Third Way and its Critics* 2000) is generally reckoned to be a failure. The issue is not simply whether or not one agrees with the positions he has adopted. Nor is the problem that Giddens' book is a jumble of disordered and conflicting ideas garnered from an eclectic array of primarily academic sources. A more fundamental diffficulty is that turning the neoliberal sow's ear, the antithesis of the basic values associated with social democracy, into the silk purse of 'renewed' social democracy is a task beyond the abilities of even the cleverest academic conjuror.

Prime Minister Blair has always maintained that the third way is consistent with traditional social democratic 'values'; it is merely necessary to adapt some of the old and now inappropriate policies to different circumstances to ensure that the values themselves remain relevant and achievable. Ideology, however, is less concerned with detailed policies than with basic principles and Giddens claims to be putting 'theoretical flesh' on the 'skeleton' of policy making, 'to provide politics with a greater sense of direction and purpose' (p 2). By avoiding detailed policy, however, he merely incorporates inconsistent neoliberal values into his revision of social democracy, presenting critics of the government with an easy target.

It might be acceptable for American commentators writing for a predominantly business audience to state baldly that the victory of New Labour in 1997 'represented not a defeat for Margaret Thatcher but a consolidation of her revolution'(Yergin&Stanislaw 1997: 364). But in Britain, such a claim is usually identified with the 'hard left', outside the mainstream of Labour politics. The faithful are supposed to see the arch-priest's social democratic robes. Giddens' reincarnation of social democracy as the third way has the unfortunate consequence for the government of legitimating the extension of such critical attitudes as tensions magnify between government, party and unions. If Giddens' triangulation of social democracy and neoliberalism does indeed represent the ideology of the government, it allows the critics to occupy the standpoint of traditional social democracy from which the Government has, on its own admission, departed. Unfortunately for Giddens, Labour's supporters have not swallowed his claim that 'globalisation' has killed social democracy. On the contrary, they see it as temporarily submerged by the long domination of neoliberalism and overdue for resuscitation. Their faith is currently sustained by the

Conservatives' failure to constitute an effective opposition, a booming economy – at least for the rich, a surplus on public accounts, and a public opinion sympathetic towards trade unionism.

It is therefore not surprising to see Prime Minister Blair in a speech earlier this year at the celebration of Labour's centenary putting himself back into the mainstream social democratic tradition, reserving special praise for Anthony Crosland, whose views according to Blair 'were not sufficiently heeded over the next 30 years.' Crosland's writings in the 1950s are the classic exposition of 'old-style' social democracy – the combination of Keynesian economic policy and state welfare programmes that are the main object of criticism and differentiation for the third way. But Blair's identification with the Crosland legacy and his implicit claim to be carrying on the same old battle against the left merely creates a new set of difficulties.

Crosland's views were not insufficiently heeded because the Labour Party moved to the left; they were ignored by Labour governments pursuing more fiscally and socially conservative agendas. As a member of Wilson's 1975 cabinet, Crosland voted against the IMF-instigated public expenditure cuts. Nor would he have supported the traditional 'family values' and coercive welfare programmes central to the third way. The left which vociferously opposed Crosland on public ownership is no longer a force. The tensions at the present time run between the government and those who adhere to the Croslandite tradition, including most of the trade union movement. By resurrecting Crosland, written off unsuccessfully by Giddens as a dead duck, the Prime Minister has sanctified a stick with which his critics on the left can beat the government.

As the government has tacked ideologically to the left, so too Giddens in his reply to critics of the third way (*The Third Way and its Critics*; Polity Cambridge 2000) has sought to repackage it as a contribution from the traditional left, claiming that 'third way politics is not a continuation of neoliberalism"(p 34). However, in firming up the detail of his employment policy in the wake of the Blair/Schroeder document, whose importance he rightly emphasises, he confirms that the third way's central tenet on promotion of 'competition' is synonymous with the neoliberal position – 'flexibility does indeed entail deregulation' (p 76). And here he uses the comparison of the dynamism of the US economy in contrast to the sluggishness of the European to underline the existence of 'two competing perspectives' on labour markets.

The uncertainty characterising New Labour's brief ideological history has tempted some commentators to dismiss it as rhetorical 'blather' and focus instead on concrete policy – what the government does is more likely to be clear than its attempts to define a new theology. Implied in this attitude is the view that, contrary to the claim by Giddens, theoretical flesh is not needed 'to provide politics with a greater sense of direction and purpose' and therefore nothing important is lost if the pretence is abandoned. This claim is partially true, but it begs a number of questions. Does government policy have any direction, or is it really made in the absence of a controlling theory, as Giddens alleges, 'on the hoof'? If it is guided by strategy, what controls the strategy if not the ideology or values to which the government subscribes? And why does New Labour, along with other governments, need to define its position and outlook more or less coherently? We suggest that ideology does perform an essential function, not in the determination of policy but in its presentation and maintaining political support. The difficulties New Labour has experienced at the ideological level are therefore symptomatic of more deep-seated difficulties over policy, which New Labour is compelled to present as consistent with social democratic values.

3. Employment and industrial relations: New Labour's policies

In the main, New Labour has accepted the policies inherited from Conservative governments embodied in their labour legislation from 1980. In part, this has been done as a matter of conviction. Prime minister Blair has frequently told the unions that the days of strikes without ballots, mass picketing and secondary industrial action are over for good. On other occasions, however, the impression has been created that New Labour would like to do more to assist the unions recover their previous levels of membership and influence, but is constrained by what is acceptable to employers and public opinion. This approach holds open to unions the prospect of further changes favourable to their interests when circumstances permit, providing an inducement for continuing to support the government and muting their criticisms. An alternative view, however, is that New Labour's approach is broadly consistent with Conservative policy; far from marking any reversal of direction, it will consolidate and extend it by different means, just as the ancient world was warned to 'beware of Greeks bearing gifts'.

Take first the 'partnership' schemes between employers and trade unions to be funded in part by the state. Partnership is an attractive notion to a union movement severely damaged by the combined effects of unemployment, legislation and the encouragement given to hostile employers. It seems to hold out the promise of the entrenched influence enjoyed by some of the powerful union movements on the Continent. However, as recent events in the German metal industry have shown, such arrangements are not incompatible with resort to militant tactics and do not rule out the pursuit of union objectives through conflict. The danger in partnership schemes funded by the employer and the state is that their continuation can be made conditional upon an absence of conflict. The two approaches thus become mutually exclusive.

The effect is that unions may acquire an interest in discouraging their members from taking militant action, creating a 'partnership' without influence for workers and institutionalising the present levels of union weakness. There is a persistent danger that trade unions which have lost the habits and confidence necessary to take industrial action will trade independent action in defence of their members for a charade at the 'partnership' table. Likewise, they may also discourage their members from taking action claimed to be unrealistic or merely disruptive, effectively functioning as an arm of the management. Arguably, many of the Japanese unions now function in this manner. Partnership is therefore something from which unions must be free to disengage when necessary without bringing their finances or organisation into serious jeopardy. This should be the difference between a staff association and an independent trade union, but the distinction may become blurred if a weakly based integrationist approach is pursued.

Secondly, the right to recognition created by the Employment Relations Act 1999 where a union wins majority support in a ballot is generally seen as a support for collective bargaining, despite some shortcomings such as the requirement that recognition should be approved by 40% of all workers, including those not voting, in the bargaining unit. The effect of the legislation before its coming into force has been to encourage recognition agreements where it is clear that a majority of workers support recognition and employers have wanted to avoid a ballot and retain some control over the choice of union to be recognised. However, it is also possible to view this legislation, especially in light of the US legislation on which it has been modelled, from a fundamentally more critical perspective. In a different climate in the future, when employers might be motivated to oppose unions seeking to win greater influence over their decision-making, this legislation could be used to undermine collective bargaining, to resist recognition, and even to encourage derecognition. Indeed, there is already evidence that US firms in Britain are introducing training in union avoidance techniques used by their parent companies.('Businesses advised how to keep out the unions' *Financial Times*, 29.5.2000)

The new recognition procedure has more in common with the Conservatives' 1971 Industrial Relations Act than with the Labour government's 1975 Employment Protection Act, based on the recommendations of the Donovan Royal Commission in 1968. Whereas the Donovan Report expressly rejected the US model as suitable for British industrial relations, the Industrial Relations Act was a systematic attempt to introduce at a single blow the major legal elements of that model and impose them on the unions by force of law. The Employment Protection Act's procedure was far more favourable to the unions, but was rendered largely unworkable by decisions of the Court of Appeal, although some of these were later overturned by the House of Lords as flagrantly inconsistent with the spirit of the legislation. However, by this time, the TUC had already welcomed its repeal by the Conservative Government in 1980.

How ironical, therefore, that the Employment Relations Act 1999 should be so welcomed by the union movement, albeit subject to important reservations. It is far more complex, running to nearly 60 pages compared with its predecessor's four, thus presenting more opportunity for interpretation by the courts. Indeed, in some respects the procedure is even weaker than the US model. The Central Arbitration Committee charged with determining a claim for recognition cannot compel an employer to 'bargain in good faith' but can merely specify 'the method' by which the employer and union are to 'conduct collective bargaining'. The difference is that the US concept requires negotiations with a view to reaching an agreement while the British one requires no more than 'holding talks only' (Minister for Small Firms, House of Commons, *Hansard*, 16.3.99).

Unlike the 1975 procedure, there is no provision for the CAC to impose an award of terms and conditions of employment if the employer fails to negotiate realistically with a view to reaching agreement. Nor is there a clear mechanism for enforcement of the 'legally enforceable contract' created by the CAC's recommendation for recognition. The matter would have to be referred to an ordinary court whose only remedy is so-called 'specific performance', which the courts are traditionally reluctant to use to enforce an ongoing relationship, especially where the obligations are vaguely defined or require good-will in order to be effective. What is certain is that a union which fails in an attempt to secure recognition cannot refer another claim for the same bargaining unit within three years.

Wide discretionary powers are vested in the CAC to determine the bargaining unit and supervise the ballot. In the 1980s, the composition and functioning of the US National Labor Relations Board was radically altered by political appointments under President Reagan so it abetted the rise of a union-busting industry adept at assisting employers win ballots through intimidation and manipulation of the workforce. With ballots, the devil is always in the detail. The draft Code of Practice recently issued by the Department of Trade and Industry inadequately protects, in the TUC's view, the right of a union to have access to the workforce in the period before the ballot is held. Making recognition dependent upon winning a high level of support in a ballot - more onerous even than in the US - and permitting ballots to be conducted on unequal terms means this legislation could ensnare unions in a process of continuing decline. Giving employers the right to require a ballot on derecognition enormously magnifies these risks. Over time, the Employment Relations Act is likely to create a culture where unions are not entitled to maintain recognition unless they win ballots, which can be called for by employers at moments of union weakness, for example, in the aftermath of an industrial defeat.

The clearest expression of anti-union intent in the legislation, however, lies in the failure to remove a provision added by the Conservatives in 1993 allowing employers to discriminate against workers supporting collective bargaining by paying them less than workers agreeing to individual contracts. This was widely criticised at the time it was enacted; a leading text-book on labour law describes it as 'an extraordinary provision [which] instructs employment tribunals to make a finding of fact based upon a lie'.(Deakin & Morris 1998: 733) One commentator who believes the New Labour's employment legislation 'represents a significant increase in the level of legal support and protection for workers and their organisations' nevertheless admits that the reasons for failure to repeal this provision 'are not wholly clear (and) all the more surprising for the depth and breadth of criticism which (it) attracted at the time of its introduction, compounded by subsequent criticism by the ILO and the Council of Europe's Committee of Independent Experts.'(Ewing 1999)

Section 17(4) of the Act expressly allows an employer to continue the practices legitimated by the 1993 legislation. Although this was introduced as an amendment to the original Bill by a Conservative peer in the Lords, it had already been presaged by the White Paper Fairness at Work (p 42). This noted that a collective agreement could always be altered under the common law by an individual employment contract and proposed to make no change in this regard in the interests of 'flexibility'. The leading labour law scholar, Lord Wedderburn, has described this provision in the new Act as 'an own goal in extra time' ('Collective Bargaining or Legal Enactment' Industrial Law Journal 2000). However, this presupposes that Labour and the Conservatives are playing as opposing teams in the industrial relations field. It would be more accurate under New Labour to describe the amendment as a government pass to a Tory striker who goaled for the employers.

The power given to the Secretary of State to make regulations controlling discrimination against workers who refuse to sign individual contracts expressly excludes the payment of higher wages to the other workers, thereby endorsing such tactics.[2] In Australia, under the current interpretation of freedom of association provisions included in 1996 legislation by the Liberal government, discrimination in pay to deter union members from collective bargaining is unlawful (The BHP case. See R Green, 'BHP's doomed strategy hard to fathom', *Australian Financial Review*, 25.1.2000). Unions have been able to make effective use of this provision to frustrate employers' attempts to impose individual contracts.

Thirdly, increasing the minimum wage by a derisory 10p after an initial proposal for no increase at all demonstrates the government does not intend to remedy low pay. That would require an increase at least in line with the rate of growth of average earnings or higher if any progress was to be made towards reduction of the increase in income inequality over the last two decades. The original rate of £3.60 per hour (the 'youth' rate payable to workers under 24 was £3.20) was a compromise between the government and employers on the one side and the TUC and Low Pay Commission on the other. The latter believed that once the minimum wage was introduced and accepted, steady increases would become possible as fears of an increase in unemployment proved unfounded. Privately, members of the Commission have said they compromised too far and the rate should be at least £4. Yet the Commission's careful analysis and report justifying a larger increase was summarily dismissed by Treasury. If the function of the minimum wage is not primarily to ameliorate the wider problem of low pay, except at the very lowest levels, what is its true purpose?

Historically, the trade union movement was mainly opposed to the concept of a general minimum wage for a number of reasons. Firstly, it arbitrarily cuts across established pay structures, distorting pay relativities.

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2 Professor Ewing's view that s 17 'would appear to cover the facts in the Wilson case', allowing regulations to prohibit withholding a pay increase, takes no account of s 17(4).

Secondly, it legitimates and reinforces pay at the minimum level, making it more difficult for workers to obtain larger increases. Thirdly, it gives the government direct control over wage movements, which can be used in furtherance of other objectives of government policy. And fourthly, a minimum wage excludes unions from any direct role in pay determination, weakening their ability to recruit members. Not until 1986 were these historical hesitations put aside sufficiently for the TUC to support a minimum wage as some means of redressing the growing low pay problem which unions feared they were powerless to combat without assistance from the state. (TUC-Labour Party Liaison Committee; *Low Pay: Policies and Priorities* 1986)

For New Labour, on the other hand, the minimum wage is an integral component of its welfare-to-work strategy encouraging the creation of more low-paid jobs in the private sector. These will absorb, with the aid of compulsion applied by the state, unskilled or low-skilled unemployed workers. The Blair/Schroeder document is brutally frank on this objective. 'Part-time work and low-paid work are better than no work because they ease the transition from unemployment to jobs'; employers should therefore be encouraged to offer 'entry' jobs by 'lowering the burden of tax and social security contributions on low-paid jobs.' The New Deal programme thus provides for direct subsidies paid to employers who take on young workers or the long-term unemployed.

The Working Families Tax Credit also involves an element of indirect subsidy, albeit restricted to a particular class of workers with family responsibilities. This approach to the 'topping up' of wages by the state will be taken much further, however, by Chancellor Gordon Brown's 'longer term' plans to replace benefits paid by the state with tax credits paid by the employer to all low-paid workers, which were unveiled in the Budget last year. Agencies concerned with benefit claimants and families in need welcomed the Working Families Tax Credit for its more generous provision than the family benefit it replaced, awarding Brown plaudits for 'redistribution'. However, they seemed to criticise the provision for payment of the credit by the employer as merely a functional deficiency, failing to expose its role in a programme for eventually restructuring and privatising administration of the benefit system. Similarly, proposals giving tax credits to low-paid workers have been made by leading figures within the Australian Labor Party, some of whom regard New Labour's third way as a model to be emulated in Australia.(Green & Wilson 2000)

Subsidising employers requires the existence of a minimum floor in wages or the payment of state benefits will cause them to fall without limit, as at the end of the 18th century under the 'Speenhamland system', prior to reform of the Poor Laws. The solution to poverty caused by low pay is not therefore the raising of rates to a fair level, but targeted supplements paid indirectly by the state, which will be cheaper than present levels of unemployment benefit. Integration of benefits into the employment structure in this way is a central objective of the third way. State policy would prefer a minimum wage which will encourage reduction of unemployment rather than deter employers from taking on staff by awarding small increases irrelevant to the government's main objectives. This will contribute not only to reducing unemployment and public expenditure, but will also generate a low-paid and insecure workforce which can be churned to meet fluctuating demands. In the United States, an estimated 6 million illegal immigrants with no rights at work are often paid less than the legal minimum. The AFL-CIO has therefore recently changed its policy and pressed for legalisation of their employment to gain some degree of control over the situation.

In Britain, there have been increasing levels of coercion within the New Deal programme and evidence that it has compelled some young people - the most socially 'excluded' - to give up study to be 'available for work' (Unemployment Unit, Working Brief 107, August/September 1999). Chancellor Brown has now proposed 'hit squads' targeting areas of continued high unemployment, presumably to compel movement of workers to another area. Research has also revealed that these programmes are creating 'a big class of working poor in the depressed areas of northern England', whilst most workers completing a New Deal programme go to 'only low paid, part-time temporary jobs [and] find themselves out of a job again within six months.' ('New Deal "helping to create more poor in north"', *Financial Times*, 7.1.2000; A Glyn & E Erdem, 'From welfare to no work', *Financial Times*, 17.2.2000)

The minimum wage has been welcomed by the union movement because it has undoubtedly raised wages for some of the very lowest paid groups. Over the longer term, however, a continued fall in the minimum relative to average wages combined with government encouragement of low-paid jobs will put downward pressure on wage rates at the bottom of the scale, resulting in ever more workers paid at the minimum level. From a broader perspective, since the minimum rate is not an adequate or fair rate even for an unskilled job, the effect will be to exacerbate the problem of low pay. Certainly, the existence of a legal minimum in the US has done nothing to prevent growing wage dispersion and inequality. We submit that it constitutes a movement towards the introduction of the US system into Britain, bringing with it the danger of greater marginalisation of trade unions as an effective force in regulation of the labour market. The minimum wage issue has already become the greatest source of publicly manifested tension with the trade unions over New Labour's third way policies to date. ('How TUC planned to shame Blair', *Financial Times*, 16.2.2000)

4. New Labour in Europe

In Britain, Prime Minister Blair's February speech in Ghent was seen as a 'reply to Margaret Thatcher's 1988 Bruges speech',(Financial Times, 25.2.2000) a 'history lesson' which was 'strangely out of date'(Financial Times, 26.2.2000). The main issue in Britain for business is whether and when Britain intends to join the euro-zone, a matter on which Mr Blair was 'curt and cautious'. Consequently, Blair's commitment to Britain playing a leading role in Europe was dismissed as rhetoric, since 'Britain has no intention of withdrawing from Europe under any conceivable government'. The real purpose of the speech, however, was oriented towards the wider European debate over social policy in advance of the March Lisbon summit. The message to a European audience emphasised not New Labour's differences with Thatcher, but their points of agreement. Although Blair endorsed her criticisms of European policy, he attacked her for withdrawing into isolation, one of Britain's 'greatest post-war miscalculations.' European institutions and policy therefore 'did not reflect British interests or experience.' Henceforth, Britain – with US support – will seek to shape the EU along Anglo-American lines in accordance with their 'special relationship'. This was precisely de Gaulle's fear, which led him consistently to veto British entry to the Common Market.

New Labour has been promoting this theme from before the 1997 election when explaining to business leaders why it proposed to end the British opting-out from the Social Chapter under the Maastricht Treaty negotiatated by the Conservative Government. By doing so, Britain had surrendered any ability to influence European policy even though British industry would have to comply with EU social legislation covering their European operations because they could not apply different standards to British workers. New Labour would join the Social Charter to block any new proposals inconsistent with 'competitiveness'. Accordingly, a draft document discussed by Labour's national policy forum last December, 'Britain in the World', only formalised this promise when it called upon the EU to abandon workplace regulation and the 'old agenda' of workers' rights for a 'new focus' on full employment. It demanded a 'reformed social model for a new economy' whose aim should be ensuring the EU is a 'competitive global player' instead of lagging 'well behind the US in the creation of the knowledge-driven economy.'

Under Conservative governments, European legislation and directives enhancing workers' rights and trade union interests consolidated unions' commitment to EU membership and further development of its Social Action programmes. Government resistance led to many successful enforcement actions before the European Court of Justice by the Commission and 'purposive' interpretations of UK regulations by the British courts, overriding the literal meaning to make them consistent with the relevant directive. Under New Labour, this pattern of minimalist or obstructive compliance with directives has continued. Implementation of the working time directive and the parental leave directive almost certainly falls short of the government's responsibilities, whilst the trade and industry secretary recently abandoned plans for a code of practice on part-time work. Generally, the regulations ostensibly implementing EU requirements have been confined to workers with a 'contract of employment', a notion narrowly defined by the courts to exclude many casual, temporary and home workers who stand in most need of protection.

Trade unions are therefore currently stronger supporters of British entry into the euro-zone, which they link with the European social market model as its necessary foundation, than the government which wants to see first implementation of third way reforms. Consequently, a number of unions in January launched 'Trade Unionists for Europe' to fill the gap caused by the government's reluctance to begin converting public opinion on the currrency question. Significantly, too, TUC general secretary John Monks warned the Prime Minister against using the Lisbon social summit to press for greater 'flexibility' in European labour markets. He characterised much of the talk on 'flexibility' as a cover for 'cheap and easy hire and fire rather than skilled adaptable employees working for well-managed companies skilled in the process of change. ('Monks warns PM over public support for euro', *Financial Times*, 29.2.2000)

The fundamental ambiguity in the concept of the third way is whether it is a continuation of neoliberalism under different rhetoric or a cautious attempt to move away from it. This issue has been considerably clarified by the recent evolution of industrial relations and employment policy. On its own admission, New Labour is deliberately promoting low-paid and insecure employment and integrating the social security system with further reform and deregulation of the labour market. Similarly, government policy appears designed more to keep trade unions in their present position of weakness than to assist their process of recovery.

The decisive test will be government reaction to the TUC's demands for Labour's anticipated second term. Using the 'stakeholder' concept, the TUC seeks greater disclosure of information by companies to shareholders and employees and changes in insolvency law to provide greater protection against asset stripping of viable businesses. There should be a new statutory framework to encourage greater training - still a glaring omission in New Labour's supposed 'supply-side strategy'. The minimum wage should be increased regularly and in addition a fair wages law is required to ensure that competition over public sector contracts does not lower employment standards. In general, the TUC argues, 'information, consultation and democracy at work should be major themes in the 21st century workplace' (TUC, 'The Next Five Years: Promoting Fairness and Competitiveness' Feb, 2000, reported in *Financial Times*, 17.2.2000). However, the weakened confidence in collective bargaining is signified by the TUC's apparent return to the reform of company law perspective current in the mid-1970s as the main vehicle to promote this objective.

Moreover, the TUC's failure to publish its document indicates it has not yet abandoned the idea that influence is better than risking the hardening of attitudes which might result from an openly critical campaign. The TUC's fundamental dilemma is that although these proposals are moderate and realistic they run counter to the logic of the third way and New Labour's deregulation strategy for Europe. Nevertheless, at a policy forum meeting between government and unions last July, union leaders won a number of apparent concessions on working time regulations, consultation rights and regular reviews of the minimum wage (Blair bows to demands for workers' rights', *Financial Times*, 10.7.2000). Whether they represent anything more than a temporary tactical retreat to ensure union financial support in the run-up to an impending election remains to be seen. It does, however, certainly indicate a more forceful approach towards the government by, if not yet open criticism. Despite these hesitations in the union movement over tactics, the reality is that an epic challenge now confronts it, which must inevitably be played out on a European and indeed global stage.

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David Foden

The European employment strategy, a response to globalisation?

"Does Europe continue with the old social model, that has an attitude to social legislation and welfare often rooted in the 60s and 70s or does it recognise that the new economy demands a re-direction of European economic policy for the future ?"

Tony Blair, Davos, January, 2000

1. Introduction

This paper discusses from a trade union perspective the European employment strategy and its evolution, offers some reflections on the strengths and weaknesses of the strategy, and considers how far the strategy is shaped by the pressures of globalisation.

As background to this discussion, it should be underlined that the policy-making process at European level is extraordinarily complex. The actors in the drama are many, and they operate in a range of institutional settings. Thus, in the employment field the trade union movement is seeking to make a coherent input to policy-making by influencing: the *Commission* (directly); the employers (through the *social dialogue* – the structured European-level relations between social partners, convened and chaired by the Commission); the Governments of the Member States (in representations – sometimes jointly with the employers - to the *European Council* of Heads of State and Government, in the *Council of Ministers* – both the Council for Labour Ministers, and the Council for Economic and Finance Ministers, in the *Standing Employment Committee* – which includes social partners, Labour and Finance Ministers and the Commission, and when consulted by the *Employment and Labour Market Committee* – which includes officials from Labour Ministries and the Commission); the *European Central Bank* (directly, and through the *macroeconomic dialogue* – which includes the

ECB, social partners, Labour and Finance Ministers); and the *European Parliament* (directly). In view of the number of different institutional configurations involved, it is perhaps unsurprising that there should be different emphases not only about what the European employment strategy should embody, but also about what it actually is!

A year ago, the then German Presidency of the EU was negotiating (with the range of actors referred to above) the introduction of a "European Pact for Employment". This was billed as a major initiative, no doubt inspired to a large extent by the domestic debate in Germany about a *Bundnis fur Arbeit* and designed to bring coherence to policy-making in the employment field. The Pact was agreed at the Cologne European Council (summit) in June last year. Its provisions are described below. But now it, is scarcely referred to. Sic transit gloria mundi ! The current Presidency (Portuguese) is holding a special summit in March with the title "Employment, economic reform and social cohesion – towards a Europe of innovation and knowledge", and while the Presidency promises no new processes (we have processes launched at Luxembourg, Cardiff and Cologne contributing to the employment strategy!), it is intended to ensure better coordination of what is already happening.

Although the institutional arrangements for the development of the European employment strategy are open to caricature, there is, in fact, greater coherence on the substance than the preceding paragraphs suggest. And even the institutional complexity is partly justified by the desirability, and perhaps even the necessity, for building a broad coalition of support for policy development to be successful at European level. The following section gives an historical introduction to the development of the European employment strategy before considering its substance.

2. The European employment strategy

Concern about the employment situation has been voiced in the European political debate for many years, and trade unions have been active participants, calling for a strategy which combines both growth-oriented macroeconomic policies, coordinated at European level, and active policies for improving the supply side of the economy, including the operation of labour markets. Trade unions have seen the successive steps to economic integration in Europe (the single market and the single currency) as providing the potential for improved economic performance. But this potential will be realised only if expansionary policies are implemented so that structural change sees resources, including labour, successfully redeployed rather than left idle. At the same time, the process of integration has itself weakened the scope for national policies to intervene, thus underlining the need for a European approach.

The publication of the Delors White Paper, "Growth, competitiveness and employment" (European Commission, 1993) set the framework for discussion of employment policy at European level and, by calling for negotiated reform of labour markets within a context where macroeconomic policy would support job creation, both encouraged trade unions to engage with the agenda of modernising social and labour market policy and built a consensus around the need for such reform to respond to the imperatives of both flexibility and security – a recurring theme in the subsequent debate. This debate, highly conditioned by the process – which dominated macroeconomic policy throughout the 1990s - of convergence towards economic and monetary union (EMU), saw a deepening of consensus about the advantages of stability, and also a renewed attention to negotiated structural reform in contrast to the neo-liberal agenda of deregulation.

The first efforts to coordinate employment policy at European level reflected this combination of influences. The December 1994 European Council meeting in Essen reached agreement on five priorities for employment policy to be followed up at national level: investment in human resources (education and training); encouraging employment intensive patterns of growth by a) changes in working time and work organisation, b) wage moderation with respect to productivity and c) targeted job creation in labour intensive sectors; reductions in non-wage labour costs; shifting labour market spending from passive to active programmes; and targeting specific groups at a disadvantage in the labour market (women returning to work, young people and the long-term unemployed). The social partners were invited to contribute to this strategy, and this has remained a constant factor while the strategy itself has developed – not least in the procedural elements.

In 1996 an attempt was made on the initiative of Commission President Santer to respond to a worsening unemployment situation by deepening the level of commitment to the Essen process through the adoption of a "Confidence pact for employment". This was intended to mirror at the European level the sort of tripartite pacts which were being negotiated in a number of countries. The ETUC gave support but, in the light of the deteriorating economic situation, insisted that in addition to labour market policies, the pact should provide for the adoption of active economic policies, particularly in relation to taxation and European investment projects.

In fact, the Santer pact had relatively little impact, and the most significant breakthrough has transpired to be the inclusion of a Title on employment in the Treaty of Amsterdam. When, in the mid-1990s, revisions to the Treaty began to be discussed, the ETUC was among those campaigning for the inclusion of a chapter on employment, and at least part of the reasoning in favour of the proposal was that this would be of symbolic value. Fears that the process of convergence to achieve EMU would undermine growth and employment, and that EMU itself would place Europe in a deflationary trap, were a constant element of the debate about employment both within the trade union movement and more generally. The establishment of employment as a concern of the EU would, in contrast, be a signal that not only issues of interest to business (the single market and single currency) were of priority, but that the preoccupations of ordinary citizens and the fate of the real economy were also important.

The new Title commits Member States and the Community to working towards, "a coordinated strategy for employment", notes that, "Member States......shall regard promoting employment as a matter of common concern.." and states that, "The objective of a high level of employment shall be taken into consideration in the formulation and implementation of Community policies and activities."

The central instrument for following up these commitments - and the main novelty in comparison to the procedures pursued since the Essen European Council - is the formulation of guidelines, "which the member states shall take into account in their employment policies". In a procedure deliberately intended to echo the monitoring and review of economic policy commitments required by the Maastricht Treaty (and developed in the Stability and Growth Pact), the Member States shall report annually to the Commission and Council on their employment policies in the light of the guidelines, the Council will examine these policies and may (by qualified majority voting) make recommendations to member states.

The guidelines themselves "shall be consistent with the broad economic policy guidelines" and will be based on the conclusions of the European Council, as informed by the joint annual report by the Council and Commission. They will be based on a proposal from the Commission, following consultation with the European Parliament, the Economic and Social Committee, the Committee of the Regions and the Employment Committee.

What has rapidly become clear in the period since Amsterdam (where it was agreed to activate these provisions immediately, prior to ratification of the new Treaty) is that the resulting change is not only symbolic, but real. The decision to hold a special "jobs summit" in Luxembourg in November 1997 required the Commission to prepare the ground for the new process by drafting the first European employment policy guidelines, to be applied in 1998. The draft was published in October 1997, and launched an intensified debate at European level on employment policy.

The structure of the draft guidelines into four pillars entitled entrepreneurship, employability, adaptability and equal opportunities (subsequently the first two pillars were re-ordered) caused a degree of confusion among trade unionists when first published. These were not the headings which had been anticipated for the new European employment strategy. Despite the clarification by the Commission, that each pillar was, in fact, intimately concerned with an issue of relevance and concern to trade unionists (entrepreneurship and the jobs gap;

employability and the skills gap; adaptability and the participation gap; and equal opportunities and the gender gap) the difficulties of engagement should not be underestimated. (Including the linguistic ones. For example, in French the suffix "able", as in employable, denotes "scarcely", which renders the notion of employability far more perjorative to French ears than to English ones).

Nevertheless, there was a clear recognition that what was to become known as the Luxembourg process would provide a strategic opportunity for trade unions to exert influence over employment policy. This has been particularly obvious at European level, where debates around the employment guidelines have, since Luxembourg, perhaps proved the most fruitful way for unions to make an input on the economic and social policy agenda as a whole. But in at least some cases, the existence of the Luxembourg process has also helped trade unions to bring national Governments and employers' organisations to the table to discuss employment topics.

A summary of the guidelines for 1998 is set out in the annex. They have not been greatly amended in either of the two subsequent years, though the 1999 guidelines called for action in terms of mainstreaming equal opportunities, setting national targets for life-long learning, development of the service sector, improvement of the business climate, review of tax and benefit systems, and support for older workers and measures for social inclusion. The draft guidelines for 2000, which are apparently still under discussion, will not greatly differ from those of the two previous years, and it can safely be assumed that the annex gives a broadly accurate picture of the guidelines.

An assessment of the content of the Luxembourg process on the basis two years' experience, including the guidelines, the National Action Plans (NAPs) and implementation reports of the Member States, as well as the analysis of the Commission is set out below. However, the addition of the other elements of the overall approach to employment in the period since Luxembourg is first described.

In June 1998 the Cardiff summit considered the question of economic reform, especially improving the performance of product and capital markets, with a view to unleashing a more dynamic economic performance. The underlying theme was promoting competition and structural change and their part in the effort to increase employment. Two reports were prepared – Cardiff I on the functioning of product and capital markets, and Cardiff II which drew on member states progress reports and their 1998 NAPs. The Cardiff II report stressed the importance of structural reform in fostering growth and employment and the need to take account of the interaction between the various aspects of structural reform and macroeconomic policies. In particular the member states were urged to achieve coherence between reforms of different markets (e.g. goods and capital market integration is to some extent interdependent) and between reforms in labour markets and public finances. The ongoing pursuit of this agenda is known as the Cardiff process.

Finally, the Cologne summit of June 1999, introduced (inevitably) its own process and launched the European pact for employment referred to above. After initial confusion about what was meant by a "pact", it had become clear by the time of Cologne that what was meant by a pact was a "process" rather than an "agreement". (The German word, *"bundnis"* is perhaps better translated as "alliance" than as "pact".) The agreement to be reached at the Cologne summit was not envisaged to be a substantive document to which all the relevant partners would commit themselves. Rather procedures would be set in place for dialogue and policy formation.

Secondly, it became clear that the pact was to be an exercise in coordination among three separate "pillars". These are the Luxembourg process and the Cardiff process described above, and the "Cologne process" of macroeconomic dialogue – the new aspect to be added at the Cologne summit. The purpose of this is to seek a macroeconomic policy mix which is favourable to growth and employment. The analysis which lies behind the establishment of the macroeconomic dialogue is that the main instrument (albeit a somewhat passive one) available to foster (or restrict) economic growth is monetary policy. The Treaty (European Communities, 1992), in line with conventional theory and practice, ascribes to monetary policy the task of ensuring price stability, "The primary objective of the ESCB shall be to maintain price stability." (Article 105, TEU). However, if price stability is not threatened, monetary policy is available to support growth and employment, "Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2." (Article 105). These objectives include, "sustainable and non-inflationary growth" and "a high level of employment".

Thus, the Treaty obliges the stance of monetary policy to support growth and employment unless price stability is threatened. The main potential threats to price stability are seen as laxity in public finances (hence the Stability and Growth Pact) and excessive wage settlements. The more real the monetary authorities believe either threat to be, the more likely they are to adopt a restrictive policy stance. In the framework of this logic, ensuring that monetary policy is supportive of growth and employment depends on preventing such "inflationary pressures" from emerging. The macroeconomic dialogue among the actors responsible for budgetary policy (Finance Ministers), monetary policy (the ECB) and wages developments (the social partners) together with the Commission and Labour Ministers is intended to discuss these linkages in the light of real world developments.

From the ETUC's viewpoint, the Cologne agreement to establish the pact had the advantage of acknowledging that employment policy is wider than labour market policy. Completing the "jigsaw" by bringing together discussion on labour market policy, macroeconomic policy and structural policy met an ETUC objective. But it is far from clear (admittedly on the basis of limited experience) whether the pact is really working in the way envisaged. As mentioned above, the pact itself is seldom referred to, and most allusions to the European employment strategy refer to the Luxembourg process alone.

What then does the strategy amount to in substance ? Take first the macroeconomic policy element. The Cologne process has held only one "round" of dialogue at the time of writing, and this has been described as a useful and open exchange of views. Yet the concerns of the ETUC have clearly had little impact on the decisions of the ECB. It is obviously early days to assess the performance of the ECB, but there are some grounds for concern that cautious instincts will lead it to overestimate the inflationary threat from wages and to underestimate the responsiveness of labour markets to stimulus in the light of policy reforms. On the other hand, the Bank has also shown signs of pragmatism, and reacted flexibly to concerns for growth and employment in the light of the Asian and Russian crises.

Budgetary policy remains mainly in the hands of the Member States, though they are constrained by the Stability and Growth Pact, which requires budget deficits to be near to zero over the economic cycle. There is therefore concern that both the main instruments of macroeconomic policy may be conducted in too cautious a manner, failing to "give growth a chance". On the other hand again, the immediate prospects for economic growth seem rather good, and the concerns that the policy regime associated with the single currency would inevitably be a deflationary one seem exaggerated at least.

Secondly, the question of economic reform is moving rapidly up the European policy agenda, with the UK Government in particular championing further measures of liberalisation. Up to now, however, the Cardiff "process" has hardly been a process at all. This may change as a result of the forthcoming Lisbon summit, and the trade unions probably have an interest in a more formal procedure developing, as this would increase the chances of involvement. The alternative is more likely to be a debate led by Finance Ministers than the end of the debate. In any event, while there are some obvious dangers in discussing economic reform, in the past the ETUC has influenced developments by seeking a positive engagement with such challenging processes as, for example, the internal market and the achievement of EMU. There may be scope for similar inputs to the economic reform debate. And tactically, discussing the shortcomings of product and financial markets may be easier in some respects than focusing solely on labour markets.

Thirdly, and despite the desire of the ETUC to discuss the whole range of employment policy, there is no doubt that the labour market policies pursued through the Luxembourg process is much the most developed part of the European strategy. The thinking behind the employment policy guidelines themselves has already been mentioned above – to address Europe's shortcomings in the fields of job and firm creation, in skills development, in participation in working life, work organisation and the process of change at enterprise level and in equality between the sexes and female participation in the labour market.

Behind these links between the perceived weaknesses in European labour markets and the structure of the guidelines lie a number of key themes which can be said to define the Luxembourg process (Foden, D (1998)). First the analysis has led to the conclusion that the problem which must be addressed is not so much – and certainly not exclusively – high unemployment, but low employment. A central reason for this revision of the policy goal is the perception that low employment rates, if they persist, will undermine the capacity to finance the advanced social protection systems which have evolved in Europe, and which remain a quite distinctive feature of European society. The thinking is inspired not only by comparisons with the EU's major trading partners – the USA and Japan – which both have much higher employment rates than the EU, but also by some of the "success stories" within Europe itself.

Examination of some of these cases of good practice, the Netherlands and Denmark for example, leads to a second theme underpinning the European, strategy: activation. The Dutch case in particular is about a fifteen year journey away from a generous, but essentially passive, welfare system to what has been described as an employment-friendly welfare state. Both the Netherlands and Denmark have succeeded in raising employment without increasing inequality – surely an achievement to be celebrated and emulated.

The third theme to be stressed repeatedly in the European strategy is "prevention". The best way of dealing with long-term unemployment, according to this reasoning, is to stop it happening. Once people become long-term unemployed, hysterisis effects can lock them out of the labour market. Measures to assist the unemployed back into the labour market should therefore be brought into play *before* skills and confidence are lost and before the people concerned are stigmatised in the eyes of employers.

The stress on improving the supply-side of the labour market raises the question of the quality of the active options made available to those being brought back into the labour market – whether these options consist of work, work experience, training or some combination of these and other programmes. This links to a fourth theme of the guidelines – that of partnership, for it is by ensuring a commitment from the social partners (and other groups) that the quality of the opportunities to be made available can be guaranteed. It emphasises the responsibility on trade unions to play an active part in reform of the labour market.

These elements of the European employment strategy and the guidelines should be seen as addressing the weaknesses of labour markets, and there is no doubt that the overall emphasis of the guidelines is upon supply-side problems. This raises an ambiguity in the strategy. The importance of improving the responsiveness of labour markets, so that a demand impulse will produce jobs rather than inflation, is in itself, of course, an important consideration and is accepted as such by trade unions. Trade unions (and also, it must be said, the Commission) also consider it important in the context of seeking to persuade the public authorities (and especially the ECB) that active demand-side policies can in fact be employed without running the risk of an inflationary spiral. As the foregoing discussion on the macroeconomic element of the strategy makes clear, however, this debate is far from over.

3. Responding to globlisation ?

How far is this three-pronged approach to employment policy responding to the pressures of globalisation, whether "real" pressures or "invented" ones? In the case of, the macroeconomic element there would seem to be a number of connections between the approach adopted in Europe and globalisation. Most obviously, the determined effort to establish the euro was motivated, at least in part, by the desire to secure greater autonomy for European economic policy than was possible with a "balkanised" monetary policy. And the experience of 1998-99, when Europe enjoyed relatively stable economic and monetary conditions, despite the turmoil elsewhere in the global economy, demonstrates the benefit of a single currency. If the financial markets had not been convinced that the single currency was to be launched on time at the beginning of 1999, then 1998 would have seen exchange rate instability, higher interest rates and lower growth in Europe, as in fact had happened in earlier periods of international turbulence.

The desirability of viewing "Europe as an economic entity", and managing economic policy accordingly, is underscored by the new Employment Title of the Treaty. By defining employment as an issue of common concern, the Treaty opens the way to coordination of national (and regional, local or sectoral) policies without seeking to determine from Brussels the exact policy mix appropriate in any given setting. In addition, however, it emphasises the integrated nature of the EU economy (only some 10% of gross product of the EU 15 is exported, while intra-EU trade is much higher) and implicitly insists that the solution to the employment problems of one country should not be to export them. Beggar my neighbour responses, whether based on trade barriers, social or fiscal dumping must be ruled out. But of course, the context of the "European economic entity" is the global economy.

Secondly, the components of macroeconomic policy are in some sense responding to new global standards. The requirement of the Stability and Growth Pact for medium term fiscal balance may seem arbitrary, even though the "benign" explanation offered is that only such discipline will free fiscal policy to respond to any country-specific problem. But whether the Pact existed or not, there is little doubt that financial markets would expect European governments to approach the "standard" set in the USA of substantial fiscal surpluses.

This is not to argue that American fiscal policy is necessarily appropriate (with its mirror image of a highly indebted personal sector) or that the markets are always wise (they may well merely be regurgitating the lessons which bankers and politicians have liked to teach them), merely that we cannot realistically expect policy-makers to ignore the view of the markets. Even, and perhaps especially, if they have helped to form that view.

What of the next component of the strategy, economic reform? There can be little doubt that some proponents of the emerging agenda are motivated, even transfixed, by a desire to embrace market-driven structural change. This is undoubtedly closely connected to two of the main features of globalisation – the widespread adoption of the new information and communication technologies throughout our economies, and the integration of financial markets. Raising capital in New York or London implies matching the prevalent rates of return in those markets and doing so within the same short time horizon. This drives the push for improved micro-efficiency and for the deregulation and tax-cutting which claims to deliver it. The agenda is informed by a view that much of Europe's economy remains feather-bedded, and inhibited from seizing competitive advantage by the stifling presence of the state.

Yet this need not be the dominant approach to economic reform. Improving the supply-side performance of the economy certainly means ensuring an appropriate framework for competition, but it also means investing in the "created" resource base of infrastructure, skills and production networks. And this needs a lead – and a finacial contribution – from public policy. Such an approach – which is concerned with efficiency and competitiveness, but not obsessed with market forces as necessarily the only way to pursue these ends, need not be a threat to trade unions. And the optimistic view would be that re-emphasising the importance of economic reform at European level will assist the trade unions to make an input.

As for the labour market reforms pursued under the Luxembourg process, these are responding to the four challenges of the skills gap, the jobs gap, the participation gap and the gender gap as mentioned above. But what connection do these challenges have to globalisation ? The skills gap (growing demand for generic and especially high-tech skills, slower development of newly-educated workers) arises much more from technological change than from some new international division of labour – though the technological change is itself a feature of globalisation, and furthermore, the disappearance from advanced economies of jobs, with a range of skills, in the traded sector is contributing to the problem in the sense of producing a group of unemployed people whose skills are inappropriate to future economic development.

The jobs gap can be presented as a result of failing to secure an adequate part of world production for Europe, and hence as related to globalisation. The response of promoting entrepreneurship is also in part of relevance – a climate where innovation can flourish is in some sense a comparative advantage. But responding to the "jobs gap" is (at any rate it can be) also about increasing the employment intensity of growth, meeting unmet social needs via new forms of public intervention and a different distribution of income. These are much more "domestic" than global considerations.

The "participation gap" can be seen as related to globalisation in the sense that failure to modernise work organisation, and thus to draw the maximum benefit from human resources, is to risk competitive disadvantage. It is also concerned with adapting successfully to technological change and thus establishing a niche in the networks of global production. However, it is also very much a "domestic" policy debate about the rights and responsibilities of different actors.

Addressing the gender gap, in addition to the questions of equity it raises, is seen as absolutely critical in the medium-term effort to raise the European employment rate to those of Japan and the USA. As stated above, the strongest motivation for this is to ensure the future financial viability of Europe's social protection systems. But of course, the goal of raising employment rates can be pursued in very different ways. To caricature, on the one hand seeking to establish and invest in the comparative advantage of high quality labour, with the implication that production systems will adapt to take advantage of these resources; or, on the other hand, to ignore quality and to encourage the production system to "mop up" the available labour supply in sectors shielded from international competition.

The connection to globalisation of the gender equality debate is thus an indirect one. Issues such as rights to equal treatment, the quality of social protection and the quality of work to be offered can be seen as purely domestic concerns. However, the way in which high employment rates are to be pursued is a signal about the strength of political will to invest in social factors with the confidence that this can create comparative advantage in the face of global competitive forces, and thus to secure a balance between economic and social imperatives. This is in marked contrast to the passive acceptance of whatever demands liberated global capital makes of the labour force. The seriousness with which Europe addresses the equality agenda will therefore be a kind of benchmark for its broader approach to the challenges of economic and social policy in the light of global integration.

4. Conclusions

The European employment strategy consists of three elements: the macroeconomic policy mix; the process of economic reform in product and financial markets and the Luxembourg process of coordinated labour market reform. Their merits can be debated purely in terms of the "domestic" European impact of the strategy. But the entire debate about employment must be seen against the backdrop of the determined drive to build a single European economy (single market and single currency) precisely in order to carry weight in the global economy. And this integration process has, as we have seen, made employment policy a matter of "common concern".

In any event, all of the components of the strategy are grappling with issues which have a "global" dimension. Indeed, one of the difficulties facing policy-makers is the blurring of the edges between "domestic" and "global" questions, and the failure to find adequate responses to this phenomenon was at the heart of the failure of both the MAI negotiations and the Seattle WTO conference. It is a dilemma which Europe faced a decade and more ago, in the internal market programme. The political answer of the Delors Commission was to build coalitions with business and labour and to give them a sense of ownership of the project. However difficult this might be at the global level, and however undesirable it might be to replicate globally the institutional complications of the EU described at the beginning of this paper, it is difficult to see the formal process of establishing multilateral governance of the world economy proceeding much further unless the issue is addressed.

But this is perhaps a digression from the main theme of this contribution - whether and how the European strategy for employment is responding to globalisation. The optimistic interpretation would suggest that not only is the strategy addressing challenges posed by globalisation, and doing so in the manner of a self-conscious "global actor", but also in a way which establishes an alternative approach to the deregulation agenda of recent years. The pessimistic interpretation is that despite the Commission-led attempt to negotiate a balanced approach to employment policy, the advocates of supply-side reform retain the whip hand. In judging whether this bottle is half-full or half-empty, a central question over the next few years will be whether the Commission retains, and builds upon, the leading role it has established in the last half-decade. The fact that the Treaty now includes the Title on employment certainly gives them leverage. But wider political developments (more inter-governmental deal-cutting) and changes in key personnel raise doubts as to whether this leverage will be exploited.

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Annex

The actions called for in the Employment Guidelines for 1998

I. Improving Employability

- within five years unemployed young people to be offered a new start before reaching six months of unemployment
- within five years unemployed adults to be offered a fresh start before reaching twelve months of unemployment
- benefit and training systems to be reviewed and adapted to provide the unemployed with work and training incentives
- at least 20% of the unemployed to be offered training
- the social partners at their various levels of responsibility and action to conclude agreements designed to increase training, work experience, and traineeships
- Member States and social partners to develop lifelong training
- school systems to be improved to reduce drop-outs
- young people to be better equipped with skills

II. Developing Entrepreneurship

- rules for business start-ups and functioning to be made easier, particularly by reducing and simplifying overhead costs and administrative and tax burdens - and especially on SMEs when hiring additional workers
- conditions for development of capital risk markets to be improved
- obstacles to self employment to be reduced
- job creation potential at the local level offered by the social economy and unmet needs to be exploited fully

- targets to be set for gradually reducing the tax pressure on labour and non wage labour costs, in particular on unskilled and low-paid labour, without jeopardising public finances or social security
- energy and pollution emissions tax to be examined
- reduction of VAT on labour intensive services to be examined

III. Encouraging Adaptability of Businesses and their Employees

- social partners to negotiate at appropriate levels agreements to modernise the organisation of work, which may cover inter alia the reduction of working hours
- Member States to examine legal changes to provide for more adaptable types of work contract, while ensuring adequate security
- tax and other obstacles to investment in human resources to be reexamined leading possibly to new incentives for in-house training
- regulations to be examined to identify and reduce possible barriers to employment and the adaptation of the labour market to structural change

IV. Strengthening the Policies of Equal Opportunities

- increased employment of women to be actively supported to reduce gap in women and men's unemployment rates
- implementation of Directives and social partner agreements covering career breaks, parental leave and part-time work to be accelerated and regularly monitored
- access to good quality care for children and other dependants to be raised to support women and men's entry and participation in the labour market
- obstacles to the reintegration of men and women into the labour market after a period of absence to be gradually eliminated
- special attention to be devoted to the problems of disabled people participating in working life

Antonio Prado

Globalisation and unemployment in the 1990's

1. Introduction

The decade started off under the sign of hyperinflation and deep economic instability. In 1990, after several months of an economic policy that aimed solely at pushing the problems over to the following administration, a new president took office and yet another stabilization program was launched. This program was a hard blow on the right to property and on the contracts then in effect. It brought about an unheard-of confiscation of financial assets, bank deposits and wages. The feebleness of the Collor plan soon showed up. Few months after its introduction inflation again picked up steam, becoming even more virulent. By the end of 1991, inflation was running wild. The attempt to curb it was a monetary and credit shock that inaugurated the positive real interest rate policy.

This real interest shock deeply hurt the employment level. Unemployment rates, which had been increasing slowly in 1990 and 1991, despite the plunge in the Gross Domestic Product (GDP – see table 2), skyrocketed by 75%, going up from 8.7% in 1989 to 15.2% in 1992. A new unemployment level had been set.

Table 1: Unemployment rates in the Greater São Paulo – 1989-93

Year	1989	1990	1991	1992	1993
Rate	8.7%	10.3%	11.7%	15.2%	14.6%

Source: Partnership DIEESE/SEADE. PED-SP- Survey on Employment and Unemployment.

The failure of the Mexican stabilization plan signaled some dangers for the Real Plan, since both had the same foundation: foreign exchange reserves, overvalued currency and increased dependency on speculative capital from the global financial merry-go-round.

The response of the economic team that took office after the election of Fernando Henrique Cardoso, although late, came in March 1995. They changed the exchange policy, devalued the currency and adopted restrictive monetary and credit policies. Credit disappeared, interest rates soared and effects soon showed. Employment levels in the manufacturing industry were specially hurt and the unemployment rates in this sector have been steadily increasing ever since. The impact of the Real Plan was yet another blow on the employment level.

The Hong Kong crisis, in October 1997, recalled the fears of the Mexican crisis and blew them up: this time, several countries in southeastern Asia collapsed and had to face huge currency devaluation and crises in the manufacturing and banking industries. Brazil felt the effect of the turbulence and had bitter currency losses amounting to over US$10 billion and a significant increase in the public debt pegged to the exchange rate. The process of foreign exchange losses was checked by another real interest shock, which again bore negative effects on the unemployment rate, that fluctuated at the level of 17% per year!

Based on the facts mentioned above, one could conclude that the unemployment crisis in the 1990's was connected to the peak of latent hyperinflation and to the desperate attempts to avoid its tragic consequences, as well as to the increasing frailty of the Brazilian economy. This frailty resulted from a stabilization strategy that depended on the equation overvalued currency – high real interests – increasing public debt.

2. Structural causes for unemployment

The link between interest rate shock and unemployment is indeed sensitive. However, one should question whether there are also structural elements contributing to the high levels of unemployment and whether there is any relation between the management of macroeconomic policies and these structural factors. I put forth the hypothesis that there is a cumulative process involving both conjunctural and structural factors that help to explain the current level of unemployment one sees in Brazil.

If real interest rates increased above the levels of the late 1980's, unemployment rates should go up. This seems to have been the case, since the real interest rates always ended up being lower than forecast, and often negative. But this was not what happened after 1992, when the policy of expanding the international reserves based on the inflow of international capital was introduced. Furthermore, after the interest rate shock of March 1995, not only was inflation low, but it was also decreasing.

However, the 1990's also saw relevant structural changes, such as the sudden trade liberalization and the establishment of the South Cone Market (Mercosur). These events led to the restructuring of Brazilian manufacturing industry, which then had to face direct or potential international competition. The hallmark of the early years of this process was negligence, since there were no legal or institutional framework to ensure that such restructuring would not destroy the manufacturing power of the nation. Therefore, several links of the production chain received a hard blow, such as the clothing industry, textile industry, footwear industry, chemical industry, capital goods industry and autoparts industry, among others. The effect on employment was devastating, owing to the increase in imports.

The import tariff reduction strategy hurt the job creation capacity of the country. Initially, it was a slight effect, but as of 1990, it made itself felt more intensely. This often led experts to consider the unemployment of the early 1990's as a result of the sudden trade liberalization. However, if such liberalization on one hand impacted the manufacturing structure and its employment level, on the other hand there it did not seem have had any effect on the overall employment level.

Data from table 2 show that, despite the steep decrease in the employment level of the manufacturing industry in the metropolitan area of São Paulo, the same did not happen to the number of employed individuals, which increased by 321 thousand people between 1989 and 1993, while there was a loss of 422 thousand posts in the manufacturing sector. This means that individuals found job in other industries, basically in services and commerce. However, other industries were not able to offer the same number of positions. Unemployment grew in that period and affected over 542 thousand individuals, virtually doubling when compared to the figures of 1989. This was so because the Economically Active Population (EAP) increased by 863 thousand individuals. In this regard, the process of shrinking in the manufacturing employment level seems to help to increase overall unemployment levels, since the industry was no longer able to take on the expanding labor force.

Table 2: Average import tariffs, EAP, employed and unemployed individuals
Brazil and Greater São Paulo 1987-1993

Year	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**
Average import tariff - Brazil (%)	51	41	35.5	32.2	26.3	20.8	16.5
EAP in the Greater São Paulo[1]	6,774	6,911	7,052	7,162	7,515	7,733	7,915
Employed individuals in the Greater São Paulo[1]	6,151	6,241	6,438	6,424	6,636	6,558	6,759
Individuals employed by the manufacturing industry in the Greater São Paulo[1]	2,079	2,010	2,125	2,004	1,878	1,731	1,703
Unemployed individuals in the Greater São Paulo[1]	623	670	614	738	879	1,175	1,156
Performance of the Brazilian GDP (%)	3.5	-0.1	3.2	-4.3	0.3	-0.8	4.2
Performance of the GDP of the state of São Paulo (%)	2.9	-2.3	3.4	-5.3	-1.1	-2.1	5.4
Rate of investments in Brazil (in % of the GDP)	17.8	17.0	16.6	15.5	15.0	13.7	14.5

Sources: Partnership SEADE/DIEESE. PED-SP – Survey on Employment and Unemployment; SEADE; Manufacturing and Commerce Ministry. Foreign Trade Department. Apud: DIEESE, Anuário dos Trabalhadores, 1996-97.

Note: (1) in thousands of individuals.

The combination of increasing trade liberalization, stagnation, instability, economic unpredictability and the resulting decrease in investments proved to be an explosive one for employment levels overall and in manufacturing industry. Against this background, the interest rate shock of late 1991 set a new unemployment level, which has not significantly dropped ever since – even with the decrease in real interest rates as of 1993.

The economy started once again to gain momentum in 1993. Nevertheless, unemployment rates did not decrease significantly. The economy grew by 10.2% in the biennium 1994-95, while unemployment fell by 9.6% and employment increased by 5.6%. However, data from table 3 clearly show that the response of the economy in terms of job creation was much more vigorous in the 1986-87 period. In that biennium, the GDP had a similar growth, 11.3%, whereas the unemployment rate decreased by 24.6% (a fall 2.5 times greater than that of the 1995-96 period), total employment went up by 10.0% and employment in manufacturing went up by 13.4%, an almost fourfold increase when compared to that of 1995-96.

After the Real Plan, the impact of trade liberalization was enhanced by the overvaluation of the currency. Ever since then, there has been a steep increase in imports, which have doubled in little over three years. This had a negative effect on employment, because of the replacement of national for imported goods: the conjunctureal factor enhanced the structural factor.

The decrease in the demand for domestic production (including agricultural products) as a factor that promotes unemployment, comes hand in hand with the increase in the imports of capital goods. Such an increase is stimulated by the need for technologically updating the production base, so as to enable competition with imported goods, and also by the relative decrease in the prices of capital goods that result from the overvaluation of the currency.

This being the case, production restructuring brings about technological unemployment. The growth in productivity and in the EAP is much larger than the growth of the GDP.

Table 3: EAP, Employed, unemployed, growth of the GDP and rates of investment
Brazil and Greater São Paulo – 1985-87 e 1993-95

Year	**1985**	**1986**	**1987**	**87/86 (%)**	**1993**	**1994**	**1995**	**95/94 (%)**
EAP in the greater São Paulo[1]	6,369	6,659	6,774	**6.4**	7,915	7,980	8,220	**3.9**
Employed individuals in the Greater São Paulo[1]	5,592	6,020	6,151	**10.0**	6,759	6,847	7,135	**5.6**
Individuals employed in manufacturing in the Greater São Paulo[1]	1,834	2,089	2,079	**13.4**	1,703	1,732	1,762	**3.5**
Unemployed individuals in the Greater São Paulo[1]	777	639	623	**-19.8**	1,156	1,133	1,085	**-6.1**
Unemployment rate in the Greater São Paulo (%)	12.2	9.6	9.2	**-24.6**	14.6	14.2	13.2	**-9.6**
Performance of the Brazilian GDP (%)	7.9	7.5	3.5	**11.3**	4.2	5.8	4.2	**10.2**
Performance of the GDP of the state of São Paulo (%)	8.10	7.71	2.88	**10.8**	5.38	5.89	2.88	**8.9**
Rate of investments - Brazil (in % of the GDP)	16.3	18.7	17.8	**9.2**	14.0	15.0	15.4	**10.0**

Source: Partnership DIEESE/SEADE. PED-SP – Survey on Employment and Unemployment and DIEESE, Anuário dos Trabalhadores, several issues.

Note: (1) in thousands of individuals.

Consequently, when one asks today whether unemployment is conjunctual or structural, the answer is that both processes bear on the current rates. More than this, these processes are cumulative and synergetic.

3. Conclusions

Given the picture painted in this article, it is imperative to create more job opportunities, having full employment as the end goal. Steps must be taken at two levels: economic (by means of active and passive policies) and institutional. The implementation of policies that actively promote job creation must be prioritized. This entails earmarking public budget funds to projects that result in greater productivity for the economic system and at the same time create jobs and do not require imports. Such is the case for projects in the area of production infrastructure (transports, basic sanitation, rural power networks, irrigation, etc.) and of social infrastructure (health, education, housing).

Passive policies, however, must not be abandoned. These are policies that ensure to the unemployed income and skills training. Such policies are absolutely necessary because, for the time being, active policies are restricted by a macroeconomic policy that has negative effects on the creation of new job posts. Therefore, it is important to improve the coverage of unemployment benefits and extend these benefits to up to 12 months, depending on age group, according to the proposals put forth by the major labor federations (CUT, Força Sindical and CGT).

Services to the unemployed must also be provided by non-governmental public organisations, especially labor organisations. This would expand the service network, which is today very limited and deficient. It is important to invest in skills training, bearing in mind, however, that this is not a cure-all.

Jobs are created by thriving economies, by new investments in production and not by the availability of skilled workers. The ideology of employability must be unmasked because it shifts the responsibility for unemployment from the social to the individual scope: workers who prepare themselves for the new times, through ongoing reskilling, will create their own jobs. This way, unemployment becomes dependent on the failure or success of individual entrepreneurs, who must have discrimination, vision and aggression to occupy their space in the job market[1]. It is, undoubtedly, the cruellest transfer of responsibility for handling this social drama from the government to the victims themselves.

Institutional changes must also be introduced aiming at offering more jobs. In this regard, two actions would be particularly useful: decrease of the work hours and restriction of overtime[2]. Decreasing the work hours has been a historical solution in situations in which productivity grew in a sustainable way (increasing unemployment), such as has been happening in Brazil for several years. The proposals that suggested flexibilization of workers' rights as a means to stimulate new hiring were not successful in Europe, as the International Labor Organisation (ILO) and the United Nations Conference for Trade and Development (UNCTAD) have warned. The Spanish case is paradigmatic: labor agreements became more flexible and, despite this, unemployment continued to grow.

Last and most important: the Brazilian macroeconomic policy must be changed because it limits economic growth. The Brazilian GDP has been on a downward trend since 1995, after the Mexican crisis. In 1998, the growth of the economy was virtually null, only 0.2%, way below the population growth, estimated at 1.5% per year, which spells relative stagnation.

Unemployment cannot be regarded as mere statistics, just as one must not confuse the illness with the thermometer. Neither is it an economic variable, an indistinct residue of macroeconomic adjustment policies,

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[1] It is worth mentioning that the capitalist dynamics centralizes capital with every major economic crisis. It thus releases millions of "entrepreneurs" worldwide. They are the small expropriated capitalists, former directors and managers of companies, who reappear in the labor market under the euphemism of "private consultants"!

[2] It is estimated that 360 thousand jobs are lost in the Greater São Paulo because of the abusive use of overtime.

regretful result of the Phillips curve trade-off: it is either real wages or jobs, either inflation or unemployment. The tragedy of unemployment has a face, it is revealed in the despair of those who daily, and vainly, seek work; in the cruel psychological degradation resulting from the sense of personal and social failure; in the despondency of having to cross a desert without solidarity; in the inexorable exclusion of millions of people who are willing to work.

We cannot rest while there still is a sole human being seeking work in vain. There is no such a thing as an acceptable employment level, much as there are no starving people who can wait for the next spring.

Andrew Glyn

Globalisation and the welfare state

1. The degree of globalisation

Any discussion about the impact of globalisation has to be prefaced with a warning about the dangers of exaggeration the extent of globalisation. Consider the following:

(1) In 1997 exports (including intra-Europe) as % of EU GDP were 31.7% - only 1% higher than in 1985;

(2) In a middle sized country like the UK a clear minority of workers are employed in industries which directly or indirectly (as suppliers) are subject to international competition through exports and imports;

(3) In the first half of the 1990s inward foreign direct investment into Europe (including intra) was 5.6% of domestic investment, outward investment was 7.5%;

(4) On a world scale perhaps 1/6th of industrial output and 1/30 of services output is produced by foreign owned enterprises, about 7% of the total output.

(all figures from Sutcliffe and Glyn 1999)

The point is not to deny that international integration and thus competition has increased very substantially in:

(a) domestic markets for manufactures;

(b) capital markets;

and that these have important effects.

But there is a significant danger of losing sight of important orders of magnitudes and portraying globalisation as an overwhelming force; in particular this leads to all problems (including those of the welfare state) being blamed on globalisation and the neglect of other important trends, which may be common to many countries, but which cannot reasonably be described as reflecting globalisation.

2. The welfare state comes to a stop?

A recent study helps to place in context the huge differences in state welfare spending recorded in the accounts (table 1). The welfare state is imprecisely defined; most people would include income transfers (pensions, sickness benefit etc), health, social services spending (and usually education). Adema (1999) corrects the gross figures for state spending (excluding education) by deducting taxation paid on transfers from the state (very large in Scandinavia) and adding back "tax expenditures" for welfare purposes (like EITC in the US). The difference in state spending between US and Denmark is reduced from 20.5% of GDP to 6.1% - still large but less dramatic (the fact that in social democratic welfare states large sums are redistributed and taxed back is significant as well). As an aside, if private spending on health and education is included to give "Total welfare" (Esping Andersen 1999 table 9.1) then total "welfare spending" is considerably higher in the USA than Sweden!

The major expansion of welfare spending took place in the 1960s and 1970s; reflecting the same pressure from the labour movement for reforms which was also manifested in the profit squeeze. Between 1960 and 1980 welfare spending in Europe more than doubled as % of GDP. The rise between 1980 and 1995 was very much less. Across countries there is a mixed picture of small rises and falls in spending as a share of GDP in the 1980s and 1990s. With definitions differing, the economic cycle distorting comparisons not too much should be read into these country differences and even periods of increased spending can mask longer-term underfunding and serious cuts in particular services. The UK is shown in table 1 as having a big increase in the 1990s in welfare spending (pre-Blair) but this reflected growing numbers of benefit claimants and temporary bursts of spending in response to long-term problems in health and education.

The conclusion from surveys of welfare spending (Huber and Stephens 2000, Esping Andersen 1999) is that cut backs in the welfare state in high spending countries have been significant but not dramatic - reductions in some very high replacement ratios (Sweden), tightening up on extremely generous disability benefit provisions (Netherlands) etc. In the UK (with more meagre provision to begin with) however, the situation is much graver - a protracted period of underfunding has reduced state provision to minimal levels Thatcher's strategy of tying benefits to prices, not average earnings, reduced UK pensions by one quarter relative to average earnings (they are now worth some 15% of average earnings) and forced many without employer pensions into personal pension schemes; private spending on health and education rose sharply as a share of health and education spending respectively in the UK between 1980 and 1995. A vicious circle is set up of declining resources, declining services, middle class flight and declining political support for anything more than the minimal levels of service.

3. Globalisation and the financing of the welfare state

It is well recognised that there are increasing pressures on financing the welfare state and with increasing globalisation is the welfare state jeopardised? The following is a selection of charges which might be laid against globalisation:

(I) "International financial integration has forced governments to abandon deficit financing closing off an important source of finance for the welfare state"

The vogue for fiscal consolidations of the 1990s in part reflected pressure from international financial markets to reduce budget deficits. However it is important to remember that the substantial budget deficits of the 1980s and early 1990s (averaging nearly 5% of GDP in the EU in period 1980-96) were exceptional by post-war standards. During the golden age of welfare state expansion (1960-74) governments typically ran tiny deficits. The high debt ratios of the later 1980s put heavy pressure on budgets due to the interest which had to be paid; this was all the greater because of the high real interest rates which international capital flows enforced on all OECD countries. The point is that the current pressures for "fiscal discipline" hardly represent an unprecedented constraint on financing the welfare state but rather a return to "normal" conditions, after the exceptional period of high deficits - a symptom of unresolved distributional conflict of the 1970s and its legacy in the 1980s.

In any case the transition to lower deficits has *not* been not primarily at the expense of core welfare state spending. The European Commission has endorsed the analysis of Alesina and Perotti (1995) that lasting fiscal consolidations had to cut transfers and government employment (rather than raise taxation or cut investment). However the OECD's calculations for 1997 (OECD Economic Outlook December 1998 p 152) showed that more than half of the reduction of the EU primary balance (ie excluding interest) between 1990 and 1997 reflected increased taxation (2.2% of GDP out of a total swing of 3.8%), that transfers were *increased* (by 1% of GDP, only falling significantly in the Netherlands) and that cuts in investment were bigger than in current consumption (only in Italy, UK, Ireland and Sweden did government consumption fall by more than 1% of GDP). The data does not allow a precise calculation of the impact on welfare state spending, but it would appear that on average it probably *rose* slightly as a percentage of GDP. So fiscal consolidation was mainly paid for by taxpayers or was at the expense of infrastructure and subsidies.

(II) "Expansion of FDI flows has increased tax competition undermining taxation of profits. This has contributed to the problems of financing welfare spending."

The EU's Expert Committee (Commission 1992) found a general tendency for the variability of tax systems across member countries to be reduced in the 1980s. Corporation tax rates declined a little, but this was balanced by cuts in the value of investment incentives so that the importance of corporation tax revenue actually increased. Top rates of tax on dividends and interest income fell, but this applied to relatively less mobile labour income as well, and so cannot be automatically attributed to tax competition. Rodrik's study (1997), the most forceful analysis of the impact of tax competition, actually finds only a very modest relative shift from taxation on capital to taxation of labour in 1980s and early 1990s (see his figure 5) and international competition (for capital flows) can only have been partly responsible for this shift - a small impact on what was never a major source of revenue for the welfare state. The latest OECD data (*Revenue Statistics 1965-98*) estimates that corporation tax fell from 9% to 8% of total OECD taxation between 1965 and 1997; in the EU the share even *rose* from 6.7% to 8.5%.

Corporation tax has been never been a major source of tax revenue on which the welfare state had to depend.- the role of profits in sustaining the incentive for private capital accumulation has always put definite limits on redistribution from profit incomes to welfare spending. Squeezing consumption out of property incomes never played a significant role in financing the expanded share of state spending in the 1960s, or even the 1970s (Glyn 1992).

The taxation of interest income to rich individuals, a problem which in Europe reflects banking secrecy laws which predate the computer let alone the internet, is now receiving serious attention at the EU level.

(III) "The growing mobility of production via FDI has increased the power of capital and allowed a rising profit share; cutting into pre-tax wages is the way to reduce unit costs and maintain international competitiveness and by further squeezing real wage growth this has eroded the acceptability of raising taxation on wages to finance welfare spending".

Table 1 presents series for the gross profit share (of value added) in manufacturing. This is the most widely available and comparable measure of profitability and is particularly relevant as it reflects profitability in the most heavily traded sector of the economy. Gross profit shares have been considerably higher in the first half of the 1990s than in the 1980s, 1970s and even the 1960s in many countries, though Germany and Japan are very significant exceptions. Complaints against "excessive" social security contributions and "too high wages" have been particularly vociferous in Germany and this seems explicable in the early 1990s by the relatively low profit share (though there has been some improvement ince the early 1990s).

Table 1: Public spending on welfare 1980-95

% GDP	**Gross Public Welfare Spending (PWS)**	***Net* PWS (=grossless tax on benefits plus welfare tax breaks)**	**Changes in Gross PWS**	**Changes in Gross PWS**
	1995	1995	1979-90	1990-96
Australia	20.3	18.7	1.7	1.7
Belgium	31.9	26.5		
Canada	20.8	17.9		
Denmark	37.6	23.6	1	1.4
Finland	35.7	25.1	1.2	
Germany	30.4	25.9	-2.9	1.8 (91-95)
Ireland	21.8	17.4		
Italy	26.5	20.9	-1.4	-0.4
Netherlands	30.1	21.2	-2.8	
Norway	31.5	21.9		
Sweden	36.4	25.4	-0.9	
UK	25.9	22.3	0	4.1
USA	17.1	17.5	0.1	
France			3.6 (83-93)	

Sources; Adema (1999), OECD National Accounts Vol 2.

Can the rise in profit shares generally be attributed to increased international competition. Even posing it in this way sounds perverse. Heightened competition is supposed to drive profit margins down. The problem is that the competition, or threat of competition, also reduces workers bargaining power, especially when combined with mass unemployment. There is evidence that profit margins recovered most where unemployment increased most (Glyn 1997) and it seems plausible that this classic reserve army effect has been the main influencing restoring profitability even despite intensifying international competition. Germany, hampered by the remnants of GDR manufacturing, by overvaluation until recently and by relatively strong unions constitutes an exception.

The final point echoes the conclusion about fiscal deficits - that the restoration of profitability has been a reversal of the exceptional conditions of the 1970s and back to more typical patterns. The period of maximum welfare state expansion coincided with relatively high profits; the restoration of high profits causes a transitional squeeze on workers incomes (though not a huge one if it involves say 5% of value added spread over a number of years). It effect it involves a reversion to the "normal" position where the bulk of welfare spending under capitalism is financed from taxes on wage and salary earnings (rather than squeezed profits or budget deficits).

4. Underlying economic trends and the financing of the welfare state

Probably the most important influences on the capacity to finance welfare expansion have been:

(A) The slowdown in labour productivity growth

It is much easier to absorb rising welfare costs when real per capita incomes are rising rapidly - in this case a rising tax share simply reduces the *growth rate* of consumption out of wages per head rather than requiring stagnation or even a decline in the *level*. The most important source of pressure on the welfare state after 1973 was the decline in labour productivity growth and thus the growth of per capita incomes. In the business sector of the whole OECD the average growth of hourly labour productivity fell by almost two thirds between 1960-73 and 1979-97. In the EU the fall was just as sharp (from 5.4% per year to 2.2% per year). In the 1960s even sharp increases in the share of GDP devoted to welfare spending left room for modest rise in a Swedish worker's consumption out of earned income (1.2% per year); between 1973 and 1986 consumption out of earned income fell by 1% per year (Glyn 1992).

(B) The trend towards greater wage and employment inequality - that is the less qualified are systematically falling behind in terms of relative pay and in the probability of having work

Superimposed on the much slower growth of *average* real incomes is growing *dispersion* in the distribution of wage and salary incomes. In most OECD countries the 1980s and 1990s has seen *either* declining employment for the less qualified (represented in table 2 by Q4-Q1 the average annual change in the employment rate for the most educated quartile less the change in the employment rate for the least educated quartile (men aged25-64)), *or* declining relative wages (the % change in the ratio of male wages at the 90th to the 10th deciles in table 2), *or* both (the Inequality index shows the sum of the employment and wage effects and approximates to the rate of decline in the wage and salary incomes of the bottom quarter of the distribution as compared to the top quarter).

The implication is that financing even a *constant* share (in GDP) of welfare spending, equally available to all, means an *increasing* amount of redistribution. For example a proportionate, flat rate tax and contribution system implies more redistribution if the pre-tax income distribution widens (those towards the bottom of the distribution have no job or increasingly poorly paid jobs and thus contribute a declining share of total taxation which finances a declining proportion of the welfare spending from which they benefit). In addition the rising "market inequality" increases the need for redistribution - the expansion of "in-work benefits" (EITC in the USA, Working Families Tax Credit in the UK for example).

Table 2 shows that this deterioration in the position of the least qualified applies very widely in Europe, as in the Anglo-Saxon countries.

Table 2: Gross profit share manufacturing

%	1960-64	1964-68	1969-73	1974-78	1979-83	1984-88	1989-93	1994-6
Australia	30.7	31.2	29.9	23.6	26.1	31.5	31.4	32.8
Belgium			27.3	24.4	26.8	32.0	33.6	37.8
Canada	31.8	32.3	29.2	29.2	28.2	33.3	31.0	
Denmark		21.9	20.5	18.9	22.3	26.3	28.4	35.4
Finland	36.7	32.4	35.2	32.3	35.6	38.0	37.9	45.2
France	26.3	27.8	27.9	24.7	21.7	27.3	32.7	
W. Germany	31.6	31.6	29.3	25.6	21.6	24.2	22.0	18.3
Italy	35.7	34.9	30.6	28.9	31.6	34.9	31.9	35.1
Japan	48.2	47.8	45.3	34.9	34.1	35.7	34.9	28.0
Neherlands				23.2	21.8	30.9	33.9	34.4
Norway	23.8	23.0	26.4	25.0	25.9	27.9	29.2	
NZ			36.8	31.3	30.6	36.4	39.5	44.5 (94)
Sweden	26.8	24.1	21.6	17.6	20.0	28.7	25.3	33.8 (94)
UK	26.3	24.9	23.2	18.2	18.4	22.8	20.9	25.1
USA	24.6	27.0	23.7	24.2	23.0	26.6	28.4	32.1
OECD	31.1	30.6	29.3	25.8	26.0	30.1	29.6	
EUROPE	29.6	28.4	27.7	24.6	25.0	29.1	28.6	

Updated from Glyn 1997

Table 3: Employment, wage and labour market inequality trends, men 1970s-1990s

	Employment Inequality Q4-Q1 Rise in employment rate of best educated 1/4 as compared to least educated Change in % points per year			**Wage Inequality d9/d1** Rise in wages of worker 10% from top compared to worker 10% from bottom % change per year			**Inequality Index (Q4-Q1) + d9/d1** Rise in employment &/or wages of best off compared to worst off		
	1970s	1980s	1990s	1970s	1980s	1990s	1970s	1980s	1990s
USA	0.9	0	-0.2	0.2	2.1	0.9	1.1	2.1	0.8
Canada		0.4	-0.1		1.5	-1.4		1.8	-1.5
Australia		-0.1	0.8		0.3	0.9		0.2	1.7
NZ		1.4	0.6		2.1	2.1		3.5	2.7
UK	0.4	1.4a	0.4	0.2	2.2	0.7	0.6	3.6	1.1
Denmark		0.6	0.6		0.1			0.7	
Finland		0.5	0.9		0.8	-1.3		1.3	-0.4
France		1.3	0.4		0.3	-0.8		1.6	-0.4
W.Germany	0.2	0.6	0.6	0	-0.6	0.9		0	1.5
Ireland			0.6			3.5			4.1
Italy		0.9	1.1		-0.1	1.1		0.8	2.2
Neths		0.4	-0.6		1.3	1.6		1.7	1
Norway		0.5	0.5		-0.4			0.1	
Spain		0.5	0.9						
Sweden	0.4	-0.1b	0.6b	0.5	0.3	1.3	0.9	0.5	1.5
Switz			0.8			1.1			1.9
Japan		0.1			0.9	-0.3		1	

The causes of both the productivity slowdown and of the deteriorating position of the less qualified are hotly debated. Globalisation has been stressed in the debate over the declining position for the least qualified ; but few accept Adrian Wood's conclusion that it is the major influence (and intrinsic to his argument is the view that pressure from Southern imports has *raised* productivity growth in the North). Unless the meaning of globalisation is stretched to include almost all features of the contemporary world economy, it does not stand indicted as the central source of pressure on the welfare state.

(C) A pervasive finding in analyses of wage dispersion is that "within-group" inequality (eg of earnings between people with he same educational level) grew as much as "between-group" inequality (eg of earnings between the different educational groups). To some degree this reflects employer strategies aimed at individualising payment systems. Such developments may also have important ideological effects (Vandenbroucke 1999) in weakening social solidarity by promoting the feeling that the market ensures that people "get what they deserve". More broadly the trend towards decentralised wage bargaining must reduce the capacity of the labour movement to trade (post-tax) wage restraint for rising social expenditure (Alesina and Perotti (1997) found that .in countries with centralised bargaining structures higher taxation of workers was not associated with rising relative unit labour costs (i.e a fall in competitiveness) in contrast to countries with industry level bargaining).

Sources: Glyn (2000) Q4-Q1 calculated from National Labour Force Surveys supplied by National Statistical Offices and from background data to OECD *Employment Outlook* 1997 ch 3. D9/d5 from OECD Earnings Dispersion Database, 1999 edition and from *Employment Outlook* 1996, 1993; figure for Ireland kindly supplied by Brian Nolan.

Notes: Data covers maximum period within decades (eg 1979-99); observation is included if it covers at least five years of the decade (90s figure typically covers first 5-7 years:

a) UK increase over 80s may be exaggerated by survey changes

b) Swedish changes in 80s and 90s are very rough due to survey changes.

(D) One factor which is widely cited as a major drain on the welfare state is rising "dependency ratios" (ratio of people <15 or >64 on whom much welfare spending is concentrated to those of working age). This has not been major problem thus far - in the EU the ratio fell from 0.55 in 1980 to 0.49 in 1990 and 1995 (though this aggregate figure conceals increasing numbers of the very elderly on whom spending is particularly high). Also the rise in women's participation in the labour force has been a major source of (tax) revenue for the state, far exceeding the extra expenditures involved in child care for the under 5s etc.

The decline in men's participation in Europe has acted in the opposite direction bringing stagnation in the employment rate (employment/ population), at a level (61% of working population) one fifth below that of the USA and a major thrust of welfare state reform in the UK in particular is towards bringing people from "Welfare to Work". The position is particularly difficult in the UK since the rise in women's participation has been concentrated in households where one adult already works (and thus state support through benefits was very limited). The effect of this (combined with demographic changes such as more one parent families) is that the proportion of "workless households" has quadrupled since 1970 to reach around 18% (Gregg and Wadsworth 1999). So women have been taking jobs in families already above the poverty line, whereas men have been losing jobs in households where (for reasons of lack of work in the area, lack of qualifications or the structure of the benefit system) women are not moving into jobs.

5. Conclusion

The above discussion tries to place the problem of welfare state funding in its economic context. Most emphasis was placed on the productivity slowdown and on increasing wage and employment inequality in sharpening the political problems of securing support for the taxation necessary to fund welfare state improvements. Whilst these are very widespread and significant trends, they cannot be blamed primarily on globalisation. The task of maintaining and increasing support for welfare state spending is essentially a political task for the left. Denying the myth that somehow the welfare state cannot be "afforded" because of globalisation is a necessary part of this.

International comparisons can even play a positive role. Each winter the British NHS hospitals have problems coping, which this year were compounded by an influenza epidemic. Invidious comparisons of standards of health care with those in Europe quite suddenly and unexpectedly pushed Tony Blair to announce that spending on health in the UK as a percentage of GDP would be raised to average European levels (implying *much* faster growth in health spending than previously envisaged.). A race not to the bottom but to the middle!

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Ingemar Lindberg

Can the Nordic welfare state survive globalisation?

1. Introduction

Every country has its own welfare policy model. All of them have their strong and weak points. The solutions chosen are closely interwoven with the history, culture and social conditions of the country. So I do not think it would be fruitful to discuss which model is ”best”. Nor do I think we will be moving towards one single common model in Europe. But I do think we must support each other in preserving – and developing - our welfare systems against a common threat.

The reasons for the Swedish crisis of the 1990s is, I believe, of interest also outside Sweden's borders.[1] Since Sweden went unusually far as regards reduced income gaps, solid social protection systems, high taxes and an extensive public sector it is natural for people in other countries to wonder what happened. Did Sweden go much too far? Should the Swedish crisis be interpreted to mean that far-reaching income levelling and comprehensive welfare systems undermine a country's economy? Can the Swedish example be used to legitimise the dismantling of welfare policy in other countries?

2. Analysis of the Swedish crisis of the 1990s

The first years of the 1990s were dramatic in Sweden. In three years Swedish society moved from full employment to mass unemployment. The welfare systems deteriorated and poverty started to grow. The

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[1] I apologize to friends in the other Nordic countries for the fact that I only have enough knowledge to analyse Swedish developments in the 90s. I nevertheless find it valid to refer to a distinctive Nordic welfare state model.

result in Sweden was shock and confusion, and it is only now, when the smoke has cleared and the situation stabilised, that it seems possible to carry on a serious discussion as to what really happened.

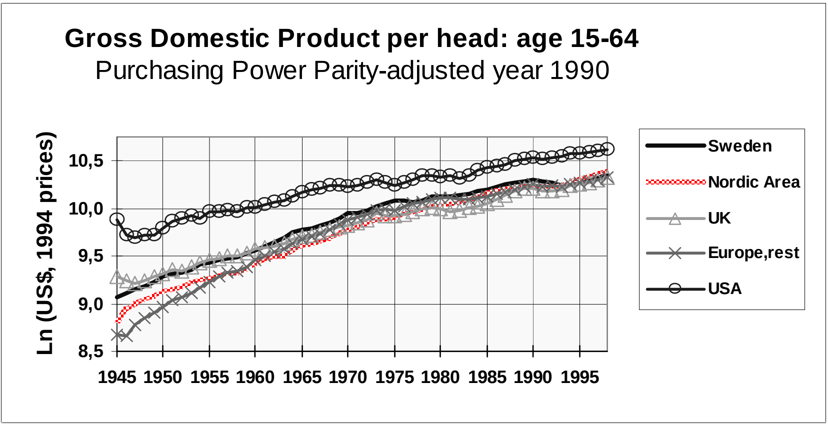
Already in the latter part of the 1980s leading economists in Sweden started to develop what has come to be known as a sclerosis theory. In brief, they maintained that Sweden had been underperforming in economic growth since 1970 and that this was mainly due to the universal and generous social security system, the extensive public sector and the pressure of taxation. The word sclerosis, which was often used, was intended to give the impression that the circulation of the economy was obstructed by successive hardening of the arteries, caused by too extensive political intervention in the market economy.

The sclerosis diagnosis quickly caught on in the public debate. The underperformance theory became accepted by leading politicians in all the major parties. It was a central argument for important political reforms as early as in 1989-90, when Sweden still had a Social Democratic government. Politicians, researchers, journalists and industrialists earnestly repeated it in the non-socialist newspapers' leaders and political pages. The non-socialist parties that took over government office in 1991 declared in their election manifesto that low economic growth was Sweden's basic problem. This affected leading Social Democrats' thinking during the crisis years. An important government crisis commission that attracted attention, called the Lindbeck commission, based its final report (Swedish Government Official Report SOU 1993:16) on the sclerosis diagnosis.

Afterwards it has been shown that the theory of successive underperformance attributable to high taxes, relatively small wage differentiation, a well-established welfare system, security in the labour market and a large public sector rests, to say the least, on a weak empirical foundation.

A Swedish social researcher, Walter Korpi, has persistently and fundamentally questioned the underperformance theory. He notes that it is true that Sweden has had a slower increase in GDP than the OECD average. But the difference does not start in 1970 – when Sweden started to deviate from other countries through high taxes, strong income levelling and a large public sector – but existed even earlier in the post-war era. During the period from 1950 to 1990 Sweden's annual percentage GDP growth per capita was about 0.3 to 0.4 percentage points lower than the OECD average. The slower Swedish growth until 1990 can instead be explained in terms of a catch-up effect. The countries that had a high GDP at the beginning of the period have in general had a slower rate of growth than those who started from a lower GDP. Among those are also such countries as the USA and Switzerland. The countries converge at a lower level of development – which is also one of the main results of an extensive study of the post-war economic trends in the OECD carried out by the economists of the Swedish LO recently, *see figure 1*.

Figure 1



However, Sweden rapidly loses ground in the first three years of the 1990s. It is difficult to see this as a confirmation of the sclerosis diagnosis. Why should the Swedish characteristics – relatively small income differentials, high taxes, a large public sector – that were mainly developed in the 1960s and 70s, suddenly have an impact during three years in the 1990s?

Even a prominent foreign economist, Professor Steve Dowrick of the Australian National University in Canberra, has now examined the Swedish trends and the Swedish economic debate. His conclusion is that: ”On balance, it seems reasonable to conclude that at least up to 1990 there is nothing in the Swedish growth performance which suggests substantial underperformance. It suggests there is a still challenge for the proponents of the “lagging behind” thesis. It is incumbent on them to explain why Swedish GDP performance was consistently reasonable over forty years and only shows a marked decline after 1990.” (Economic Journal 1996, 106(439):1772-79)

Instead it would seem to be the case that the GDP level of the country where the comparison begins has great significance. Those with a lower GDP at the starting point often have a higher growth rate than average, they catch up. In such a comparison we find, shows Korpi, that at least Norway, Japan and Finland have had a higher growth rate in the 1970s and 1980s than would be expected, considering their starting point. In the same way New Zealand and (less clearly) the Netherlands, the USA, Australia and the United Kingdom have shown growth rates below those expected. Sweden lies in a large in-between category of countries in which growth has by and large been that expected, given the starting point. That group includes Austria, Belgium, Canada, Denmark, France, Switzerland, West Germany and Italy.

I do not want to completely dismiss the assertion that Swedish welfare policy went too far. A hundred per cent sickness benefit was perhaps rather too high, particularly when our way of calculating the benefit – including holiday pay, supplements for inconvenient working hours and shiftwork – meant that it could sometimes be more than actual loss of income. I also believe that we in the trade unions contributed to stretching the definition of occupational injury further than was reasonable, thus making it easy for those who wanted to question the system as a whole. But a couple of such details cannot serve as a foundation for general criticism of the system. Sweden cannot be cited as a warning example on empirical grounds by those who want to dismantle and privatise the welfare systems. Universal welfare policy is in important respects more beneficial to growth than selective policy, which brings poverty traps and lock-in effects.

On the other hand, the international downturn of 1990 moved into a deep recession in Sweden. A series of Swedish measures contributed to this. The deregulation of the banks had led to unprecedented borrowing by households. The ensuing tax reform resulted in households starting to repay their loans. Thus, the dramatic increase in the average propensity to save (from –4 till +8 percent in the three years up to 1992) contributed to the drain in domestic demand. Furthermore, in 1990/91 when there was a Social Democratic government in office, there was a shift in the priority of economic policy goals, influenced by the underperformance theory, from full employment to low inflation. The non-socialist government that came into office in autumn 1991 was intent on ”eliminating inflationary expectations” at any price, despite the fact that Sweden was in the midst of a deep recession. In 1991 the Swedish krona was tied to the ECU at a fixed exchange rate, which contributed to a dramatic currency crisis with sky-high interest rates in autumn 1992. So there are plenty of Swedish reasons for the downturn in the first years of the 1990s. But these reasons have nothing to do with welfare policy.

3. Must countries that have far-reaching welfare policy adapt downwards?

In the past 15 - 20 years welfare policy has been rolled back in the entire Western world. We have seen that there is a convergence as regards the countries' economic development level. Is there also convergence in welfare policy?

Together with the LO economists I have studied the matter with the help of extensive material on the post-war developments in the OECD area. The results, if anything, support Gösta Esping-Andersen's well-known argument on a Scandinavian, a Continental and an Anglo-Saxon welfare state regim. The countries are not converging, at least so far. Instead the three models were only fully developed in the 1980s. And when neo-liberal system criticism grew, the dismantling of the welfare systems was not severest in the countries where it was most developed, measured for example in the size of the tax ratio or the public sector. Instead, the dismantling is earliest and has the greatest impact in the countries with the least developed welfare systems, the Anglo-Saxon countries, *see figures 2 and 3*.

Figure 2

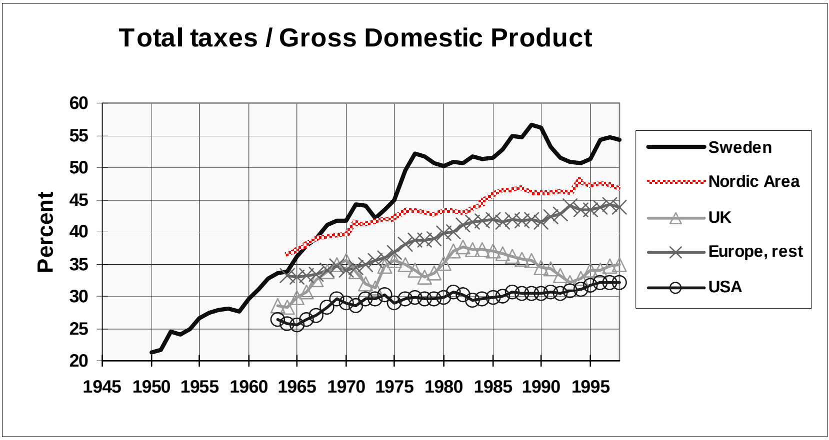
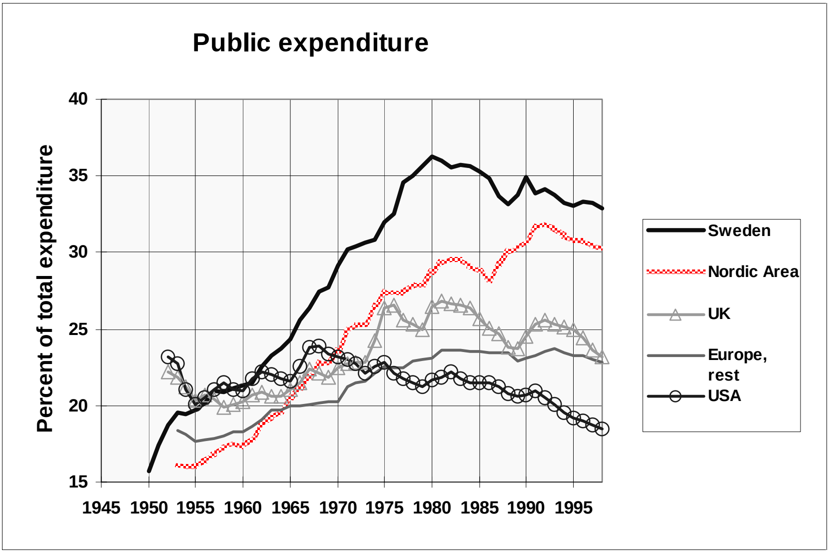


Figure 3



It would seem that every welfare model creates its own logic. The institutional path in welfare policy – the choice between means-testing, basic protection or general insurance protection against loss of income, the choice between private or public-sector care etc. – have an impact far into the future. In a system with great scope for private solutions the element of market orientation is strengthened. In the continental model a consensus is retained that tends to protect against change. The most far-reaching model, the Nordic one, survives (so far) on the civil support that a universal welfare policy receives. The election in Sweden in autumn 1998, as well as surveys and research on the Swedish people's values, shows clearly that the majority of people reject tax reductions if these lead to cutbacks in schools, medical care, social services or sickness insurance, unemployment benefit and pensions.

But the events in Sweden were also a part of a larger chain of events in the world around us. We cannot fully understand the Swedish crisis of the 1990s if we stop at only discussing Swedish reasons. In the first years of the 1990s Sweden felt the full impact of the shift in policy that had taken place in other countries around Sweden.

Two main features characterise what we usually call a welfare state: full employment and fair distribution of the results of production. These are my two main criteria for assessing the developments. Judged on the basis of these two criteria, developments in the past 10-20 years have been in the wrong direction. In brief summary the political shift in our international environment can be described as follows.

During the first thirty years after the Second World War the whole western world pursued a policy of full employment. The profit ratio, i.e. capital's share of the production result was reasonable. Income differences were decreasing or stable and welfare policy was being extended, not only in Sweden but in other countries as well. After this on our whole international scene there is a successive introduction of a phase of altered direction. The fight against inflation is made the main goal. Unemployment is allowed to rise. The profit ratio rises, income differentials widen and welfare policy is rolled back. The free market is given greater scope. Unemployment remains and now social divides grow. There are more and more homeless and poor, not only in

London and Paris but in the 1990s in Stockholm too. The major reason for the Swedish crisis of the 1990s was that we were reached by a global shift in power in favour of capital. We would be wrong to describe the crisis as temporary and Swedish. Nor can it best be explained by economists using the national accounts and the economic theory of equilibrium as tools. The power issues are not included in that model.

4. Two main phases in post-war welfare policy

Our analysis of post-war welfare policy in a number of OECD countries leads to some interesting conclusions. One is, as I have mentioned before, that the countries' welfare policies do not converge. But another is that the countries are moving in the same direction in two phases. During the period up to 1975/80 welfare policy was extended in the entire OECD area; to different degrees and in different ways, but the direction was the same. In a second phase from 1975/80 onwards the extension of welfare policy stops or retreats. At that point system criticism grows against the welfare states, not only in Sweden. We also see at that time in most countries successively widening income differentials and increasing poverty.

The contrast between the 1960s and the 1990s can be illustrated with the help of the following:

	1960s	**1990s**
Gross profit percentage	reasonable (approx. 31 %)	high (approx. 36 %)
Real interest rates	2-3 %	4-5 %
Unemployment	approx. 2 %	7-14 %
Income differentials	falling or stable	increasing
Welfare policy	expansion	deterioration

During the 1990s, then, Sweden has felt the full impact of this change in the world around us. The Swedish debate has almost exclusively focussed on Swedish reasons for the developments in the 1990s. But the Swedish crisis is not temporary and not only Swedish. As a major shift in the direction and results of policy has affected all industrial countries it cannot of course have been caused by Swedish factors.

5. Power shift between labour and capital

In socio-political research one can distinguish between two main approaches as regards explaining the development and change of the welfare state. One is based on the idea that welfare policy mainly reflects a country's economic level of development. It says that welfare policy was built up in connection with the industrialisation and urbanisation of the countries. Today it often goes on to say that welfare policy must now be amended to suit an information and knowledge-based society. A common notion is also that the class society is disappearing and that the opposition between labour and capital is played out.

The second main approach, the power resource theory, points to the differences that exist between countries of the same economic level of development. It tries to explain these differences primarily as a result of the power resources at the disposal of opposite interest groups in society, mainly workers and capitalists. Within that research tradition Gösta Esping-Andersen has developed his typology of conservative, liberal and social democratic welfare states.

The latter approach receives strong support in our examination of developments in the post-war period in the OECD countries. The countries have moved closer to each other in terms of economic level of development. The countries that were on a lower level have caught up. But welfare policy has not converged but diverged. In the 1950s and 1960s the differences in the extent of welfare policy were not so great but by the middle of the 1980s the various models had been fully developed, *see table 1*.

Table 1: Extent of Welfare Policy 1985

	Extent of Welfare Sector		Extent of Transfers
	Total number of employees in HEW* sector	Of which employed in public sector	Social expenditure** as a percentage of GNP
Nordic	**26**	**92**	**27**
Denmark	28	90	28
Finland	-	-	21
Norway	22	92	28
Sweden	26	93	30
Continental	**13**	**69**	**25**
France	15	75	27
Italy	12	85	21
Netherlands	20	38	28
West-Germany	11	58	23
Austria	10	61	24
Anglo-Saxon	**17**	**50**	**15**
Ireland	-	-	22
Great Britain	16	77	19
Australia	15	65	10
Canada	15	44	16
USA	17	45	12

Sources: Esping-Andersen 1990 and Korpi, Palme 1997.

* The abrieviation HEW means health education and welfare according to OECD classifications

** Costs for sickness, unemployment, old age, work injuries, family support, maternity, invalidity and benefits for dependents according to ILO Costs of Social Security

And what has happened since then is not that the countries that went furthest, the Nordic countries, have cut back their welfare policy the most. If we examine the tax level or public sector consumption as a proportion of GDP it is the Anglo-Saxon countries, with least public welfare and with the most privatised and market-oriented welfare systems, where the cutbacks have been more evident. The continental systems have been robust, perhaps rigid, but the Nordic systems have also resisted relatively well.

The power resource theory can also help us to understand the shift between the 1960s and the 1990s that I have illustrated in this paper. In the first thirty years after the Second World War the labour movement could uphold the interests of the workers and the majority of the population relatively well by organising and regulating the national labour market and by means of political influence on the nation-state. What has subsequently happened is that the opposite party has moved across borders.

The national trade union organisations in the Western world have about the same organisational strength after 1975/80 as in the first post-war period. There is no general weakening between the two phases, at least not of such an extent that it can explain the difference between the phases. Neither has the strength of the parties of the left in elections shown a general weakening between these two phases. But our opposite party, economic power, above all financial capital, has gained strength by means of deregulation and internationalisation.

6. Trade unions and the global power shift

The basic task of the trade unions is to prevent a blackmail situation arising, where workers are set against workers in competition for jobs, in other words, to prevent undercutting competition, which gives employers the opportunity to reduce wages and offer worse conditions of work. When we reach a strong position in our negotiations in the matter of wages and conditions of employment, we can also push through strong common welfare systems. Thirty years ago we could manage this task reasonably well within the framework of the nation-state. The free market and increased mobility in Europe means that the blackmail situation is becoming increasingly European. The global mobility of production and financing capital means that it is also becoming to some extent global.

As regards the labour movement and the political left I think I see three possible approaches. One is to deny globalisation, at least in practical action, and say no to far-reaching European co-operation, maintaining instead that we can continue more or less as before. This is an approach that is so far widespread in the Swedish labour movement. The crisis is described as a passing economic dip and as a problem of balancing public finances. When we have got past the dip and sorted out the national finances we will be able to continue as before. This is an attitude that accords with nostalgic retrospection and national self-satisfaction. It is convenient for those in power in the country – they do not need to change their roles or give up their position of power in the nation. It is also convenient for many social debaters who can continue to argue with each other just as before in what increasingly resembles a national duckpond.

The second approach is to accept the shift in power and be content to do what can be done within the framework of the new order. This means that every country will cut capital and corporate taxation in order to attract investment, that we will keep wages and social security contributions down to prevent companies from moving production and that we will invest in skills development and so-called positive flexibility, that does not conflict with the interests of capital. In the book "The Third Way", in which Anthony Giddens describes the political ideas on which Blair's New Labour is based, the conflict between labour and capital has faded completely. He does not argue whether it has changed or not, he has quite sovereignly cut it out.

If the European labour movement does not intend to content itself with such a line of adjustment, it will be necessary for us to stake out another type of third line, a line of action using power politics in which we can mobilise an effective counterforce against our opposite parties – among whom in this non-detailed article I lump together the transnational companies, the globally mobile finance capital and the political Right, even though I am of course aware of the conflicts of interest that exist within this "counterparty".

7. Conclusions [2]

Some time at the start of the 1980s was a time for celebration. Sweden at that time was one of the most egalitarian countries in the world and in modern history. We now have income differences of the same level as at the start of the 1970s and if the trend continues in this way – backwards – we are approaching another kind of society. Is the welfare state in its death throes, doomed to oblivion? Are there ways of combining the ideas of the welfare state with the reality of the late nineties? My arguments lead me to three sets of conclusions, the first concerns the global shift of power, the second our traditions of ideas and values and the third Swedish welfare policy. I would like to start with a brief summary of the character of the crisis of the nineties.

7.1. The crisis of the nineties and the Nordic Welfare State model

One important issue is; what are the reasons for the Swedish welfare crisis of the nineties? A more precise definition is needed of the character of the crisis. On this point I have two main arguments.

One is that the crisis cannot be understood primarily in terms of the economic equilibrium theory. This is a fairly common way of analysing the crisis; diagrams of the inflation rate, productivity, interest rates, current account balance and budget deficit are presented as though these were the basic facts from which we can derive the reasons for the crisis. I see this line of explanation as insufficient. This sort of analysis can be compared with taking the temperature of a patient; it says something about how the crisis is developing but not much about the reasons. The economic equilibrium theory's analyses do not

[2] This part is a translation of the final chapter of my book The Ideas of Welfare – on Globalisation, Elitism and the Future of the Welfare State. Atlas 1999.

accommodate power structures, nor values. What were the reasons for the crisis of the nineties? My answer is: workers lost power and the left suffered defeat in the struggle of ideas.

Thus, in my opinion the Swedish labour movement made a serious mistake in its handling of the crisis by leaving the economists to analyse the reasons. In that way the really major political issue of the nineties – the reason for unemployment and cutbacks in welfare programs – has been made into a question for experts, meaning that people must learn more about economics in order to understand. The labour movement has got stuck in the value-free models of the rational utilitarian tradition and thus lost contact with its inner compass – the moral values and the position on the side of the workers in the fight between labour and capital. The politicians have thereby become uncertain and unable to explain what has happened. The broad dialogue within the labour movement about major issues has come to a halt.

My second argument is that Sweden-based explanations are insufficient. The major event of the 1990s was that Sweden felt the full impact of a policy shift that had taken place in other countries. In market economies with privately owned business and industry the owners of capital and those in their service always hold strong economic power. When welfare policy was extended and the welfare state was strong, this was because this economic power was reasonably balanced by a fairly strong political democracy which represented the interests of the majority and by trade union organisations on the side of the workers – all within the framework of the nation-state. Now, for the past 20-30 years, as a consequence of technological development, but also of a deregulation policy resting on a foundation of ideology and interests – capitalist interests – we are meeting an opponent who can move across national borders more and more easily. Democracy and the trade unions have not kept up. We have not been able – yet – to build effective counterforces across borders against capitalist interests, that is the reason for the major political shift around us.

We should seek Swedish explanations to the specific Swedish features, not the things that are common to the entire Western industrial world. Then the perspective on Swedish welfare policy shifts. The crisis was not the result of our going too far with high taxes and extensive welfare policy. The shift to high unemployment, a deterioration in welfare facilities and growing social divides, did not first and most forcibly reach the countries that had gone furthest in these respects, but those which went least far, the Anglo-Saxon countries. A large proportion of the labour movement and the political Left in Sweden have ended up in a national introversion, with elements of self-satisfaction and nostalgic retrospection towards a past era of greatness for the "Swedish model". We are not as unique as we would like to think, our welfare arrangements are not always best and above all we have an interest in supporting each other, country by country, to maintain and improve our historical and culturally based assortment of welfare state models.

The main features of the crisis exist in all the countries around us and are not caused by anything specifically Swedish, but we have at times handled the crisis worse than many other countries. The element of self-satisfaction and retrospection towards a past era of greatness has contributed to this.

What do I want to replace the economic equilibrium models with as an explanation? My answer is the power structures and the ideological struggle.

7.2. Trade unions and the global shift of power

The employees in operations exposed to competition are experiencing almost daily threats of production being moved to another country unless they accept a harder pace and worse conditions of employment. If German workers give in, then the pressure on Swedish workers is increased and vice-versa. Here is the really major future task for a new generation of trade unionists – to build effective transnational trade union activities. Cross-industry action and multi-union co-operation is also necessary across national borders, since the shift of power does not only affect those who work in the competitive sector.

It is a long road and even if the first steps have been taken I do feel strong frustration over the fact that we did not wake up before. Perhaps we have not found the right road to take yet either. There is a risk that we are trapped in our thinking; that we believe that the transnational action should take place at a new level above that of the national unions and confederations. There is a risk of getting stuck in committee meetings in Brussels, where our discussions with trade union colleagues in other countries will be steered by the EU Commission's agenda.

The new trade union action across national borders must be established as a network between trade union workplace clubs and in broadened trade union collaboration within multinationals. The multi-union activities covering different countries can be developed from local contacts – first exchange of information, then co-ordinated action. It will not be controlled either by the confederations or the national unions – and if we only use the opportunities afforded by the Internet it cannot be controlled, in the authoritarian sense, by anyone – on the other hand it can be co-ordinated. The most difficult thing is not the organisation but the building of cohesion and worker identity across national borders that is necessary for joint action.

If it is a long and difficult path, it will hardly be as difficult as when trade union organisations were built up in our own country and when these gradually found their methods of co-operation in national unions and with other unions within the framework of the nation state. There is much to be learned from that period. One lesson is that we proceeded in parallel on two tracks. One was laying a floor of basic trade union and human rights that would apply to all workplaces – the right to organise, basic workers' protection, an eight-hour working day. The second track was to meet the employer where he was most vulnerable – in production exposed to competition with skilled workers who were difficult to replace and where a dispute would be felt. Not to create conflict but to show the employers that there is an equal trade union counterpart with whom they must negotiate agreements.

There are new tools that can facilitate the establishment of trade union counterforces over national borders. One such tool is employees' pension capital. The demand for basic trade union and human rights could get powerful support here. If the trade union organisations in the economically most significant countries pressed jointly for some basic investment rules, this capital ownership could become a considerable power factor on the side of employees in relation to the global shift of power. Just make a simple demand such as not allowing the money to be invested in companies and countries that hinder genuine trade union organisation. If such a demand were implemented jointly it would constitute very strong support for global trade union organisation.

Another tool that may become important in contemporary society is consumer power. This tool should also, I believe, be used by the trade union movement to support trade union organisation, not least in the countries that are now undergoing industrialisation. The workers there could then build up their own strong organisations and formulate their own demands as regards conditions of employment, and from that basis they could then participate in designing joint trade union action across national borders. We must be careful not to become protectionist and use rules against social dumping as a means to prevent legitimate low-pay competition.

7.3. The hegemonic ideas

The attitude of the labour movement to the predominant flow of ideas of the 1990s – economism – has been divided. On one day it supports its ideas and uses its expressions. Growth and economic distribution have then appeared to be the only goals of politics. The electorate has been appealed to using material self-interest as the single guideline; you benefit from our proposal, in hard cash. The parties have competed to see who is best at increasing growth and at how material benefits are to be distributed.

On another day spokesmen of the labour movement have called economism neo-liberalism and attached that label to their liberal or conservative opponents. Words such as justice and solidarity have been added to their speeches. But they have not braced themselves and been clear in their criticism of neo-liberalism – because that would have needed a reconsideration of economism in their own party. People have noticed this divided attitude. People are not stupid – they notice if the words have a foothold, they hear what the speaker really means. They do not see much difference. This is an important part of the crisis of credibility that social democracy is at present experiencing. Of course people want to know what the parties' proposals mean to them in monetary terms. Of course they care what an interest rate increase signifies for their own finances. But this is not all they want politics to be about.

My main theory is that there is a third way for the labour movement. It is not a matter of reinstating the past, nor is it restricted to a resigned adjustment to the new power structures and ideologies, such as recently expressed by leaders of German and British social democracy. As far as possible it utilises the scope for action available today, but at the same time strives to change step by step both the power structures and the prevailing framework of ideas.

Such a non-adjusting path requires in the first place radical social criticism that makes it clear that we want a different society than the one we have at present. Criticism of the growing divides, of poverty and marginalisation is needed; an analysis that is not just superficial, but that dares to look at the reasons. Included in this is also deep criticism of the growing segregation on the labour market, with its ethnic divides and categorisation by race and skin colour. And criticism of the subordinate position of women, of violence and oppression and of the circumstance that an increasing number of women are forced to work under conditions that are insecure and hazardous to health. Let the social criticism among ordinary people be expressed; anger gives the strength to change and in many cases also the ideas as to how this is to be achieved, not all good ideas come from above, a popular movement gets its strength from the demands of many people for changes.

The non-adjustment path also requires an inner reconsideration of our methods of thinking and working. The social-democratic party, at least in Sweden, and to a certain extent also the trade union movement, has come to be identified with those who hold power. It is worse than that; we have, over a long period of exercising power, ourselves started to define our role more and more in that perspective. Now that we are again in a period of gaining power this will be an impossible restriction. A living labour movement in a capitalist society must be socially critical and open. The reconsideration needed involves allowing criticism and assenting to diversity of opinions. It is more than that; it means really listening and maintaining a dialogue. It means giving the popular movement power in relation to the party leadership and the cabinet office. The inner reconsideration must go deep into our ways of thinking concerning society and people's conduct towards each other.

As regards our own methods of thinking my theory is that a utilitarian tradition of ideas has gained far too dominant a position in the labour movement. In that tradition it is not the moral quality of actions but their results that count. This legitimises top-down control and subjugation to experts. The clearest form of expression of utilitarian thinking in our times is economism. The fundamental ideas of economism are – as I have tried to describe elsewhere in my book – in sharp contrast to those of the labour movement, but they also tie up with simplified Marxism and with parts of the thinking that is to be found in the utilitarian tradition. This may explain why economism has had such a strong impact on the thinking of the labour movement at this stage.

We are facing a new fight over the ideas which are predominant in society and which influence people's thoughts and actions. Neo liberalism is on its way out today and what we will be meeting tomorrow seems to be neo-conservatism. It is high time for the labour movement to free itself from the paralysing grip of economism, otherwise we will be left on the old playing field. It will not be the arguments of economism that will apply in the future.

In the third place a non-adjustment principle will require that we establish a strategic way of thinking and acting over national borders so that we can join together in being a credible opponent of the neo-liberal thinking and the capitalist interests that are in control at present. The hierarchy of our organisation and our thinking puts us on the wrong track when we are to cross borders; we easily build up new, even more hierarchical systems when we think that we are to add another level – above. The Internet gives us technological possibilities we have not had before to open direct contacts horizontally between employees in different countries, without this having to go via national trade unions or the LO. We must instead break with traditions of hierarchy and top-down control in our own organisation. We must be able to meet other countries' employees without blinkers and self-satisfaction in a major future project.

7.4 Welfare policy

We still decide ourselves on the national level as to the contents of welfare policy, and so far also mainly as to the extent of welfare policy. We are not forced to adapt ourselves to any kind of European average. The decisive factor is if our welfare policy is efficient and meets with the approval of the population. The Nordic model of general welfare policy is, in the main, efficient. The problem is that it no longer includes everyone. The tradition of action in solidarity with a group gives inner support but excludes those who are not part of the group. Unemployment and marginalisation mean that more people than before are excluded.

There is reason to reconsider and critically examine today's welfare systems, but also to emphasise and defend the principles on which general and universalist welfare policy is based, in these times when many people are saying that public support should be directed more towards those who are worst off, while the middle class should be given greater freedom to chose between different private and public solutions. Child allowance for everyone, health insurance and pensions for everyone at a reasonably high level, health care and social services for all children on equal terms, free schooling without segregation, nursery schools and day-care for everyone with a low standardised fee – all this is efficient compared with means-tested benefits that are directed towards those worst off. It is efficient as a means for redistribution because it is financed by taxes and charges, where high wage earners pay more than low wage earners. It is efficient because one avoids the bureaucracy and intrusive examination of individuals' and families' living conditions that means testing involves. It is efficient because one avoids high total marginal effects and poverty traps.

Above all general welfare policy is efficient because it gives the best support to the most vulnerable groups. It could be said that there is a welfare policy paradox in this. It sounds reasonable to believe that if one concentrates social policy support on those who are worst off it will be better for them and worse for the middle classes – if we use this term a little loosely. This is not the case. Those who hold a strong position will always be able to take care of their security themselves, privately or through contractual agreements and favourable employment conditions or golden handshakes. But they will not want, quite naturally, to pay twice; both to private insurance schemes and equally high taxes and charges as before, for the common system. In that case the common system will suffer. England is a striking example of the move from a general to a selective welfare policy and the consequences of this.

There is solid historical experience and extensive welfare policy research showing that those countries who have built their social policy mainly on general income protection systems for the entire population also have the most even distribution of income and the best support for those worst off. This applies even if sickness benefit and public pensions give more in higher income brackets than in lower income brackets. And conversely, in countries which have only basic support and a large proportion of selective support to those worst off – such as England, Australia and New Zealand, to a certain extent also in the USA – poverty is the most widespread. It is also there that poverty has increased most palpably in the 1990s.

But at present there are major deficiencies in the functioning of the welfare systems. Cutbacks have affected the most vulnerable groups the worst. It is completely absurd that the dismantling is continuing at the same time as we have a national budget surplus and every party is talking about reducing taxes.

We should include the right to education in the social insurance system, perhaps in the form of individual education accounts, and combine this with rights for all employees to skills development at the workplace, a right over which the individual is to have control. We should have an adjustment insurance to make companies invest in training instead of giving notice and terminating employment. We should find new freer forms for organising and financing the "lighter" care of the aged, where those who need help will have greater individual freedom of choice than at present. We should raise child allowances. And there should be basic protection in social insurance for those who have not been able to accrue the income-related benefits and who do not have a chance of entering the labour market, a different kind of basic protection than the intrusive means testing that social assistance involves.

From a left-wing point of view welfare policy is about freedom, within a framework that gives everyone the same chances of freedom. In combination with full employment, strong collective agreements and strong labour law, welfare policy is to "decommodify", i.e. stand for a reasonable degree of freedom from the constraint of the labour market. In the discipline that is the necessary point of balance of freedom, the greatest possible mutuality must be the goal, the same requirements are to apply to a highly placed white-collar worker as to a blue-collar worker. When the directors' golden handshakes are increased at the same time as those employed in production are losing their right to compensation for repetitive strain injuries, the foundation for basic mutuality that is the necessary basis for joint systems is being eroded.

All welfare policy models have their strengths and weaknesses. The Anglo-Saxon model's weak point is the growing social divides that are threatening to break down common norms and erode the social capital that is the precondition of a well-functioning society. The Continental model's weakness is that it rests on church morals and unpaid female labour, it is threatened by secularisation and demands for gender equality. And the Nordic model's weak point is the financing, the high taxes. But this model will not be more stable if taxes are reduced and the standard is brought down even more. It will be just the opposite. The threat lies in cutbacks, the danger is that people will no longer be satisfied with and have faith in the common arrangements, that private pension insurance and private health insurance and private forms of old-age care will grow and that people will then not be willing to pay as much towards the common public systems.

It is high time that we extricate ourselves from the Left's paralysing crisis of ideas of the nineties and start a discussion of the future of welfare policy in which the labour movement and the broad Left is not only defending past systems and imagining an attack in every proposed change. I am convinced that an examination of the different traditions of ideas in the development of welfare policy can help us. We could then clear away the prevailing bureaucracy, top-down control and patriarchal elements and see what is feasible for the future. But at the same time we could straighten our backs and be proud of the basic elements of the Nordic welfare policy. It was not the universalist welfare policy that created the crisis.

For many decades we were in the happy situation that the labour movement and the majority of people held power. The main problem was how the systems were to be designed. In the new, different era we continue our discussions as though the design of the systems was all that is important. And the politicians continue impotently to change the rules back and forth. They want to believe they have power and to show that they can govern.

But the main problem today is the shift of power. We are at a stage now when the most important task of the left is not to change the rules but to mobilise power – the power inherent when people join together around ideas in which they believe. In order to achieve success here the labour movement needs inward and outward openness. We are not alone and we do not always know best. The trait of self-satisfaction is the labour movement's worst enemy at present.

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Graciela Bensusan

The impact of globalisation on the Mexican industrial relations system

1. Introduction

The purpose of this paper is to analyze the implications of globalisation and particularly of the integration process in North America over the evolution of the Mexican Industrial Relations System. The presentation is organised around the following aspects: the erosion of the inclusive nature of the old industrial relations system; competitive strategies and the response of trade unions to these strategies.

Before starting we must say that in Mexico it is difficult to isolate the specific impacts of the globalisation and integration processes from those due to changes in public policies that resulted from the answers to recurring economic crises. Strictly speaking, as has been noted by Moschino & Giles (1998), the negotiation and signing of NAFTA constitutes the institutionalization of a long-dated regional integration process. The preparations in Mexico for this process were several, from stabilization programs (which included rationalizing public expenditure and controlling inflationary pressures) to the unilateral trade liberalization as the country signed as member of the GATT in 1986, the privatisation of public enterprises, productive restructuring and the reshaping of the industrial relations system. All these changes - which were initiated with different levels of progress and intensity from 1982 until today - had an influence on the traditional relationship between State and society, particularly on the post-revolutionary political system, as a consequence of the erosion of its inclusive and consensual aspects. It should also be highlighted that a large part of the transformations that took place in the union world, as well as those that can be foreseen in the short and medium term, have a direct relation ship with the slow, yet perceptible, advance to democracy in the country. This advance was also favored by international pressures deriving from the NAFTA negotiation and, more recently, from the interest in negotiating a trade agreement with the EU[1]. Hence the feedback between economic and political changes in the last two decades underlies in the dynamic from which the new rules of the world of work emerge. These rules are becoming more and more distant from those that accompanied the import-substitution protectionist model between the 40's and the 80's.

2. From selective inclusion to generalized exclusion.

The dynamics of the Mexican industrial relations system evolved during the last two decades of the twentieth century from a "discretionary and selective inclusion" of wage earners as beneficiaries of the development model based on import substitution and domestic markets, towards their "generalized exclusion" from such benefits. This shift was a consequence of government policies aiming at stabilization and neoliberal restructuring, as well as of corporate competitive strategies preceding or accompanying globalisation. This has been possible thanks to the institutional features of the system and to the fact that it operates in an authoritarian and corporatist political regime. The slow transition of the latter to democracy provided the Executive and its corporate and union allies with a big leeway that allowed them to impose the new rules of the game in the labor arena.

The dynamic (inclusion vs. exclusion) and the internal rationale of this system (based on the combination of legality and discretionality) makes its scope and beneficiaries contingent mainly on presidential policies and opportunity criteria, and not on the law or on the powers that it recognizes to labor interlocutors. This can easily be proved with the evolution of minimum wages during the last forty years: from 1960 to 1981, minimum wages rose 151.3 per cent in real terms, or a real annual

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[1] The demand for advancement in the process of transition to democracy, end of impunity and respect for human and individual rights were among the last conditions set by the European Parliament in order to initiate in short the negotiations of a trade agreement with Mexico. La Jornada, April the 30th 1998.

growth of 7.56 per cent in those twenty years. In contrast, from 1981 to 1999, minimum wages fell 72.2 per cent in real terms.[2]

In sum, the "inclusive" or "exclusive" nature of the industrial relations system has been contingent on the economic and political context in which it has operated. While between the 40's and the 80's concern over the domestic market allowed governments to maintain substantial exchanges with trade unions - among which we can find economic and political benefits for leaders and members, such as growing real wages and job stability - the crises and the search for greater economic competitiveness restricted governmental leeway and induced a radical shift in public policies. In the new context of globalisation and competitive pressures, exchanges with allied unions were restricted to guaranteeing leaders' personal privileges and union survival (or even consolidation and expansion) in exchange for control and discipline of workers, who faced public and corporate policies that provoked a dramatic fall in their living conditions and an unequal distribution of the gains and losses of the export-based model.

A result of all this was the erosion of the consensual elements of union corporatism and, therefore, of the industrial relations system based on this old political and social arrangement. It should be highlighted that the same mechanisms conceived to protect workers' rights - such as the laws governing job stability, the definition of the minimum wage linked to worker subsistence and that of its family, the prohibition of cutbacks in collective contracts or the constitutionally recognized right to strike - have been neutralized with total impunity. This has been achieved through the state control over the tripartite administrative bodies (such as the Minimum Wage National Commission) and labor justice bodies

2 Author's own calculations using data: 1960 from STyPS, *Salarios e Inflación* (STyPS, 1984), 1965-1982 from Carlos Salinas de Gortari, *Sexto Informe de Gobierno*, 1983-1989 from Banxico, webpage, and 1989-1999 from Ernesto Zedillo, *Quinto Informe de Gobierno*. Data were deflated using the National Price Index (INPyC) from Banxico. It is worth noting that this rise and decline of the minimum wage purchasing power was a result of governmental control over the decisions of the Minimum Wages National Commission.

(the Conciliation and Arbitration boards), as well as through the adoption of openly illegal measures (the simulation in collective organisation, etc.) and the lax interpretation of the current laws in order to openly favor corporate interests.

The strong contrasts between a world of high levels of protection in the firms at the core of the corporatist arrangement (large state and private enterprises located in the dynamic sector of the import-substitution model) and a world of underprotection (in lagging enterprises, such as the garment industry) that characterized the old industrial relations system tended to disappear. As we will see in the next section, this means that nowadays the differences in working conditions between exporting and domestic market-oriented businesses have vanished.

However, it should be noted that the interventionist features of that system were preserved as means of imposing new public and corporate policies, a fact that made possible the drastic reshaping of the rules of the game (from selective protection to exclusion) while diminishing the levels of industrial conflict. In this respect, it becomes illustrative that the strike activity registered in 1982 and 1986 in the context of economic crises and the austerity policies meant to solve them - 675 and 312 strikes, respectively - fell dramatically to the point that in another critical year – 1995 - only 96 strikes took place. Three years later this indicator fell again to only 33 strikes as shown in the following table. This undoubtedly shows a strong capacity from both the state and corporatist union leaderships to prevent the use of this pressure weapon. This was also favored by the fear of workers to lose their jobs in the formal sector as a result of economic instability.

Last, it is worth noting that the lack of institutionalized spaces for worker participation in the workplace and of leaderships capable of expanding their capacity to make proposals in the productive arena and renew their power resources - at a time when the workplace became the center of transformations and the State stopped sustaining the negotiation capacity of trade unions - was a deficit of the old labor relations system that contributed to the exclusion of workers' interests. This is shown in the next section relative to wages and productivity in the most successful industries of the new export-based model.

Table 1: Industrial conflict (1981-1999)

Year	Number of strike calls	Strike incidence
1981	6589	81
1982	16095	675
1983	13536	230
1984	9052	221
1985	8754	125
1986	11579	312
1987	16141	174
1988	7730	132
1989	6806	118
1990	6395	150
1991	7006	136
1992	6814	156
1993	7531	155
1994	7490	116
1995	7676	96
1996	7621	51
1997	8047	39
1998	7352	33
1999*	3512	20

* January-august. Preliminary data

Sources: Carlos Salinas de Gortari, Sexto Informe de Gobierno, México, 1994. From 1994 onwards Ernesto Zedillo Ponce de León, Quinto Informe de Gobierno, México, 1999.

3. Competitive strategies and the industrial relations system

Competitive strategies varied across sectors, regions and firms without the industrial relations system being an obstacle for their implementation. This showed its high degree of flexibility (allowing the adaptation of working conditions to market requirements) and the lack of bilateral fora where technological and organisational changes could be bargained over. This explains why among the convergent trends we find - with a few exceptions - the unilateral nature of corporate decisions and the absence of modern fashions of employee involvement in productive challenges, the latter being sustained in high wages, training and consensus building. The combination of high productivity (in many cases through the adoption of technical and organisational aspects of the Japanese model) with low labor costs was pursued in firms with links to international markets, mainly multinational corporations. Trade union manageability and governmental support were key factors that allowed such a combination (examples of these strategies are the auto and electronic industries)

In Mexico, the process of productive restructuring (in the technological, organisational and labor relations arena) resulting from competitive pressures was more significant in large multinational corporations, which were integrated from a productive standpoint and linked to export markets. This is reflected in productivity growth levels well beyond the manufacturing average and in its resulting polarization (Alberro, 1997: 82). In some industries there is even a converging pattern of changes in Mexico and the US aimed at increasing labor flexibility and employee involvement in production challenges, while important asymmetries remain (e.g. in wage levels)[3]. This is the case in the auto industry, in which firms are being relocated to bordering zones

[3] While in 1980 hourly labor costs in manufacturing in Mexico were 23 per cent of those in the US, in 1990 they decreased to only 10 per cent. Even if productivity differentials between the two countries are still important, the large wage gap (approximately 8 to 1 in manufacturing industries) makes possible exploitation of labor in Mexico to double that of the US. (Hernández Laos, 1997: 88).

with little union tradition and where low-cost labor is readily available (Bayón y Bensusán, 1997).

On the other extreme, small and medium sized enterprises - generally domestic market oriented and isolated from export markets - have had far less capacity and interest for technological or organisational innovation, even if trade liberalization carried not only strong pressures for them as well, but a growing deterioration of domestic demand resulting from an abrupt and steady wage decline since 1982.[4] The main response in these enterprises was the rapid decline of labor costs - achieved through job cuts and low wages - also combined sometimes with internal market segmentation: a few trained workers with better wages, who would guarantee the use of new technologies, while the rest would remain lacking qualifications, with low wages and high levels of labor turnover.(Bensusán, García y Von Bülow, 1996).

While it is true that there were previously important differences in working conditions according to firm size, these tended to diminish as a consequence of the desire of larger firms to adapt their labor relations to market requirements and of the resulting search for greater flexibility - in its numeric, technical-organisational, wage and working time variants. With the purpose of achieving growing levels of productivity, multinational firms successfully combined technical innovation with work intensification, outsourcing, cuts to labor costs and an increase in overtime worked.

Without ignoring the still remaining heterogeneity in working conditions - even among different workplaces of the same firm - there is a generalized trend that points towards the development of strategies in which worker involvement lies on a lack of incentives and securities.

[4] While more than 65 per cent of large manufacturing enterprises (i.e. those with more than 250 workers) had introduced organizational changes between 1989 and 1991, the same indicator was almost 20 percentage points below in the case of small firms (i.e. those with 16-100 workers) and was of only 8 per cent in microfirms (those with less than 16 workers). Encuesta Nacional de Empleo, Tecnología y Capacitación, 1992, México, 1995, quoted in Bensusán, García y Von Bülow, (1996: 45).

In other words it is based in "negative incentives" so that deprivation, low wages and the elimination of unions as means for representing workers' interest are combined to oblige workers to accept without questioning management demands.

Recent studies on the adoption of the new Japanese model in assembling plants of the Mexican auto industry show that the industrial relations system prevents de adoption of the consensual elements of the Japanese model, such as a highly cooperative climate based in trust among workers and managers and in benefits for wage-earners (job stability, investment in human resource training, wages linked to tenure and productivity). In contrast to the Japanese model, in Mexico an archaic implication has been built, sustained mainly by authoritarian methods and vertical controls, which directly oppose the quality-based philosophy the model stands for (González López and Villa Méndez, 1996; Carrillo, 1996).

Other studies on the manufacturing industry have shown that corporations operating in Mexico have enjoyed ample leeway on the introduction of organisational and technological changes, and on the imposition of diverse labor flexibility variants, even with significant differences among industries within the manufacturing sector (Hernández Laos, 1997; Hernández Laos and Aboites, 1993). This flexibility is even more significant in the assembling industry in the border zone (*maquiladoras*), where working conditions are close to the lowest legal standards and union intervention in productive processes is nonexistent (De la O, 1997). Hence, even if comparative studies find legal rigidities in Mexico to be among the highest in Latin America (Camargo, 1997), in practice there are different ways of eluding institutional obstacles and labor markets have operated with the labor flexibility needed to generate significant increases in productivity. The position of Japanese assembling firms in different border cities constitutes a good example of their management's leeway to adopt measures that increase labor productivity and worker willingness to accept new working systems, the latter being facilitated by the fact that workers are usually from the countryside and with no previous history of unionization (Taddei and Robles, 1996).

The growing importance of the *maquiladora* industry is a fact that should be highlighted here[5]. In 1998 it accounted for one third of total employment in the manufacturing industries, and it currently employs more than 1.3 million workers (mostly unskilled women) in more than 3,000 workplaces located mainly in the northern border (more than 70% of workplaces). (Carrillo y Kopinak, 1999: 84 y 85). Between 1980 and 1999 the *maquiladora* industry grew at an annual average rate of 14.1%, even though its main weakness lies in its scarce integration with the productive lines of the country. [6]

In this respect, government policies were clear-cut: besides offering different types of incentives for relocation, it allowed free hands to multinational corporations to select their strategies, including those already established in the country and those arriving after NAFTA and trade liberalization (assembling plants, vehicle parts and electronic *maquiladora* industries). The government also focused in controlling the institutional and other elements that could otherwise have imposed some balance in the distribution of gains and losses. While in some industries with strong union tradition (such as the non *maquiladora* auto assembling plants) the choice made was to turn to microcorporatist arrangements, which were based on the control capacity of the larger union confederation – the Mexican Workers' Confederation (CTM) - in other industries union interlocutors were diversified. Meanwhile the growth of low unionization zones and industries - if any - was promoted. This kind of initiative was practically never seen before in large manufacturing firms. This was the case of the *maquiladora* industry located in Chihuahua, a Mexican state, or of the electronic firms in Guadalajara, where extreme versions of numeric flexibility have been adopted to the point that firms

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5 As explained by Carrillo and Kopinak (1999) the *maquiladora* industry is not exactly an industry, but a heterogeneous set of activities, where the autoparts, electronic and garment industries are among the most important ones (p. 85).

6 While between 1993 and 1999 the *maquiladora* industry generated a trade surplus of almost 54 billion dollars, the exporting industries (non *maquiladora*) had a deficit of almost 84 billion dollars during the same period. (Sistema de Información Regional de la Economía Mexicana, cited in León Bendesky, La industria maquiladora, La Jornada, january, 25th, 2000).

lack workers while these are provided - with low wages and no labor securities - by outsourcing agencies(De la O, 1999: 218).

The case of the Mexican telephone firm (Telmex) constitutes an exception to the unilateral nature of the restructuring process and to the diminishing working conditions and wages trend as preparation for North American integration. In this case, the technological modernization process initiated in the late 80's along with the privatisation of the firm were negotiated with the Mexican Telephone Workers' Union (STRM). During this process the union managed to preserve its contractual rights, the number of job posts and even directly linked wages to productivity increases, which allowed worker's purchasing power to grow as compared to its early-eighties level[7]. It should be noted, however, that these achievements are endangered by the current competitive pressures, since Telmex competitors have adopted low wage-low benefits strategies, mainly through the signature of "protective contracts" with "letterhead" unions (variants intended to prevent real worker unionization). Pressures over Telmex have lead the firm to increase outsourcing practices and the number on non-unionized workers, a fact that reduces the number of workers that can be unionised by the STRM. (Sánchez, 1998).

The gap between wages and productivity

Even when some studies show that the gap between productivity levels in Mexico and the US has deepened from 1972 to 1994, when this indicator went from 50.6 to 50.2 per cent (Guzmán, 1997), labor productivity in Mexico manufacturing industry rose 80 per cent between 1980 and 1997. In the meantime wages lost nearly half of its purchasing power and employment decreased by almost one third, as shown in the following figure.

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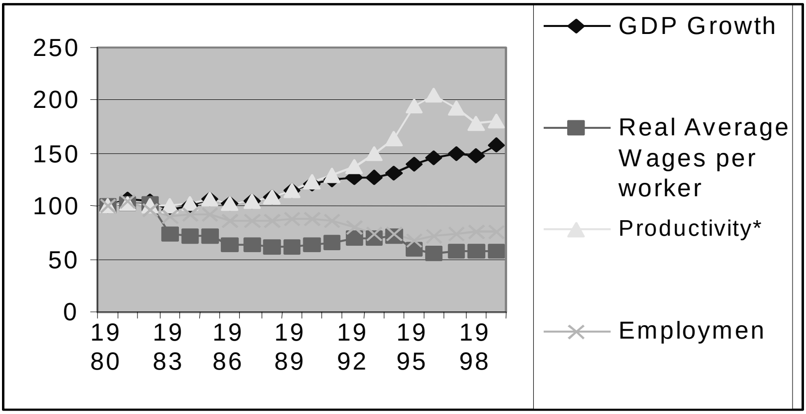
[7] These results can be explained by several factors. First, the absence of competitors in the industry until 1997 (when long distance service was opened to competition) made consumers pay for a large part of the higher labor costs (in comparison with compensation levels elsewhere in the country). On the other hand, the strong democratic life of the STRM obliged leadership to design a strategy combining old and new power resources in order to keep control over the union's structure and to impose bilateral bargaining to management. These issues will be examined in the next section.

Figure 1: Main indicators of the manufacturing industries (1981-1999)



Source: Productivity was measured as added value per worker. Author's own calculations with data from INEGI, Encuesta Industrial Mensual. Up until 1993, the Survey included 129 types of activity. From 1994 onwards, it includes 205 types. Data has been crossed to identify the trend. 1980=100.

Due to the fact that productivity growth depends on additional factors such as investment levels, technological innovation, research and development, industry, firm size and resources dedicated to training, a great disparity remains in the performance of different economic entities. In this respect, improvement took place mainly in the industries characterized by economies of scale and which were export-oriented since mid-80's: chemical, steeling and auto industries, among others. (Guzmán, 1997:182-184).[8]

[8] Given the fact that productivity is correlated to firm size, it is worth noting that in Mexico the proportion of large firms is marginal (1.9 per cent of total) as compared to the number of micro, small and medium-sized firms (98.1 per cent of total), even if the former occupy 48 of the total labor force (Guzmán, 1997:187).

A recent study on the evolution of labor costs in Mexico shows that between 1984 and 1987 labor productivity rose in 16 industries and fell in 24, while between 1987 and 1993 (i.e. when the effects of trade liberalization and economic restructuring were most notorious) it only fell in 7 industries. Productivity growth was rapid in some cases, such as the auto industry, where it averaged more than 20 per cent per year. (Hernández Laos, 1997: 187; Bayón y Bensusán, 1997)

Even when indirect labor costs (taxes and social security costs) grew, this growth was offset by increases in labor productivity and diminishing direct labor costs (wages and fringe benefits), with a resulting increase in competitiveness during the first period (1983-1987). However, the subsequent management of exchange rates (overvaluation of the Mexican currency) lead to a generalized decrease of competitiveness between 1987 and 1994, although there were a few exceptions as was the case of the auto and electrical appliances industries which remained competitive. Once again in 1995 manufacturing industry competitiveness was restored through a drastic devaluation of the peso. The analysis of this data suggests that the evolution of this indicator was determined by macroeconomic factors and not by problems related to labor costs (Hernández Laos, 1997: 182).

Additional important data that sheds some light on the trends resulting from productive shifts in Mexico is the relationship between labor costs and input costs on the industry.[9] It has been calculated that in 43 of 49 analyzed manufacturing industries, labor costs as a proportion of input costs on the industry significantly decreased between 1980 and 1990 (Ibid:196).

Likewise, increases in exporting industries productivity levels had no relation with wage evolution, which fell again after the 1994 crisis. This event was more significant in the case of industries subject to strong competitive pressures. As has been said, this is explained by the fact that wage evolution depended on macroeconomic factors (Alberro,1997), such as anti-inflationary agreements (*pactos*) while unions

[9] Input costs of a firm include labor costs and materials directly used in production processes (Hernández Laos, 1997: 195).

lost bargaining capacity in the context of new public policies that privileged external markets and commitments to the international financial institutions. The auto industry is a good example of this trend, which also applied to the fringe benefits that resulted from collective bargaining, as shown in the following table.

Table 2: Compensation index in the auto industry (1987=100)

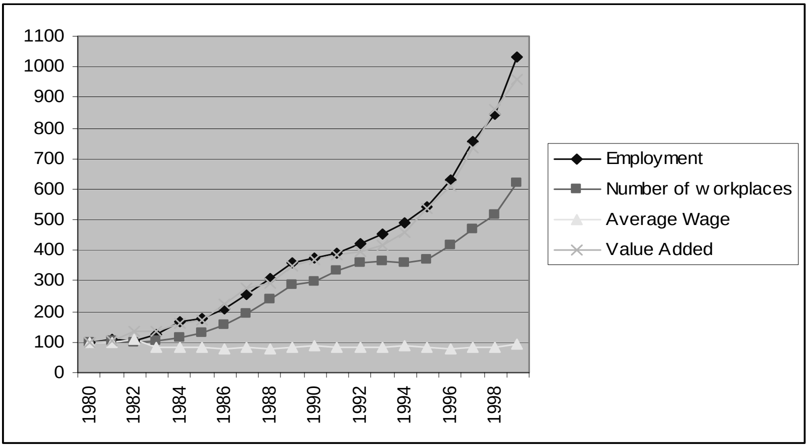
	Real Average Wages to workers	Real Average Salaries to employees	Fringe benefits
1987	100.00	100.00	100.00
1988	90.14	98.37	85.00
1989	92.58	116.66	89.22
1990	110.31	127.91	88.04
1991	114.01	138.35	93.79
1992	129.59	164.21	107.31
1993	128.51	168.65	108.07
1994	123.06	170.84	96.50
1995	95.85	137.81	81.36
1996	94.68	133.67	59.12
1997	99.37	134.43	60.91
1998	100.77	142.86	61.96
1999*	98.66	139.09	60.09

Source: Encuesta Industrial Mensual, INEGI, Webpage, enero 2000

* January-November. Preliminary data

Likewise, the evolution of productivity, employment and pay in *maquiladora* industries (which currently employ over 1 million workers and were the only manufacturing sector to continuously grow during the 80s) is illustrative of the unequal bargaining power of labor and capital in this sector, featuring weak or no unions at all (this is the case in electronic firms in Chihuahua and Cd. Juarez, with low levels of unionization).

Figure 2: Evolution of the main indicators of the *maquiladora* industry, 1981-1999. (1981=100)



Source: Author's own calculations with data from INEGI, *Industria Maquiladora de Exportación*, Enero 2000.

4. Impacts and union responses

The previous sections reveal a patent loss of economic and political union power that lead to the elimination of the wage gap between unionized and non-unionized workers. This gap reached 40 per cent in 1982, and then fell to 10 per cent in 1989 and to 3 per cent in 1992 (OCDE, 1997: 98 and footnote 78). Additional data concerning the labor market that reveals the failure of unions to defend their membership is the one pointing to an increase in part time workers, a decline in the number of jobs in the manufacturing sector (only to recover in 1994), an increase in the number of workers enjoying no fringe benefits or social security, as well as an increase in the proportion of non-salaried workers. This last indicator reached over 50 per cent of the active population (Ibid, pp. 95 a 102 and OCDE, 1999: 81, Table 14).

Even though the new economic opportunity structure initially disturbed all unions, political change had diverse effects depending on the "old" or "new" nature of unions, since political democratization of the regime along with the recurring economic crises (particularly the one starting on December of 1994) created better conditions to question the legitimacy of corporatist unionism and to initiate its restructuring process. Some of the historically independent unions (like the Authentic Labor Front, FAT) as well as some dissident unions from officialist unionism (STRM, STIMSS, etc.) are currently leading a difficult process of reorganisation. They formed the National Union of Workers (UNT) (1997), a confederation that is in a position to disturb the old union leadership's hegemony, which is in an open decline process despite their alliance with government.

The main strategy among traditional corporatist leaderships - headed by the CTM - was the rapid adaptation to the new rules of the game, accepting cutbacks in the living conditions of their members and the loss of influence in the definition of public policies. In exchange they obtained their own survival, even if this path inevitably conduced them to the loss of credibility among the rank-and-file. Their position facing NAFTA negotiations was clear in this respect: they supported the neoliberal assumptions that rejected any kind of labor regulation in the integration process arguing a defense of national sovereignty. They also promised that the market would correct the existing asymmetries in wage levels without need for new regulation. This was not so much an ideological conviction (since at the discursive level they still advocated State presence) or a result of their well-known subordination to the Executive Branch. Rather, that is how they protected the internal legal padlocks that allowed them to sustain affiliation monopolies. In the same vein, they invariably opposed any domestic change to labor legislation.

CTM's behavior facing restructuring in the auto sector - one of the most successful in the new export oriented model - provides a good example of corporatist union's situation and of government and firms' interest to preserve the status-quo. While in the seventies this industry witnessed a strong dispute of independent unionism against CTM's hegemony - which resulted in the loss of some contingents to independent unionism as was the case of the Volkwagen's Union and forced the CTM towards more aggressive positions *vis-à-vis* management in order to improve their memberships' working conditions - this phenomena was offset in the following two decades. Union freedom was eliminated and CTM could affiliate workers of the new auto assembling plants, even those in Japanese firms, in exchange for accepting of a high productivity-low wages competitive strategy. Collective bargaining was isolated. It took place on each workplace individually and left to local union leaders, generally with no previous training or education on the matter. The only support provided for by the CTM was usually legal consultancy, which guaranteed that local unions followed the Confederation's policy guidelines. From the standpoint of firm's management, this process was not exempt from conflict and costs, as was the case of Ford Motor Co. (1989-1992) where CTM defended its control over collective contracts above all, even if it had to repress the unsatisfied. The truth is that with support from the CTM, the government kept attracting investment to the industry, firms combined technological and organisational innovation with wages that kept no relation with productivity, while union leaders kept control over workers (including union fees and the corresponding organisational apparatus). This was the case in 16 of the 19 (all unionized) assembling plants in the country (Bayón, 1997). The price paid for such privileges, however, was the abandonment of the union duty of representing their workers' interests, as was recognized by one of the leaders of the Confederation.[10]

One exception to this traditional behavior is the STRM, where internal democracy levels increased with leadership change in 1976. The "cooperative" strategy of this union to defend its membership from technological modernization and privatisation of Telmex combined old and new power resources. The former included, for instance, the alliance with the President of the country (1988-1994) and with the new management, while the latter included the extension of its productive role resulting from a greater capacity to make proposals and the commitment of the rank-and-file to increasing productivity levels in exchange for higher benefits. The STRM also expanded its links with foreign unions, which allowed them to anticipate the impacts of changes in the telecommunications industry and to design effective

[10] Interview to Juán S. Millán, former Education and Training Secretary of the CTM, april 1997.

forms of defending job posts and working conditions. The latter was achieved by means of information sharing, a resource totally alien to the traditional nature of Mexican pragmatism. In order to face both the competitive pressure of low labor costs in new firms, and a distant relationship with President Zedillo (1994-2000), this union has also strengthened its political role both by searching for support for its strategy in the main opposition parties and by intensifying the union reorganisation process that was initiated in 1990 with the creation of the Fesebs. This is how the STRM is a current leader, along with some independent and other formerly CT unions, in the efforts to build a new union confederation, the National Union of Workers (UNT), whose purpose is to leave aside corporatism and subordination to the government.[11] In the same vein, the UNT has favored a reform of the labor law, in an attempt to democratize the union organisation and demand-formulating process and to prevent the formation of "letterhead" unions and "protection contracts". With this objective in mind, the STRM resorted to the complaint procedures of labor rights violations in the firms of the industry included in the North American Agreement on Labor Cooperation (NAALC). In such efforts it also had support from other union organisations in the country -such as the FAT - and abroad (Xelhuantzi, 1997 y Sánchez, 1998).

The contrasting path just exposed suggests that the process of democratization and cleansing of Mexican unionism - disturbed by imposition, corruption and lack of representativeness - are necessary

[11] Among UNT's principles we find: 1) those of a union and/or political nature -like union independence, autonomy and democracy, repudiation of reelection and of political affiliation of their members, freedom to organize, the right to have union representation, to bilateral industrial relations, to strike and to authentic and operative collective contracting according to the diverse activities and production processes; 2) those of economic nature: the defense of strategic industries and of non-renewable natural resources, rejection to foreign intervention and the promotion of a sustainable and equitable community development with social participation; and c) those of social nature: a remunerating wage, the right to social security, to enjoy all the basic human rights and the advocacy of public education systems.

but not enough to successfully push for a development strategy inclusive of workers' interests.

5. Conclusions

The industrial relations system in Mexico is currently facing a number of tensions and contradictions stemming from its incapacity to balance the unilateral public and corporate strategies in order to guarantee a democratic capacity to rule in industrial and inter-union disputes. While it preserves an undisputed capacity to prevent and control emerging disputes (a result of its corporatist controls, the demobilizing effect of the several crises and the slow pace of job creation in the formal sector), the mechanisms for solving them lack efficacy and legitimacy. It should be noted, however, that the possibility of pushing for "high road" development strategies in the future and of restricting the likeliness of policies that artificially repress wage levels and control independent union's activities in order to attract investments, is contingent not only on the progress of political transition, but also in an adequate labor law reform and its articulation with regional and global frameworks of labor regulation that discourage and punish such policies.

The last two decades of neoliberal policies show that the expected levels of growth has not been generated and that, in contrast, income distribution inequalities rose (UNCTAD, 1997). This is why it becomes essential to modify the approach that up until now has lead to trade liberalization and integration by means of offering guarantees only to one party. The larger part of the efforts has to be dedicated, from now on, to give securities to wage earners and to those excluded from the formal economy. However, this new generation of policies and institutional reforms can no longer be responsibility of just one country. On the contrary, they should be promoted by multilateral and financial organisations with the same strength that they used before to generalize market-oriented policies throughout the world, if transformations achieved until now in this direction are to endure.

Translation from Spanish by Martha Ruiz
(BA International Relations, MSc Industrial Relations)

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Kuriakose Mamkoottam

Globalisation, industrial relations and trade unions in India

1. Introduction

The last quarter of 20th century would be well remembered for the widely debated globalisation and internationalisation of economies across the world. Much of the debate has remained unfinished and at the beginning of the new millennium the world seems divided between those who support the process of globalisation and those who, if not opposed to it, have highlighted that its ill-effects outweigh the advantages. Globalisation as a term has not only gained universal currency, but has also brought about a radical shift in the structure and functioning of contemporary industry and business. Globalisation has come to define the competitive advantage of nations, as propounded by Michael Porter (1990), in terms of their ability to compete and survive in the global market, going beyond national, political and cultural boundaries. One of the most enduring tests of an economy's comparative advantage has been seen in terms of its ability to be a global player, which it can sustain only by integrating with the global market. Interestingly and perhaps expectedly, a large part of the discussion on globalisation has focussed on the developing and newly developed economies. Impact of globalisation on labour in general, and trade unions and Industrial relations in particular, are among the important issues which have attracted the attention of scholars, policy makers and activists.

2. Globalisation and new technology

In more ways than one, the advent of new technology in the shape of microelectronics may be seen as an important instrument of globalisation. Since the 1980s manufacturing & service environment has been characterised by the focus on quality, flexibility, customer orientation, and productivity. Firms had to innovate in order to secure the most productive use of the investments - manpower, raw materials and energy - while at the same time offering improved service and quality to the ever-discerning customer. The global market today poses the biggest challenge by demanding simultaneous objectives of productivity and flexibility from the firm. In fact, the new technological opportunities and strategies made it possible for the firm to meet such a challenge.

Faced with the emerging challenge of the market, more and more manufacturers and service providers turned to new technology. The information technology (IT) has not only improved the communication and control activities across a broad range of (manufacturing/ service) activity, but has also brought about an all-time important function of integration. IT has brought together previously discrete items of equipment into more powerful, multifunction systems. Today's integrated manufacturing and service systems offer high levels of computer integration while retaining their flexibility. The computer integrated manufacturing (CIM) technologies have contributed to immense improvements in factors of efficiency and effectiveness including lead-time, inventory, quality standards, cost and productivity. New technologies in the form of Internet and digital networks have already made a major difference in not only the way organisations work, but also people live.

3. Globalisation and economic reforms in India

Studies have shown that the full benefits of these new technologies can come only if simultaneous changes are brought about in physical layout, organisation structure, manpower skills and work culture (Rush & Bessant 1989). As it was found in the case of Spanish automobiles and textiles, the absence of such a simultaneous approach can delay, if not totally stop the introduction of new technologies (Mamkoottam & Herbolzeihmer, 1990 & 1991). The adaptation of new technologies, in other words, would require a "paradigm shift" integrating the production and process innovations along with new patterns of organisation designs and decision-making. The new work place would have to undergo wide-ranging changes in the areas of manpower skills and knowledge, inter-personal and inter-organisational relationships and customer orientation. In fact, rapid technological developments and Globalisation left little choice to nations/economies to compete in a single (world) market. Restrictions, with few exceptions, on the movement of capital, goods and services had to be gradually lifted and global standards have come to control quality, price and productivity. In fact, in order to take advantage of globalisation and technological changes major reforms had to be introduced in the Indian administrative, industrial and financial sectors.

For several decades after independence the government of India followed a path of industrial development which placed major emphasis on the state-owned public sector. The central and state governments in the public sector units had made huge investment of several millions. Over the years, most of the public sector units became loss-making enterprises and many had been declared sick, though industrial sickness has not been confined to the public sector alone. In fact, industrial sickness has been more pervasive in the private sector, particularly in the medium and small scale sector. Several million workers are employed in the sick units. Critics attribute these deteriorating standards to the unhealthy protectionism and isolation of the Indian industry from the global market. The *Economist* once used the metaphor of a caged tiger to describe the over-protected Indian economy. Direct state intervention and bureaucratic control had for long characterised the Indian industry, be it through industrial licensing, import-export restriction, or labour legislation. Among the major reasons for the existing non-competitive situation include technological obsolescence and inefficient deployment of manpower with redundant skills.

In the wake of a severe foreign exchange reserve crisis and the increasing impact of globalisation, the Government of India announced a new Industrial Policy in July 1991 to transform the Indian industrial and financial sector into a global player. Several major policy measures including privatisation of the public sector organisations, modernisation and technology up-gradation, manpower training and skill up-gradation, rehabilitation of the sick industrial units, and, above all, relaxation of the state control by introducing adequate legislative reforms were included in the new policy package.

An organised effort to tackle industrial sickness had commenced with the enactment of *Sick Industrial Companies (Special Provisions) Act, 1985*, and the constitution of the Board of Industrial and Financial Reconstruction (BIFR) in 1987. The BIFR - a quasi-judicial body - vested with wide ranging powers was to act as a single window for nursing sick units back to health or for recommending their closure. Through an amendment, the Sick Industrial Companies Act, the jurisdiction of BIFR, which was till then confined to private sector units, was enlarged to cover sick public sector units as well for rehabilitation. In countries where free competitive markets have been nurtured over the years, unemployment benefits under an overall social security system are available to the labour force. In the absence of any such meaningful social security system in India, a social safety net was created under the National Renewal Fund (NRF) to re-train the employees and rehabilitate obsolete technology. Unfortunately, the performance of the NRF has been far from satisfactory.

In the absence of political consensus and faced with widespread protests among organised labour, the then government adopted a cautious and guarded approach to reforms. It is also noteworthy that the Congress government which took the initiatives in introducing reforms in early 1990s was not voted back to power for the second phase of promised structural reforms. However, gradually subsequent governments, though belonging to different political ideologies and their coalitions, have continued the process of deregulation, enlarged the areas of foreign and private investment, and partial privatisation (divestment) of the public sector. Important sectors like the Infrastructure, telecommunication, civil aviation, power and automobiles have been deregulated and opened to multinational players. Even in the face of nation-wide protests and agitation by the employees of the nationalised insurance sector, the Insurance Regulatory and Development Act (IRDA) has been passed in the 1999 winter session of parliament, opening up the insurance sector to private / foreign companies. In fact, the re-elected BJP led coalition government has attached high priority to implement socio-economic reforms, by creating new groups comprising top industrialists to generate ideas and to implement speedily the already formulated ideas. To monitor and facilitate the process of privatisation, a new department of dis-investment headed by a minister has been created recently.

The government has indicated that the public sector banks too will be restructured and gradually opened to divestment. The Ministry of Finance, (GOI) has directed the banks to draw up a voluntary retirement scheme for the employees to make them more efficient. The banks have been asked to reduce the level of operations, and the organisational restructuring is expected to result in major cost saving. In a recent study by the Federation of Indian Chambers of Commerce and Industry (FICCI), when benchmarked on the basis of Rs. 125 lakh[1] business per employee (BPE) 22 percent of the staff in 16 nationalised banks were found redundant. The Government is taking steps to make the public sector too more accountable. According to a new plan drawn out by the Finance Ministry, all capital fusion for restructuring plans would be subject to signing Memorandum of Understanding, in the form of time-bound schedule for implementation. The schedule will be closely monitored by the Ministry to ensure that the PSUs adhere to the conditionalities of the restructuring package. According to sources, the government annually infuses about Rs.3000 crore[2] in the restructuring plan of various PSUs in the form of cash, loan write-off, interest subsidy etc. About one fourth of the 239 PSUs are sick, and about 40 PSUs being declared not revivable by BIFR.

The developments discussed above associated with economic reforms in a globalised environment have their impact on Indian trade unions and industrial relations. The nature of industrial relations may be appreciated by examining the role played by the major players, namely, the state, the worker / trade unions, and the employer. In the remaining part of this paper, attempt will be made to examine the emerging relationships between the state/ political parties and trade unions, between employer/ management, and trade unions, and between the worker and trade unions.

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[1] One lakh = 100,000.

[2] One crore = 10 million.

4. Labour and industrial relations in India

Like most developing countries in the world, labour movement in India has had a shared history with the country's independence movement. Not only did labour play an active part in the struggle for independence, but labour movement derived its vitality from the independence movement and sought support from political leaders. In fact, trade unions continued to be closely linked with political parties in India. After independence, political parties used the organised labour for political purposes, while trade unions found it difficult to sustain and succeed without political patronage. Meanwhile, the fragmented structure of political parties permeated the trade unions as well. Multiplicity of trade unions divided the labour force along affiliation to political parties; a fragmented trade union structure not only weakened the movement, but also made bilateral negotiation and collective settlements extremely difficult and rare.

Independent India with her deliberately chosen philosophy of socialist democracy enacted a legislative framework, which protected the interests of the workers and trade unions. Even day-to-day relations between the employer and employee are bound by legislation and political parties took upon themselves the cause of the labour. During the 1950s to 1970s as the public sector expanded, trade unions not only grew in numbers but also became more and more powerful *vis-à-vis* employers and management, in particular. While the government heightened its focus on the nationalised sector, white-collar employees in banks, insurance sector and government undertakings too became unionised. Often politicians, particularly those in the opposition, found unions an effective medium to demonstrate their strength and unions used the political support to achieve their objectives. For fear of losing the support of the organised labour, more often than not the ruling party yielded to the demands of trade unions, some genuine, others not so.

However, the mid-seventies witnessed the dark side of Indian democracy with Prime Minister Indira Gandhi declaring emergency, suspending fundamental rights including those of trade unions. But, soon after the emergency was lifted trade unions revived with renewed vigour and vitality. Trade unionism grew vertically among the officers and managers in public sector undertakings, university teachers, doctors & nurses in government hospitals, and lawyers in the courts. In most cases, these organisations popularly known as guilds and associations, came up as a reaction to the militant unions among the lower employees on the one hand, and the loss of power and decision making role experienced by the professionals and lower/ middle level managers, on the other hand. In a nation-wide study of officers in the public sector, it was found that the *powerless* and the *voiceless* officers organised themselves into associations to protect their interests vis-à-vis the workers as well as the top management (Mamkoottam, 1990). Gradually the management, particularly in the public sector, became a weak partner in industrial relations. Strikes and industrial indiscipline increased with greater loss of man-days including in essential services like hospitals, Railways, airways, telecommunications and postal services. Meanwhile the declining productivity and performance of the organised sector including that of the government, became target of public displeasure. There was a growing concern that India was lagging behind in producing world class products / services, fast losing out in the increasingly globalised export sector, and a large part of the blame was put on trade unions. However, time and again trade unions expressed their opposition and resisted initiatives of technological change and modernisation.

In brief, a key feature of industrial relations in India has been the confrontational relationship between the employer/ management and trade unions, and an overwhelmingly dominant role of the state through a plethora of labour laws. Many of these labour laws are not only archaic, but also have considerably reduced and restricted labour flexibility. Flexibility is a key characteristic of modern business and industry. Flexibility is an all-pervasive concept covering product design and manufacturing, production process, and labour. Labour flexibility refers to a variety of decisions affecting skills, geographical and occupational change of workers, recruitment, deployment and working hours, which would be essential to maintain cost effectiveness, productivity, quality, and market competitiveness. Flexibility enables a course of action to be modified in accordance with an encountered situation which may surprisingly deviate from prior anticipations (Hart, 1973). Central to the notion of flexibility is the capability of a system to generate a variety of alternatives so that options are available to do things differently or do something else if the need arises. The qualities of versatility, agility and resilience associated with flexibility have been noticeable by their absence in the Indian labour force. Indian employers and potential foreign investors in India have been clamouring for radical changes in the existing labour legislation in India allowing greater freedom to recruit, deploy and discipline labour. However, no government has so far taken steps to initiate reforms in labour legislation and industrial relations in India.

5. Employer strategies

Despite the rigid labour legislative environment and widespread protests by trade unions, many employers have undertaken modernisation of the plant, restructuring of production processes and work re-organisations.

Table 1: Number of units effecting lay off & workers laid off during 1990-98

Year	Central		State		Total	
	A	B	A	B	A	B
1990	56	13907	386	50173	442	64080
1991	46	10791	415	60269	461	71060
1992	101	47979	376	59633	477	107612
1993	52	19212	373	46416	425	65628
1994	60	17806	282	40261	342	58067
1995	21	8176	263	53810	284	61986
1996	54	14291	253	47046	307	61337
1997	52	21601	255	43564	307	65165
1998 (Jan-Sep)	49	7960	132	15848	181	23808

Source: *Annual Report 1998-99*, MOL

A= number of units; B =Workers laid off;

Table 2: Number of units effecting retrenchment & workers retrenched therein during 1990-98

Year	Central		State		Total	
	A	B	A	B	A	B
1990	1	8	267	3029	268	3037
1991	2	54	233	4342	235	4396
1992	2	85	220	3751	222	3836
1993	3	178	186	2713	189	2891
1994	-	-	135	2192	135	2192
1995	-	-	94	1792	94	1792
1996	4	285	75	2087	79	2372
1997	10	526	151	2716	161	3242
1998 (Jan-Sep)	1	1	75	1067	76	1068

Source: *Annual Report 1998-99,* MOL; A= number of units; B =Workers laid off

As tables-1 & 2 show, in some cases employers have laid off and retrenched the labour force. In a case of Associated Cement Company (ACC) versus an employees' union in one of its plants located at Sevalia in Gujarat, the Gujarat High Court underlined the fact that a company can shut down its plant or unit by simply transferring the title to another company under section 25-FF of the ID Act.

Another interesting case is that of Hindustan Ciba-Geigy, which implemented successful VRS for its entire 907 strong work force at its plant in Bhandup in the suburbs of Bombay. The success of the Ciba scheme is attributed to its truly voluntary nature, and its ability to convince the union, which initially blamed the management for making the plant non-viable through "mismanagement". The Bhandup plant, set up more than 35 years ago, was the "mother plant" of the Swiss multi-national till some years ago when it started making losses. The pharma division employed 1,452, workers - more than three times the staff in the agrochem division, which employed 440. On a turnover of Rs.20 crore, the unit made a loss of Rs.7 crore. The wage bill alone was Rs.10 crore. The management threw its books open to the union, took them into confidence and offered various options, including the possibility of selling the plant to a new owner under whom the employees could continue to work, an employees' co-operative to operate the unit, and a voluntary redundancy scheme (VRS). The VRS provided for two options: One, monthly payment of full pension for 180 months from the date of accepting the scheme, or till 60 years of age. Two, commutation of a part of the pension - not exceeding 33.33 per cent of the pension, which would be paid four weeks from retirement- with the balance being paid monthly over 180 months, or till 60 years of age. The union after due evaluation of the various options accepted the voluntary retirement scheme.

Public sector units too have been reducing manpower through VRS. In the Marxist ruled state of West Bengal, known for its militant trade unionism, workers of the Bengal Potteries *en-masse* accepted a VRS. MMTC and the State Trading Corporation have reduced their manpower substantially through VRS. Hindustan Shipyard Limited, Delhi Transport Corporation, Bharat Gold Mine Limited are among other successful cases of manpower reduction through VRS. In fact, it is reported that major restructuring efforts by way of downsizing have taken place during the past few years in the public sector in India. According to a report (Economic Times, 1 June 1999), through VRS 152 PSUs have shed as many 1,20,000 employees since 1993-94. These PSUs include those, which are sick as well as those, which are revivable. Some of the prominent among those which have separated large number of employees through VRS include National Textile Corporation (23,000 employees), Bharat Coking Coal (9,793), HMT (4,309), and Eastern Coalfields (6,859).

But the indiscriminate introduction of VRS in the public sector units have raised anxiety due to the fact that the scheme has not only led to the loss of their best employees, but the enormous cash outflow could lead to disastrous consequences. Bharat Heavy Electrical Limited, which employed over 70,000 people, besides indirectly providing work to another 30,000, withdrew the VRS package offered, when the management discovered that many of the senior and best qualified workmen and officers were availing of the scheme to join the company's competitors in the private sector. The Indian Drugs and Pharmaceuticals Ltd, the largest pharmaceuticals company in the public sector, while spending an amount of RS. 12.5 crore lost 450 employees, majority of whom were senior officers barring about 25 workers. A revival package rendering nearly 78,000 workmen surplus with the mills under the National Textile Corporation located in different parts of the country was enthusiastically received in the initial stages. Although about 32,000 workers had opted for the scheme involving an amount of Rs.245 crore, the younger workers became suspicious of the scheme and refused to accept it.

According to a study conducted in 1993 by the All India Management Association (AIMA) on the human dimensions of liberalisation, more organisations were able to close down parts of their business in post-July 1991 period than earlier. Based on a sample of chief executive officers (CEOs) of 71 organisations in the organised sector, the study showed that more than 75 per cent of sample organisations had surplus labour, and industry had consciously gone for replacing labour with capital during the recent past, by judiciously bringing about technological automation and organisational restructuring. Interestingly, 52.4 per cent of the respondents in the study found no resistance from the trade unions and workers, but have responded positively (Economic Times Dec.12, 1993).

In a similar survey conducted in December 1993 by MARG for *Business Today*, covering a sample of 148 chief executives, directors, and vice-presidents of large, medium and small firms, spread out in the major industrial centres of the country, found that 64 per cent of the companies were going through a process of re-structuring and 26 per cent were planning to do so in the near future. Marketing, organisational structure, quality, training and finance were among the top areas earmarked for restructuring (Business Today, January 7-21, 1994). In other words, to face growing competitiveness and economic recession, companies in India have been shedding employees. Some others shut down operations first and later seek legal help. As mentioned earlier, the process of legal closure is not easy and often not granted by the government. To circumvent the protracted process, employers have been resorting to shutting down operations or separating employees through VRS. In recent past many companies like National Rayon Corporation and gas major BOC stopped production in one of their Bombay units and sought permission to close down. To avoid legal battle and to reduce worker protests, companies such as Philips, Siemens, and many others have offered attractive separation packages. Over the past few years, Philips in India has reduced its original 10,000 employees by half and Siemens by 20 percent by offering VRS. In sunset industries such as the composite textile mills, the number of closed mills is increasing every season. According to an estimate, by the end of March 1998, 93 of the 278 composite textile mills in the country had shut down production completely (Economic Times, Jan 20, 1999).

While rationalisation of manpower often helps to improve operational efficiency and the health of the organisation, without proportional rise in employment, unemployment is proving to be difficult to grapple with. Declining employment rate along with a growing GDP, popularly termed as *jobless growth,* has been a global phenomenon and it is projected to continue even in the developed world. Most developed economies have been experiencing a decline in full employment while marking the growth of part-time workers. According OECD sources, as much as 39 percent of total employment in Netherlands in 1996 has been part-time, while the figures for Britain was 22 percent, France and Germany 16 percent each, Japan 15 percent, Spain 9 percent and the US 8 percent. As tables 3-4 show, during the past few years, employment in India has registered marginal growth and even negative growth in the public sector.

Table 3: Employment in the organised sector

In the end of		(in lakhs)		Total percentage change Over previous year		
	Public	Private	Total	Public	Private	Total
1	2	3	4	5	6	7
March 1997	195.5	86.85	282.45	0.67	2.03	1.09
March 1996	194.29	85.12	279.41	-0.19	5.62	1.51
March 1995	194.66	80.59	275.25	0.11	1.60	0.54
March 1994	194.45	79.30	273.75	0.61	1.01	0.73

Source: Annual Report 1998-99, M.O.L

Table 4: Employment by branches of public sector

Branches of Public Sector (in lakhs)	Employment		Percentage growth over previous year
	March 1996	March 1997	1996/97
Central Government	33.66	32.95	-2.11
State Government	74.14	74.85	0.96
Quasi Government (Central)	35.38	35.85	1.33
Quasi Government (State)	29.20	29.50	1.03
Local Bodies	21.92	22.44	2.37

Source: Annual Report 1998-99, M.O.L

6. Labour and trade union response

Global experiences have shown that workers' response and trade union strategies towards structural changes and economic reforms vary depending on the labour market conditions, the power structure in and around the trade unions and the labour legislation operating in that environment. As mentioned earlier, the labour and employment legislation in India are extremely rigid as far as labour deployment is concerned. However, it is also a labour-surplus economy, although availability of skilled and professional labour could still be scarce. Organised labour in India has not been keen to accept economic reforms or technological changes. There is fear in the minds of employees and unions that the envisaged changes, if implemented, will adversely affect the labour and employment situation in different ways. In fact, measures such as privatisation of public sector units, modernisation of plant and machinery would involve major technological changes with accompanying structural and organisational changes. It is also inevitable that such changes would affect the existing occupational structure, manpower skills, and employment patterns.

Since the time the new industrial policy was announced in 1991, the trade unions in India registered their disapproval in several ways including strikes on a few occasions. The trade unions in the banking, insurance, and other public sector units have not only rejected the offer of discussion but also threatened to boycott and oppose the implementation of various measures announced by the government of India as a part of the package of structural reforms and economic liberalisation. In fact, the process of reform envisaged in the financial, manufacturing and service sectors of the economy has been considerably slowed down due to continuous resistance expressed by the organised labour and trade unions.

However, as we have discussed in the earlier section, labour and trade unions would be co-operative to restructuring provided the management was willing and able to evolve a strategy of negotiation and dialogue. Recently, Escort's management proposed to transfer 250 workers from the Rajdoot motorcycle factory to the group's tractor units. Although initially reluctant, the unions finally agreed to the redeployment. Similarly, the Bombay-based Philips Employees' Union submitted a charter of demands, which were negotiated and settled eight months in advance of the expiry of the existing agreement. Another example of the new trend is the militant Bata Mazdoor Union accepting a crucial productivity agreement linking wages to productivity.

7. Impact of globalisation on trade unions

Though gradually and in smaller measures, both the private sector and the public sector enterprises have introduced technological changes, work reorganisation, down sizing, de-layering, productivity improvement programmes etc. Developments in recent years in India indicate that unions are unable to stop the process of re-structuring, modernisation and other changes in the work place. In fact, the developments during the past few years indicate that the organised labour is becoming weak. While trade unions world-wide are suffering from decline in their membership rates, it may be difficult to prove that trade unions in India have declined in size. As table-5 indicates, although the total number of registered trade unions continued to grow, the total membership of trade unions submitting returns and their average membership have shown a noticeable decline since 1992.

Table 5: Trade union membership

Year	No. of registered trade union	No. of unions submitting returns	Membership of unions submitting returns (000)	Average membership of unions submitting returns	Percentage of women
1962	11,614	7087	3977	561	9.3
1966	14,686	7244	4392	606	7.1
1971	22,484	9029	5470	606	7.1
1977	30,810	9003	6034	670	8.1
1980	36,507	4432	3727	841	5.9
1985	45,067	7815	6433	823	9.4
1990	52,016	8828	7019	795	11.9
1992	55,680	9165	5746	627	10.4
1993	55,784	6806	3134	460	15.9
1994	56,044	6265	4093	652	--
1995	57,611	6422	4253	660	--

Source*: Indian Labour Year Book*, 1991 & 1996; *Master Guide to Labour Statistics*, 1989; Pocket Book of Labour Stattistics,1998, MOL, Labour Bureau, GOI.

Moreover, there is evidence to show that the bargaining power of trade unions has declined in recent years. Tables 6 & 7 show that the strike propensity of trade unions and the number of workers involved in strikes have come down. National trade union centres appear to be losing their control over local / enterprise unions. In a recent study of collective agreements in ten enterprises chosen from the public sector, private (domestic) sector and multinationals in India, it was found that unions agreed to technological/ skill up-gradation, and organisational/ work place restructuring in return for linking wages with productivity (Mamkoottam, 1997).

Table 6: Number of strikes & lockouts

Year	Public sector	Private sector	Strike	Lockout	Total
1989	615	1171	1397	389	1786
1990	628	1197	1459	366	1825
1991	653	1157	1278	532	1810
1992	617	1097	1011	703	1714
1993	359	1034	914	479	1393
1994	316	885	808	393	1201
1995	343	723	732	334	1066
1996	381	785	763	403	1166
1997	448	857	793	512	1305
1998 (Jan-Sep)	136	465	350	251	601

Source: Annual Reports-1996-97& 1998-99, M.O.L.

Table 7: Workers involved in strikes & lockouts (000)

Year	Public sector	Private sector	Strike	Lockout	Total
1989	918	446	1158	206	1364
1990	884	424	1162	146	1308
1991	788	554	872	470	1342
1992	566	686	767	485	1252
1993	565	389	672	282	954
1994	523	323	626	220	846
1995	725	264	683	307	990
1996	606	333	609	331	939
1997	618	363	637	344	981
1998 (Jan-Sep)	303	129	338	94	432

Source: Annual Reports-1996-97 & 1998-99, M.O.L.

A combination of several interrelated factors including globalisation of the economy (economic and structural changes), technological change, attitudes of the state, employer and workers (towards unions), occupational structure and demographic shifts in worker profile may be contributing to the declining power of the unions. In some ways India of the 1990s may be compared to the US of the 1970s when trade unionism started its decline there. Increased price competition placed pressure on unionised employers to lower costs. Traditional collective bargaining contracts, which rigidify internal labour markets, became less acceptable because they limit flexible resource allocation. Many employers located new production in low wage (typically non-union) settings in the US and abroad. Unionised employers paying higher wages found it hard to compete against non-union firms, promoting widespread adoption of union avoidance and investment relocation strategies (K.S. Wever, 1994). According to Wever, workers had fewer reasons to join unions, and in some cases saw reasons not to. Union jobs were increasingly associated with plant closings and job insecurity.

Though technological change, product innovation and customer orientation had not occupied a place in the priority list of the employer or the government in India for many decades, international competition and shrinking export market in the late 1980s to early 1990s began to make a difference. Successive governments, including those formed by political parties, which opposed liberalisation, have come to champion the cause of technological up-gradation and economic reforms. No political party except the left (CPI/CPM) is seen to take a strong position against technological change and economic reforms. In fact, the traditional alliance and nexus between political parties and the affiliated trade unions appear to be growing weak: As U.M. Purohit of BMS put it, "Earlier, when people were disenchanted with one government's policies, they could teach a lesson to that political party by voting it out of power in the next elections. Now what happens is that governments change but same economic policies remain in force" (*Labour-2000*, On-line Conference, September 22, 1999). Another important reason for the decline of trade unionism in India is the growing public sentiments and media campaign against militant unionism, which display little concern for the customer or the hapless citizen. It is perhaps most ironic but true that the striking doctor will condemn the militant banking union, while the banking employee will have no sympathy for the vocal university teacher.

8. Emerging trends in human resource management

Employers / management have been adopting two-pronged strategies to bring the worker closer to the organisation, while keeping the union away. Employers in recent years in India have shifted operations from highly unionised regions, such as Kerala and West Bengal to less militant regions, or to free trade zones like the EPZ. Use of sophisticated technologies has not only reduced the size of the organisation, but has also changed the type of worker employed. The profile of the labour is gradually changing from the uneducated, unskilled or semi-skilled to a multi-skilled, young, ambitious and career-minded worker. He is more interested in safeguarding his own interests than becoming an active unionist to fight for larger interests. Both in the UK and the US studies have shown that the young, educated worker engaged in smaller organisations and using high technologies, earning comparatively higher wages, is less inclined towards trade unions (Hundley 1988; Disney, 1990; Ben-Israel & Fisher, 1994). Findings from Central and Eastern Europe (CEE) also indicate that union membership had halved during early capitalist transformation. According to Pollert (1999), trade unions have encountered structural, political and ideological problems in CEE. Decline of trade unions has been attributed to worker apathy, anti-union employers, and the contraction of large state enterprises. Growth of small private firms and services along with self-employment, semi-informal micro-companies have further contributed to de-unionisation. Union presence is weaker among women who are concentrated in services and in small and medium-sized enterprises, among white-collar workers, and among younger workers.

Like elsewhere in the world, companies in India too have gradually begun to develop sophisticated human resource policies, offering workers the kind of benefits traditionally unions have fought for, be it through welfare schemes, participatory forum or empowerment endeavours. In December 1996 the workers and the management at Eicher Tractors Plant (Alwar), a 9001 company, jointly decided to give up the traditional bargaining for wage increase and settled for annual pay revision on the basis of productivity and performance. The management also introduced several other innovative schemes including the following:

- Introduction of asset building loan up-to RS. 25,000/=. in every four years for personal acquisitions such as a house;
- Hospitalisation scheme for those not covered under ESI;
- Kin's marriage gift upto Rs.3501/= (one time);
- Additional Earned Leave bonus (for every 12 EL two more days of EL is given as bonus; for 13 EL-4 additional EL as bonus; for 14-15 another five additional EL given as bonus) in order to reduce absenteeism;

- Recognition for outstanding contribution (RS. 250-5000 given quarterly and yearly);
- Small Group Activity (SGA) teams consisting managers, supervisors and workers for solving various problems.

At least some managers have undergone a change in their attitude towards workers and have come to realise that reduction of excess manpower alone will not bring in competitiveness. Along with technological and organisational changes, human resource management strategies are being changed. Employers realise that it is futile to fight the battle against labour in the domestic market while facing competition in the international economic market. Workers are no longer seen as liabilities, but key resources, which are to be carefully nurtured and constantly developed. A healthy work culture can be created through proactive human resource policies and preventive measures can reduce conflict at the work place. The slogan of the 1980s - *productivity through people* - has caught the attention of the 1990s' manager. Professional skills are being employed to revamp the organisation to create a new work culture, which is inculcated with the values of quality, cost and customer satisfaction. Organisations are being restructured into flat and lean structures with reduced hierarchies and faster decision making processes.

More scientific and objective techniques are employed in selecting the employee, in evaluating his performance and rewarding him, training and developing him with the dual objective of the individual growth of the employee while achieving greater organisational efficiency. Decentralised decision-making, developing teamwork and improving communication are occupying the top place in the agenda of the management today. Organisations are making focused efforts to understand the problems from the workers' viewpoint, rather than using a top down approach. Training the managers to understand and empathise with the workers, to develop their skills to communicate more effectively with the subordinate employees and their unions are common experiences in Indian organisations today.

9. Agenda for trade unions

Unions must come to terms with the changing occupational structure and employee profile engaged in a new work environment. The union will need to examine the workers' indirect economic, psychological and social needs and find ways to fulfil them. Dissatisfied with the politicised and centralised structure of the national trade union centres, workers are keener to develop enterprise unions. Clearly, decentralised unions and enterprise bargaining are seen as more market friendly in most part of the world. According to Pollert (1999), in the CEE the general trend towards decentralisation in about 90 percent of union's representatives reporting local basic pay agreements.

In the new context of reforms and restructuring at individual enterprise levels, workers find less relevance in their unions being driven by guidelines issued by national centres, which are more often than not politically motivated. The new and younger worker and his union prefer to concentrate on specific issues and problems reflecting his own immediate work environment, including restructuring. In recent years several unions in TELCO, HLL, Britannia Ltd, Escorts and many others signed agreements which recognised the management's right to up-grade technology, re-deploy and retrain manpower to increase productivity, provided there was no retrenchment. Management in the public sector too has been able to introduce important changes through productivity bargaining. In SAIL the management was given unilateral powers to decide and change the schemes relating to productivity linked wages, link the scheme directly with quality, attendance etc.

In fact, there is a growing fear among the union leaders that workers may revolt against them if they did not protect their immediate interests. This is precisely what happened with Kanoria Jute Mills near Calcutta, where the workers discarded the trade unions and put up a new banner meant to take care of the workers' interest. The workers in this case have dismissed directives of the union high command and tried to resume work in the mills. These are indications that central trade unions are losing their ground. According to the General Secretary of one of the largest national trade union centres, there has been a fall of more than 25 per cent in the membership affiliated to his union during in recent years, and more and more unions are applying for disaffiliation. The larger national centres of trade unions, closely linked to political parties, are facing a dilemma, as to whether abide by the dictum of the party or to respond to the demand of the workers confined to the boundaries of enterprises. In principle, leaders of all the national union centres realise that the multiplicity of unions has considerably reduced their bargaining power. In fact, on several occasions in recent years, the various different unions came together on common agenda to protest against the government taking steps towards economic liberalisation and industrial restructuring. However, the tone and tenacity of the unions are on the decline.

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Arnold Wehmhörner

Industrial relations in Central and Eastern Europe

1. Introduction

This paper intends to give an overview of the industrial relations situation in Central and Eastern Europe (CEE) ten years after the changes. The nature of an overview implies that the paper describes general trends, but will not be able to give a deeper insight into the particular situation of individual countries. As such, it may in cases do injustice to the scope and nature of individual country systems.

The paper covers mainly the countries of Central and Eastern Europe. Less attention is given to the Commonwealth of Independent States (CIS) and the Baltic countries. It does not include South Caucasus or the countries of Central Asia.

2. Political environment

We are used to classify CEE countries as "ex-socialist", because during Communist rule, they seemed for us to be of a uniform character and we expected that after the political changes of 1989 the development of these countries towards democratisation and market economy would be similar. This view neglects the fact that reactions to the forces of modernisation are different from country to country, and that the reactions of these countries are based on culture and tradition that existed before Communist rule.

The democratisation and the change to a market economy, therefore, took place with different intensity and speed and has led to the emergence of countries with very different political systems:

- In Poland, the Czech Republic and Hungary for example one could observe fast democratisation of the system and the development of a culture of democracy within the population;
- In a country like Belarus, an authoritarian presidential system emerged, so to say a new dictatorship in old hands; and
- In Yugoslavia, the entire state collapsed due to ethnic differences which led to several wars.

The nature and scope of industrial relations depend on the political and cultural framework, and before looking at some of the general trends that can be observed, we need to be reminded that we will be confronted with a variety of very different industrial relations systems which also have developed very particular national features.

3. Economic environment

As the economies in CEE still struggle to manage the change from command to market economy, the conditions for trade unions continue to be difficult. Although the Vienna Institute for International Economic Comparison (Frankfurter Allgemeine Zeitung, 23rd February 2000) predicts economic growth of 3 % to 5 % for most of the CEE countries for the year 2000, with the exception of Poland, Slovenia and the Slovak Republic, none of these countries has yet reached the levels of pre-1989. The average of CEE and Baltic states is at 95 % of 1989 real GDP, while the average of the countries of CIS rests at only 53 % of 1989 real GDP. (Transition Report 1999: 73) The unemployment continues to be high: 20 % to 30 % (1999) in the Balkans, while in Hungary, Poland, Slovak Republic and Slovenia the figure is about 12 % for 1999. (Frankfurter Allgemeine Zeitung, 23rd February 2000)

Looking at the situation in the different sectors, there are former public companies which were privatised without change of management (for example: through the coupon system in the Czech Republic), or there are companies with mixed ownership, i.e. a combination of private and state ownership. These companies are to be found mainly in basic industries like mining, steel and energy. While old trade unions (i.e. those who survived from the Communist times) are very representative in this sector, their potential for growth or scope for successful collective bargaining is limited because this sector is under the strongest pressure to modernise and to reduce capacity.

The new private sector includes small and medium scale industry and the service industry. In addition there is large informal employment and growing employment in work-at-home jobs, part time or quasi self-employment. As in the West, this entire new private sector is difficult to organise for trade unions.

In the foreign investment sector or in joint venture companies, the kind of labour relations practised in these companies depend very much on the mother company. This reaches from managements that intend to keep their company free of trade unions to managements that support the development of labour relations close to European standards and practices, especially through Euro-Works Councils, as it is the case with Volkswagen in the Slovak Republic and Hungary. Generally one could say that in companies with foreign investment higher wages are paid and the working conditions are better, so that workers feel that there is no need to join and to organise trade unions.

4. The social partners

4.1. Unions

Under the Communist system, trade unions were transmission belts of the Communist Party and could not play an independent autonomous role. Based on this dependency, they ought to have disappeared after the collapse of Communism. That this is not the case and that they survived is partly due to the fact that trade unions under the Communist system were social "institutions", because they administered the social security systems, they owned and managed hotels, they arranged for holidays etc. On the basis of this role, they accumulated considerable assets and until today, we have disputes between the different unions and the state about who is the owner of these buildings, hotels, etc. Some unions could even survive for quite some time without a paying membership or with a high percentage of unemployed or retired members, because they were self-sufficient on the basis of these properties.

Some of the old unions adjusted to the new situation, elected a new leadership and transformed themselves into democratic and representative organisations like for example CMKOS in the Czech Republic. Others seem to be on the way to reforms like OPZZ in Poland or FNP in Russia.

Besides these old trade unions, new organisations emerged as part of the movement for democracy and/or because of support programmes that came from the West. *Solidarnosc* in this group is an exception because it was founded and started to play a political role in Poland already ten years before the collapse of the Iron Curtain. Examples of these new or alternative trade unions are *Liga* in Hungary, *Podkrepa* in Bulgaria, *Nesavisnost* in Serbia and *Sozprof* in Russia.

Trade union strengths and roles depend on the political systems that emerged. For example in Poland *Solidarnosc* founded a political party (AWS) that is now the major partner in the Polish coalition government. This affects trade union organisation and strength, as trade union officials move to party and government positions, and at rank and file level, shop stewards are concerned to defend the policies of the *Solidarnosc* government. The co-existence of old and new unions like for example CITUP and *Podkrepa* in Bulgaria is leading to frictions between the two national bodies. And in Hungary, a multiplicity of unions emerged at the national level with six confederations, confusing and weakening the trade union side.

As far as trade unions' position in respect to economic reforms is concerned, trade unions support the change to market economy, although they are aware that privatisation is weakening their organisation. What keeps them going is the hope for the affluence which they expect to come from a well-functioning market economy. These long run expectations are more and more difficult to maintain as the economic situation of the majority of the workers does not improve. Some observers characterize the situation as being "schizophrenic“.(Anna Pollert 1999: 212)

The ILO assesses a decrease in trade union membership of 20 % world wide during the last decade. The CEE countries are hit hardest with a decline of 36 %. In Estonia, for example, membership shrunk by 70 %

after the abolition of obligatory trade union membership, and in the Czech Republic by 50 %. (ICFTU CEE Network 1st March 2000: 3)

An ICFTU study (ICFTU CEE Network 1st March 2000: 1) assesses, that traditionally, local trade union branches keep a larger part of membership fees, between 30 % to 60 %, which is used for social activities and workers self-help. Only smaller amounts reach the branch or confederate levels of the trade union organisation. Even alternative unions, like the Hungarian *Liga* or the Polish *Solidarnosz* have not yet been able to change this distribution scheme.

4.2. Employers' organisations

Under the Communist system, employers' organisations did not exist, because the government was the sole employer. With the lack of trade union strength as it is still the case in most of the CEE countries, they are not forced to organise themselves into national or regional organisations and to bargain collectively with trade unions or even to accept regional or sectoral collective agreements. In their anti-union position, they feel supported by the neo-liberal ideology of which the simplified interpretations dominate discussions about economic reform and privatisation.

In companies with mixed ownership (public and private) and in the public service sector the government is involved as employers. The low productivity in the sector and the tight budgets of governments are not leaving much scope for real wage increases or improvement of working conditions. In many cases, the management of these hybrid companies or the heads of public service departments are seeking the support of trade unions for the continuation of subsidies from state budgets.

4.3. Government

Governments' role in industrial relations in CEE countries is made difficult by the fact that the government is still the largest employer in view of the slow privatisation process. The state, therewith, still dominates industrial relations on the background of a weak trade union movement and employers' organisations that are hesitant to take over their part of the game.

The first governments after the changes of 1989 were mostly from democracy movements which had no strong links to the old or traditional trade unions. They were anti-communist and therewith also anti-trade union. In some cases, however, they were linked to the new-founded alternative trade unions. The general trend in CEE is that during the first ten years, hardly any government survived the next elections. Therewith, a second wave of "leftist" governments followed. To the disappointment of trade unions, they continued the liberal reforms of their predecessor governments and that included also that they were not particularly supportive of trade unions.

Social dialogue became a main feature at national level during the first period of change. In the absence of new labour legislation and the persistence of crisis management, especially in the basic industries with low productivity and strong traditional trade unions, governments used such mechanisms as a policy for appeasement.

5. Industrial relations at company level

Collective bargaining at company level is the dominant feature of industrial relations systems in CEE. In view of existing mass unemployment, trade unions mostly act defensively in order to maintain existing income and rights. Only in very few high tech sectors, where know-how is limited, are trade unions in a better position, if they exist at all.

The few strikes that took place - and it is still amazing, in view of the real income cuts they had to accept, to note how infrequently workers went on strike - were often organised out of desperation, for example when miners in Russia had to strike to get back wages paid. However, if a decision for a strike is made, the ensuing industrial conflict very often has a tendency to be uncompromising, as workers feel that in view of restructuring and retrenchment, there is not much to lose (for example the railway strike in Hungary, February 2000).

In some countries we have a dual system with works councils and trade unions represented at work plant level. This is for example the case in Hungary and Slovenia. In Hungary this system seems not to work very well, as in a situation of multiplicity of unions, works councils are seen to be in competition to trade unions. It will be interesting to see how the influence of Euro-Works Councils, which already in some companies in Hungary work on a voluntary basis, would influence this situation and whether they are able to change this attitude. In Slovenia the works council system is accepted, and unions and works councils work in tandem. This, of course, is also related to the strong trade union structure at industry level.

6. Industrial relations at sectoral level

At sectoral level, we have very few collective agreements. There are a number of reasons which can account for this, for example:

- in some countries there is a lack of trade union unity, which allows employers to use divide-and-rule tactics.
- in most cases, employers are not organised at the industry level and they don't see or are not forced by trade union strength or unity to do so. Where such organisations exist, they usually refuse to bargain above company level. In view of high unemployment levels, they do not see the advantage of setting minimum standards through sector or industry agreements which would prevent job hopping.

However, the coverage of collective agreements is acceptable: Slovenia, together with Austria, France or Italy, has a coverage of 85 % to 95 % while countries like Poland, Hungary and the Czech Republic (together with Great Britain and Ireland) have only a coverage of under 50 %.(Kohl, Lecher, Platzer 2000: 15) However, in this connection it has to be observed that coverage of collective agreements is usually not the outcome of the degree of trade union organisation and strength, but rather the practice of making collective agreements binding for an entire industry through government directives.

7. Industrial relations at national level

In the immediate period after the changes of 1989, tripartite bodies or so-called social dialogue institutions were important features to regulate labour relations problems on an ad-hoc basis. In some countries it was the continuation of the round-table experience (where democracy movements organised the political changes). In view of the lack of appropriate labour legislation, such institutions were very important and helpful in times of radical changes.

Today, social dialogue features are becoming less influential. They very much depend, as in the West, on the attitude of the government. For example in Hungary the new right-middle government has replaced social dialogue with infrequent, informal meetings without any power. Also the party constellation has an influence on social dialogue success. For example in Poland, the OPZZ confederation left the social dialogue because it claimed that the government is giving preference to *Solidarnosc*.

In this connection, one should not overlook the dangers of social dialogue features. Such features continue to strengthen the dominance of the state and for many seem to be a continuation of the old political system where deals concerning wage levels and general working standards were made at the top, directly between leaders of the Communist party and the trade unions. Social dialogue may inhibit the development into autonomous trade unions that would be able to act out of their own strength. To avoid any misunderstandings: it is not argued here to skip social dialogue as an important tool in industrial relations systems, but that trade union strength is an important precondition for the successful working of such a system.

Collective agreements at the national level practically only exist in the public sector and in many cases they are rather retrenchment plans with outfading social benefits than contracts for higher wages and better working conditions.

8. Outlook

In tendency, trade unions in CEE face the same problems as unions in the West or Northern America, i.e. the inability to reach and to organise the young, the new service sector and the informal and atypical job sector. In CEE, this is aggravated by the much higher unemployment rates than in the West, by unproductive basic industries that need to be restructured in connection with large retrenchments, and the lack of social security or state financed schemes which would smooth the social implications of the process of modernisation. Together with a tendency towards company collective bargaining and the traditional financial strength of local trade union units in CEE countries, it is expected that the branch or industry trade unions will further be weakened, while employers will continue not to cooperate, because of lack of pressure from trade unions and because of the ideological support by the ruling neo-liberal economic theories. Some governments may continue to believe that to support trade unions would not be helpful during times when the economy has to be reformed and hardship for workers is to be expected.

It will be interesting to see the influence of European standards on countries that seek accession to the EU. It is hoped that there will be positive effects through the adjustment of labour legislation to the "acquis communautaire". Also Euro-Works Councils may have a positive influence towards real or quasi dual systems.

Countries that seek accession to the EU have to go through a triple modernisation: Firstly, through the change from a command to a market economy, secondly, through the pressure of globalisation with tougher competition (but which also opens chances for economies with a low wage advantage), and thirdly, through the adjustment to European standards. In view of these challenges it is to be expected that the industrial relations systems in CEE will be facing for a long time difficult situations and adjustment problems.

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Martin Upchurch, Andy Danford

Trade union response to industrial restructuring: sectoral case studies from the South West of England

1. Introduction

The decline in union membership and the associated 'crisis of representation' have for a decade or more been the source of debate about the future of trade unions. At one level pessimistic conclusions have resulted linked to ideas of creeping individualism of the worker (e.g.Valkenburg 1996), a fragmented working class (Phelps Brown 1990), and the impending decline of unions as solidaristic 'movements' (Crouch 1992). On the other hand a substantial body of empirical evidence seems to contradict these conclusions (Lind in Denmark, 1996, and Waddington and Whitson in the UK, 1997), suggesting, for example, that there is no evidence to confirm a shift from collectivism to individualism. The main problem with the individualism argument would appear to be that it ignores the continuing centrality of power in the employment relationship (Kelly 1998). In addition many of the' traditional' values of trade unions – job security, full employment, fair distribution of wealth, democracy at work - are precisely those substantive and qualitative items of the workplace relationship that have been denigrated by the new employer offensive. With this analysis the problem for unions becomes not one of misplaced or outdated values but one of mobilization in a difficult and relatively hostile climate. In particular it has been argued that trade unions in the workplace must engage in the 'new politics of production' if they are to continue to stake their claim (Stewart and Martinez Lucio 1998)

At another level the debate has centred on the future strategies of union movements in terms of survival. A typology of identities for unions has been proposed which might match new times and new issues and which reflect more thoroughly the range of experience across the wider spectrum embracing social and political as well as economistic trade union identity (Murray 1994; Hyman 1996). Unions themselves have also been through internalised phases of addressing the crisis either by accommodating to business needs through business or company unionism or by adopting a consumerist approach to membership by providing new services. A more recent development in the UK has been the adoption of a softer collaborationist approach to employers via the creation of productivity coalitions and a 'social partnership' discourse. Such a mutual gains approach is clearly aimed at securing market safety in an increasingly globalised and competitive business environment (Crouch 1986, Kern and Sabel 1992, TUC 1994). Finally debates on representative versus participative approaches to union activity have been revived as the organising model has gained some ascendancy following earlier claimed success in the USA and Australia (see Heery et al, 1999, for a review of these debates as they have unfolded in the UK). Alternative (but possibly complementary) trade union approaches, aimed at mobilising members through effective local leadership (e.g. Darlington 1994, Kelly 1998), or by increasing membership participation as a response to management decentralisation (Fairbrother 1994), have recently begun to receive more attention.

2. Research purpose

The authors are currently engaged in researching responses of three trade unions in the south west of England to industrial restructuring and workplace change. The unions in question are the Manufacturing, Science and Finance union (MSF), the general workers' union GMB, and the engineering and electrical union AEEU. The research is most advanced with respect to the MSF, and it is to this union that the quantitative evidence presented here relates. Funding in the UK from the Leverhulme Foundation has enabled the research team to undertake further research with the other two unions. The MSF was initially chosen because of its multi-occupational and multi-sectoral base, and because of its relatively early attempts to adopt new organisational approaches through its 'Organisation Works' initiative (Carter 1997). It is therefore likely to be a useful union with which to explore developments in new union strategies. The union is also represented in sectors highly exposed to international competition and effects of 'globalisation' in both the aerospace and insurance industries, as well as in the public sector within the National Health Service. It represents mainly technical and specialist staff, but also includes administrative staffs and the ‘new service workers’. All research has been based on examples in the south west of England (an area defined broadly as extending from the Bath-Bristol-Gloucester urbanised area in the east down through the more rural Devon and Cornwall peninsular in the west). SW England is at the lower end of the scale in terms of trade union density among UK regions, major differences exist, however, within the region between the more urbanised east and the rural west. It must also be said that industries where research was concentrated, i.e. aerospace and insurance, are more heavily concentrated in the region than most other regions of the UK.

The general research presentation includes a contextual description of changing patterns of corporate governance and restructuring and its effects on individual companies and public sector organisations and then describes and analyses the resultant changing nature and organisation of work and the alternative trade union responses. The authors have conducted more than 40 case interviews of MSF trade union workplace representatives. The resulting qualitative data is supplemented by the results from approximately 300 questionnaire returns from representatives throughout the region (table 1). In this paper we are presenting the quantitative data with more detail given of the insurance and aerospace sectors.

Table 1 : Sector representation (all sectors)

Sector	Percent of representatives responding
Aerospace	41%
Manufacturing	10%
NHS Trusts	20%
NHS Health Visitors	8%
Finance	13%
Universities	8%

Research questions concentrate on managerial strategies towards unions, the impact of new technology and new working practices, levels of union membership and participation, and trade union responses at workplace level to new employer offensives. An examination of 'critical incidents' associated with employee discontent aimed to test the degree and effectiveness of union mobilization. Much of the qualitative interview data is presented and discussed in earlier papers by the authors[1].

3. Some preliminary research findings

Profiles of the union reps. in all sectors are shown in tables 2 to 5, which indicate relative stability of employment of the reps. as well as a bias towards both older and male reps.

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1 Danford, A. and Upchurch, M. (1999) 'New Unionism, mobilisation theory and leadership: the case of MSF in South West England' paper presented to the BUIRA Conference, De Montfort University, Leicester, UK, Ist - 3rd July 1999 and Upchurch, M. and Danford, A. (1999) 'Globalisation, Industrial restructuring and the Trade Union Response: a comparative study of the aerospace and insurance industries in the South West of England' Paper presented to the Globalisation, Employment and the Workplace Conference, Cardiff Business School, Wales, 8th- 9th September, 1999.

Table 2 : Length of employment with current employer (all sectors)

Length of employment	Percent of representatives
Less than 2 years	2%
2-5 years	11%
6-10 years	20%
More than 10 years	67%

Table 3 : Length of service as MSF representative

Length of service	Percent of representatives
Less than 1 year	11%
1-3 years	25%
4-7 years	24%
More than 7 years	39%

Table 4 : Age of MSF representatives

Age group	Percent of representatives
Up to 25	2.0%
26-30	7.0%
31-40	22%
More than 40 years old	69%

Table 5 : Gender of MSF representatives

Gender	Percent of representatives
Female	28%
Male	72%

Clear differences have emerged in the main industrial sectors where research has been undertaken (aerospace, insurance and health services). Key headings from some of the research findings in the insurance and aerospace sectors illustrate the patterns.

4. Restructuring and decentralisation

Within the ***aerospace industry,*** despite the post-Cold War reductions in defence spending, global defence (and civil aerospace) markets remain huge. Every one of the aerospace plants visited has been subject to rationalisation, reorganisation and managerial restructuring arising from joint ventures, company mergers, acquisitions and the disposal of non-core design and manufacturing operations. Although these formerly inflexible bureaucratic firms have been transformed into more dynamic 'reflexive' organisations it is hard to discern a coherent pattern of change (Lovering 1998). Nevertheless, the process of continual, often incoherent change added to the sense of uncertainty felt by the reps and their members.

Most of the MSF reps interviewed perceived the process of corporate restructuring as one of capricious and confusing change but which also had an unsettling impact on local union organisation and its members. A consequent undercurrent of union exasperation and at times, animosity was observed at most of these aerospace factories. Overall, the pattern of change was more complex than a simple convergence towards business unit decentralisation, which was by no means universal. By contrast, an *intra-site* decentralisation of managing industrial relations was more apparent and this placed more responsibilities on the shoulders of line managers. This in turn required an increase in lay representative responsibilities and a more vibrant, decentralised workplace union activism. However, even where clear trends towards devolved management responsibility were apparent it was often the case that sources of real power, as they affected key strategic decisions, still lay very much at the centre These different examples highlight the opportunities for a new unionism based on renewed local organisational responses to devolved management at one level but also the limitations of this in the context of the more remote location of the nucleus of higher level managerial power.

Within ***insurance*** competitive survival has been associated with a cost cutting drive aided and abetted by the introduction and re-introduction of new technology both to rationalise and replace staff and to utilise more knowledge based software to present to potential customers a range of products. The impact of direct selling over the telephone, has also rapidly changed the organisational structure of the industry. In line with other business practice throughout the last two decades there has also been a deliberate divisionalisation of functions, which has been framed to inject cost consciousness into devolved management decision making processes.

However, the whole rationalisation process, together with the spate of mergers and acquisitions appears to have been fraught with problems. The cultural shifts in the industry - from stable bureaucracy to competitive technocracy - have led to problems of culture clash between 'old' and 'new' within organisation hierarchies which are particularly severe in cases of merger and acquisition. This has consequences for union organisation and strategy as activists have spoken both of obvious changes in management strategy when one CEO replaces another and of different (and sometimes contradictory) strategies emerging within different divisions in the same company. Changes in organisational design and culture have also involved a rethinking of relationships between head office authority and that of divisional or line management. The changes have not been uniform across the industry. In some cases authority has been centralised at head office whilst in other cases decentralisation of decision making can be traced.

The divisionalisation of businesses has also created inconsistencies in the treatment of unions by management. In some cases, intra-company competition between senior divisional managers to be more cost effective than their peers might inspire different strategies. Such a process of division and competition might in turn be part of an overall corporate employee relations strategy. In other cases, especially where newly created divisions follow on from mergers or acquisitions, it may simply be the case that divisional or local managers have had no previous experience of dealing with unions. In other case it may simply be a product of a lack of effective trade union presence. This presents an opportunity for effective exploitation of differences by the union in to 'ratchet up' working conditions to the most favourable comparator. However, in general the union reps. interviewed reported a reactive rather than pro-active agenda. Much time was spent processing individual grievances rather than developing a collective 'pattern' bargaining approach. Differences have thus emerged in both sectors between industrial relations practices, which have placed enormous strains on union reactive strategies. The research survey recorded a discernible hardening of management attitudes towards the union in a larger proportion of workplaces over the last three years (table 6). This hardening was more evident in insurance.

Table 6 : Respondents were asked whether their employers' attitude to trade unions had changed over the past 3 years.

Sector	Attitude hardened	Attitude softened	No real Change
All sectors (196)	23%	14%	63%
Aerospace (80)	30%	19%	51%
Manufacturing (20)	15%	5%	80%
NHS Trusts (39)	11%	11%	78%
NHS HVA (16)	7%	14%	79%
Insurance (26)	40%	20%	40%
Universities (15)	14%	0%	86%

5. Work organisation: sectoral examples

Within ***aerospace*** the two most consistent changes were the introduction of teamworking and lean manning. Project teams have two main objectives. First, to create a multi-functional environment which supports the process of designing quality and manufacturability into the product at an early stage. Second to compress the development cycle of a project from conception to initial production. Project teams come in different forms. The more durable teams borrow from the Japanese practice of assembling a group of engineers from different functions who are then assigned to a development project for its full duration. Other project teams may have specific objectives of a limited duration and could be used on an ad hoc basis to resolve one-off challenges. A typical aerospace project team might comprise development engineers; design engineers; stress engineers; draughtspersons; planning engineers; production engineers; project management staff; procurement staff; and so on. This matrix-based approach to labour utilisation poses a number of problems for any trade union, which is accustomed to organising a sizeable mass of members within discrete functions and departments. The fragmentation brought about by teamworking, in many ways, therefore, poses major challenges to a workplace unionism organised around a traditional skill and process-based division of labour. The contradiction between worker aspirations for self-management and autonomy in teams and management's reassertion of its traditional prerogatives raises new sets of conflicts, and new employee grievances and sense of injustice which workplace unions must respond to.

Part and parcel of the drive for competitiveness has been management efforts to rationalise labour. In the context of perpetual labour reductions, management have a tool to secure enhanced time accountability of staff and to generate new work pressures through multi-tasking and the recomposition of roles and responsibilities. This contributes towards a closing up the porosity of the working day, and an encroachment of the working day into employees' free time. A key question is how this process of intensification impacts on trade union organisation already weakened by continual mass redundancies and the emergence of a more unrestrained implementation of managerial prerogatives? Indeed many MSF representatives commented on the additional pressures these processes place on the union activist.

In ***insurance*** similar degrees of work intensification have occurred alongside the introduction of increasingly untransparent methods of pay determination, ranging from performance related pay, to local market related pay and competency based pay. Changes in work organisation directly related to the introduction of new technology (allowing more timed routinisation of tasks) whilst changes to pay systems can be more directly traced to the new ethos of entrepreneurialism and performance. Such a new performance culture is an integral part of the globalisation of financial markets that has occurred since the 1970s and which can be appropriately termed the 'financial services revolution' (Moran 1991). At company level different methods of pay determination (e.g. PRP and competency) often sit side by side, with individuals moving both across and through various pay scales. The effect (no doubt deliberate) has been to obfuscate and individualise the pay relationship and to marginalise union influence. In other companies new systems of payment have retained more scope for union involvement. For example, the total 'pot' of money is negotiated at a national level together with yearly overall increases. Individualisation is a core component of the system with every employee receiving information of his or her allocation within scales via a letter. The fact that bandings are related to skills by job evaluation allows scope for the union to take on individual grievances for individuals and so the union can be shown to have some effect. However, in the vast majority of cases the union has ended up 'tail chasing' individual grievances at the expense of developing a collective response. Union reps. workloads on grievance cases are also extremely time consuming, a particular problem when the company workloads of the reps. themselves are ever increasing.

The pressures of business restructuring, work intensification and individualisation of pay have thus created enormous problems for the union, and as table 7 indicates, this has resulted in a recorded increase in members' grievances in our survey.

Table 7 : Nature of members' grievances (all sectors)

Respondents were asked which types of member grievance they had personally handled over the past three years and whether their incidence had changed.

	Percent of reps handling grievance	Percent of reps reporting increase in incidence	Percent of reps reporting decrease in incidence
Grading	54%	56%	7%
Pay	53%	47%	5%
Health and safety	52%	41%	2%
Management attitudes	41%	50%	4%
Discipline	39%	34%	9%
Staffing levels	36%	53%	6%
Working hours	36%	50%	3%
Workload	34%	63%	2%
Redundancy issue	33%	51%	6%
Pensions	24%	39%	0%
Flexibility	23%	44%	1%
Training	21%	28%	5%
Job security	20%	52%	7%
Other	12%	13%	0%

In this context of a new 'moral turbulence' (Beynon 1997) in the workplace strategies of resistance have varied.

6. Organisational dilemmas

The survey and workplace interviews attempted both to record changing employee discontents and to catalogue union strategic response in the context of new efforts to engender the 'organising model' of union activity within MSF. It must first be recorded that the perceived union influence over managerial decision making varied greatly between sectors. Influence over decision making is generally higher where working conditions are concerned than with pay or general management. In most cases union responses to change remained reactive rather than proactive, and the problem is one of maintaining and improving union membership as a precursor and adjunct to challenging increased management prerogative and power. The degree of increased union participation and the capacity to mobilise membership are important factors predetermining union response, and it is these issues on which the research has focussed.

Tables 8 to 12 provide some rudimentary quantitative indicators of the recruitment performance of the surveyed MSF representatives during 1998. Overall, the tables provide a picture of a fairly healthy performance: the average number of members recruited as a percentage of total membership in each establishment is around 10% though much higher in the insurance sector (Tables 8 and 9); and the senior reps provided evidence of the use of more systematic recruitment techniques, such as the targeting of particular groups, team-based recruitment and non-membership mapping (Table 12). Moreover, the survey data indicated that member retention was good with 49% of senior reps reporting no change in membership levels during 1998 and 38% reporting an increase.

The data also suggest a dichotomy between 'strong' and weak' recruitment performers: for example, in a significant minority of establishments the average number of new MSF members recruited was less than 5% of total membership, and 44% of senior reps did not use the more systematic recruitment techniques. This will be explored further below.

Table 8 : Membership recruitment statistics (workplace reps, n = 196)

Sector	Average number of members recruited per establishment in last year	Average number of members recruited as a percentage of total membership
All sectors (41)	17.2 (Total = 706 new members)	11%
Aerospace (14)	26.1	9%
NHS Trusts (10)	13.6	10%
Insurance (7)	16.7	24%

Table 9 : Members recruited as % of total membership
(workplace reps, n = 196)

Sector	Members recruited = 5%< of total membership	Members recruited = 6-10% of total membership	Members recruited = 11-19% of total membership	Members recruited= 20%> of total membership
All sectors	34%	37%	17%	11%
Aerospace	23%	54%	15%	8%
NHS Trusts	29%	29%	14%	29%
Insurance	17%	33%	33%	17%

Table 10 : Use of different recruitment techniques (senior reps, n = 41)

	percent of establishments using recruitment technique
Leafleting of non-members	49%
Union literature targeted at groups of potential members	41%
Direct postal mail to non-members	13%
Direct e-mail to non-members	5%
Use of recruitment committees/teams	23%
'Mapping' to systematically identify non-members	31%
Organising a union social event for non-members	10%
None of these techniques used	44%

The survey of non-senior workplace representatives established that, on average, these reps spent just 6% of their time devoted to union business on recruitment activity, though in insurance this was higher at 11%. In many cases, this was a function of the tradition of 'passivity' in recruitment where the expectation was that the non-member should approach the representative rather than vice versa. However, the qualitative data show that in some workplaces, MSF reps were developing a more proactive and systematic approach to recruitment.

One other issue of interest has been the extent to which individual activists have exhibited leadership within their workplaces and how this has manifested itself in alternative renewal activity. With this in mind reps. were asked why they took on a role in the union. This question hopefully would provide insights into motivational aspects of leadership. Table 11 (below) produces relatively high scores on 'workplace solidarity' indices such as 'belief in trade union principles' and 'to help fellow employees'. Aspects of 'voice' attainment were also important recorded reasons for becoming an activist. It is worth noting, however, that reasons of 'belief in trade union principles' scored much lower for recently recruited representatives than for more established ones, with only 23% of reps. with less than one years service citing this reason compared to 54% of those with more than seven years union service.

Table 11: Reasons for becoming active (all sectors)

Respondents were asked to select from eight options the different reasons they decided to become an MSF representative.

Reasons for becoming a rep	**Percent of reps stating this reason**
Strong belief in TU principles	40%
To help fellow employees	64%
To help limit the power of management	14%
To become involved in decision-making at work	45%
To benefit career	8%
Nobody else would take on the role	52%
Forced to take on the role	1%
Other	11%

The emphasis on mutual solidarity is reinforced within the survey and also confirms the findings of Waddington and Whitston (1997) that collectivist concerns remain central to joining a union. When asked to select the three most effective arguments used for persuading employees to join MSF the reps indicated: 1) MSF provides support if employees have a problem at work (84%); 2) MSF secures improved pay and conditions at work (57%); and 3) MSF provides protection/ help when there are redundancies (56%). When asked to select the three least effective arguments the reps indicated: 1) MSF has the ability to influence government policy (56%); 2) MSF offers attractive individual services (49%); and 3) MSF offers partnership with management (43%).

Table 12: Views on whether the representative's role had become more difficult due to increased work pressure
(workplace reps, n = 196)

Sector	Percent of reps indicating agreeing	Percent of reps disagreeing	Percent of reps undecided
All sectors	82%	4%	14%
Aerospace	82%	3%	15%
NHS Trusts	77%	6%	17%
Insurance	92%	0%	8%

In addition, as Table 12 indicates, the survey data suggest that the ability of activists to perform recruitment and organising activity has become significantly constrained by the increasing work demands of the employer. Indeed, this factor was constantly referred to during virtually every qualitative interview with the workplace representatives. The consequences of the introduction of lean manning regimes and different new management techniques in terms of an intensification of the labour process and increased rates of exploitation have now been widely researched. Much less researched, however, is their impact on the ability of union activists to fulfil a lay organiser's role. In the South West aerospace industry, for example, over the past two decades and particularly since the late 1980s the workforce at the Matra-BAe

Dynamics plant has been reduced by 90%, at Messier-Dowty by 75%, at Allied Signal by 50%, at Rolls Royce Military Engines by 62% and at Smiths Industries by 50%. In the workplace reps' questionnaire survey, 66% of respondents reported increased workloads due to workforce reductions, 60% reported the introduction of teamworking, 52% reported the introduction of quality circles, 58% reported greater working time flexibility and significant numbers reported the use different 'non-standard' employment contracts.

Table 13 : MSF reps' bargaining agendas (all sectors)
Respondents were asked which issues (from a range of twenty-two) had been included in their negotiations with management during the previous three years.

Bargaining issue	**Percent of reps citing this issue**	**Bargaining issue**	**Percent of reps citing this issue**
Collective pay awards	60%	Maternity and paternity leave	25%
Health and Safety	58%	Skills training	24%
Restructuring of the organisation	46%	Bullying at work	23%
Stress at work	40%	Childcare facilities	18%
Redundancies	39%	Shorter working week	14%
Employment of non-permanent staff	36%	Employment rights of non-permanent staff	12%
Holidays	32%	Sexual discrimination	11%
Flexible hours	32%	Sexual harassment	11%
Pensions	31%	Employment of part-time staff	11%
Individual pay award schemes	29%	Employment rights of part-time staff	10%
Labour flexibility	26%	Racial discrimination	6%

A final area of interest is the degree to which the union has adapted to new bargaining issues, some of which (e.g. equal opportunities, harassment, training) are related to possible attempts to widen and deepen bargaining agendas in tune with a more open and participative organising model. As table 13 indicates there is some recognition of such newer issues, but they remain secondary to more substantive concerns. A breakdown by sector (not presented here) reveals a higher percentage of newer bargaining issues within the health service sector (especially bullying, stress, harassment and childcare).

7. Examples from aerospace – strong and weak

In aerospace there emerged a crude distinction between **'strong'** and **'weak'** MSF branches. Those, which are categorised as 'strong', tended to have the following characteristics. First, a good membership mass even though there was potential for further in-fill recruitment. Second, a disposition to consciously and systematically communicate with and involve members. Third, their senior representatives all displayed a strong sense of leadership and commitment to an independent and assertive workplace unionism.

The 'strong' plants tended to use an array of different communications strategies aimed at mobilising members' commitment to the union agenda. At all of the 'strong' plants, reps are expected to attempt to recruit non-members in their own vicinity, to practice the art of careful persuasion, often exploiting newsletters and leaflets as a means of catalysing a positive dialogue. Most of the 'strong' plants are taking a strategic approach to recruitment by setting up site recruitment sub-committees, establishing teams of recruiting activists and by completing workplace mapping exercises to highlight areas of weak membership density. The exploitation of 'critical incidents' has also helped to attribute blame for worsening conditions on the actions of management (Danford and Upchurch, 1999). In contrast, MSF organisation in the 'weak' aerospace plants had become merely reactive to management and even marginalised at the workplace, in different instances a function of processes of decollectivisation and concomitant low membership bases, work pressures on activists and an emergent psychology of defeatism. All these plants had been subject to severe job cuts over the last decade. In such conditions, the process of education, of building members' confidence and constructing an effective counter-balance to management's hold on material and ideological power resources requires more dynamic networks of committed activists. In these 'weak' plants such networks were either non-existent or in danger of atrophy

And Insurance- back to basics

In insurance all MSF activists shared the same experience of paternalistic managerial styles, weak mobilisation and relatively low membership densities. In four of the firms, MSF's membership density was well below 50%. MSF organisation was generally dependent upon just three of four activists to represent different members who were spread across a wide range of occupations and departments. Many departments had no resident union representatives. And many reps reflected upon the difficulty of expanding a network of activists in the context of increasing work pressures and hostile management. In these circumstances attempts to mobilise and involve members faced obvious difficulties. Some activists tried to secure member interest and participation by distributing branch minutes, producing the occasional newsletter and organising mass meetings for information purposes. But most of these were both infrequent and limited and the response of the members tended to be disappointing

Overall, member mobilisation in these insurance companies was restricted by problems of low union density and an associated lack of 'perceived union effectiveness' or legitimacy within the firm. However, unlike in the 'weak' aerospace plants there was evidence of a more proactive approach to recruitment.[2] In one firm, there had been a small surge in recruitment after targeting of individual non-members, arguing with them the benefits of membership and 'bothering' to ask them to join. At another the exploitation of critical incidents, this time the enforced use of telephone headphones, had again been effectively used to boost membership.

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[2] The time spent on recruitment as a percentage of time spent on all union business amounted to 11% for insurance sector reps. compared to 6% for aerospace.

Of particular interest, however, has been the experience of one company in Gloucester beginning from a cold recruitment campaign instigated from outside by MSF. Early in 1998 a leafleting campaign outside one of the company's main offices resulted in one employee (now an MSF rep) attending a local union meeting. Since then membership has grown to 40, meetings are held regularly in a local pub, four activists have been recruited and union material is distributed (semi-secretly) inside the company's buildings. The relative success of the initial recruitment campaign stemmed from the personal leadership of one or two individuals inside the offices who were motivated to become active in the union coupled with general feelings of the lack of 'voice' of staff within an anti-union company. The initial phase of recruitment was quite easy, but then became more difficult as potential recruits questioned the effectiveness of the union when it remained unrecognised. However, the establishment of a European Works Council under the umbrella of the organisation's Italian parent company posed the question of union legitimacy within the company most graphically. After initially acceding to the MSF nominations the company reversed its decision and argued that there needed to be an election of representatives rather than a nomination by MSF. The fact that employee representatives are required by law presented the company with a strategic dilemma: either it needed to establish its own worker representative forum and utilise this as an electoral base, or recognise the right of MSF to conduct elections as workforce representatives. However, subsequent events overtook the situation as the company was sold off in late spring 1999 to another company. However, it is clear that the EWC legislation allowed the union to get a foot in the door as legitimate representatives of the workforce despite management hostility. In such hostile environments the question of legitimisation through EWC legislation, and indeed the new UK Employment Relations legislation, could be of positive benefit to embryonic union organisation even despite potential weaknesses in the legislation itself.

8. Discussion and conclusions

The summary of research presented here explores some of the quantitative characteristics of new bargaining agendas, union representative profiles and renewal strategies. More detailed analysis of both insurance and aerospace would suggest restructuring has been rife and unions have been on the defensive. Efforts to redress the balance have varied in intensity and with the nature of the problem. In particular engagement in union control over work processes has been slow to gain ground. Individual cases of member grievance in all sectors are abundant but a collective response to address the 'new politics of production' is as yet largely absent. This may reflect the 'professional white collar' nature of MSF membership and its temporal inability to move beyond economistic demands to fight collectively on issues of work content and control. Job insecurity produced by constant restructuring has also made organising to resist more difficult. For example in both aerospace and insurance the control of the labour process has passed in recent times much more firmly into the hands of management, work has definitely got harder and with it employee discontent has increased. Meanwhile the ability to collectively organise over pay has been severely weakened, as pay determination has become increasingly untransparent and geared to individual performance. Such changes question the traditional *raison d'être* of much union activity. Yet despite these problems we have found evidence of union success in mobilising and recruiting across all sectors, either by the exploitation of employee discontent through 'critical incidents' or by simply returning to basics and 'bothering to ask' non-members to join. In so doing the research helps address a gap in available empirical evidence of the processes by which employees join unions and activists build workplace union organisation (Kelly 1998; Waddington and Whitston 1997).

The data suggests an increase in employee discontent over such issues as management attitudes, staffing levels, workload and job security, an indication of growing opposition to the new 'moral turbulence' of the 1990s. These discontents reflect a decline in economic democracy, which, as Hirsch (1995) argues, is concomitant with the ravaging processes of 'rationalisation' and 'structural adjustment' associated with 'globalisation'. The extent to which the MSF workplace unions have been able to organise around these discontents is a function of, *inter alia*, the balance of power obtaining at particular workplaces, the traditions of management style and industrial relations, the strength of the organisation of workplace activists and the style of workplace leadership. For MSF workplace organisation, the outcome has been uneven. In aerospace there is evidence of both strong and weak workplace organisation. In the 'strong' MSF has maintained a critical mass of members from which local leadership has managed to secure healthy workplace unionism. By contrast in the 'weak' a diminishing number of workplace reps. have lost confidence and have been overcome by a sense of isolation and defeatism. In such cases, union recognition is effectively contingent on managerial support/toleration as has been identified elsewhere in the south west of England (Rose 1996). In the insurance sector a low 'critical mass' of union members in a hostile environment has often militated against union organisation. The degree of 'perceived effectiveness' of the union, combined with local leadership qualities, makes a difference in terms of union survival or growth. However, case studies have produced evidence of unions' ability at workplace level to exploit critical incidents as a catalyst to mobilise members. Such mobilisation requires the ability of the union to move beyond defending individual grievances to a situation where it is possible to collectivise feelings of discontent and reshape agendas directly with management (c/f Kelly 1998: 127). In the context of the aerospace industry this would require a lead from those stronger branches and the union leadership to redevelop traditions of combine organisation based on activist networks directed at the central source of management power. It is possible that the formal structures of European Works Councils might underpin such an operation albeit by helping to legitimise the process in the face of management hostility. In insurance the problem is more one of building the basic blocks of trade union organisation. However, the same problems of fragmentation of union interests exist, and here some improvement of the union's organising and bargaining power could be made by involving workplace activists in developing a united front and more focussed activity against the employer at both national and multi-national level. This combination of workplace activism and employer focussed mobilisation requires a critical mass of union activists that need to be encouraged, developed and sustained by external support from the union bureaucracy, support which has not been evident in the recent past (Fairbrother 1996, Carter 1997).

Such challenges draw us to the conclusion that whilst industrial restructuring has been rife in the effect on union organisation in our survey has been to create new and more difficult agendas for the unions rather than to completely demobilise them. Indeed it would appear that this continuing resilience of unions in a hostile climate is fed by an ever-increasing pot of discontents combined with consolidated feelings of a renewed desire for workplace 'voice'.

9. Ongoing and future research

This paper has presented a summary of ongoing research into MSF with particular reference to two key sectors prone to the effects of 'globalisation' and restructuring. Further data has been produced for the MSF in the health service. A grant from the Leverhulme Foundation has also enabled the research to be extended to two other unions, the GMB (Public Utilities, manufacturing and Local Government) and AEEU (primarily manufacturing). Different approaches from these unions to the question of organising and trade union renewal are apparent, as is the vexed question of 'partnership' and the concomitant development of management-union relations in organisations and individual workplaces.

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Peter Fairbrother

Trade unions and the privatised state: questions for trade unions

This paper aims to locate the changes taking place in the public sector within the developments of a global and internationalised economy; to identify the patterns and scale of state restructuring; to examine the outcome of these changes for state workers; to consider the implications of these developments for trade unions; and to develop agenda for action by trade unionists.

Over the last two decades assumptions about the state in capitalist society have been challenged in fundamental ways. Two processes of change are taking place: a restructuring of the state as employer and a redrawing of the boundaries between the public sector and the privatised service sector. Past forms of organisation have been thrown into relief as governments questioned the form and focus of the state as employer. These developments have major implications for public sector workers and those employed in the privatised utilities, for their trade unions and for citizens.

The paper comprises five sections. First, the elements of state restructuring are identified, principally with reference to Anglo-American states, as exemplars of a particular form of restructuring. Second, the scope and scale of restructuring is examined. Third, there is a consideration of the outcomes of these changes and developments for public sector workers. Fourth, the impact and consequences for trade unions are briefly reviewed. Finally, the questions for trade unions are identified and elaborated.

1. A changing public sector

A restructuring of the state has been widespread, especially in liberal democratic economies, with moves to establish 'managerial' states in these countries (although these developments also have a wider relevance in other types of states and forms of governance). In the industrialised social democracies of the north, this restructuring has been part of an attempt by liberal democratic governments to reposition the state in relation to an increasingly internationalised economy. These developments are part of the process of depoliticising labour-management relations, taking responsibility for the operational activity of state bodies away from direct government involvement and placing it in the hands of state managers as well as managements in the privatised utility sector.

The origins of these changes have their beginnings in the 1970s and 1980s when capitalist states faced two crises, one concerned with the economy and the other politics. These involved:

- Problems involving balance of payment difficulties, inflationary pressures, expanding public sector debt and exchange instability.
- Questions about political organisation and authority (involving trade unions and related collective forms of mobilisation).

In effect, states are caught in a tension between depoliticised relationships and politicised ones. By depoliticisation is meant the formal disengagement of the state politically from the economy, defining problems as technical and 'economic' questions, as if these issues are not associated with the structuring of class relations. Thus, in the context of 'crisis', there are strong pressures on policy-makers to attempt to create the conditions for a disengagement of the state from key aspects of state policy formulation and implementation; with the rhetoric concerning globalisation and the role of the market serving as a justification for this shift (Burnham, 1999a and 1999b; Fairbrother, 2000). In contrast, politicisation refers to the ways in which governments seek to regulate state policy and practice via policies of intervention and involvement in the organisation and operation of the state and civil society. In many ways the policies and practices associated with this set of relations are characteristic of more traditional forms of social democratic organisation and rule. There is an inherent tension between the devolution and decentralisation implicit in depoliticisation, and the role of government employment as a model or flagship for governments' employment practices and industrial relations agenda, associated with politicised relations.

Liberal market models, with an emphasis on depoliticisation, have been very much in the ascendancy in the Anglo-American world, while there has been some resistance from social democratic models of governance, particularly in major European countries. Major divisions have emerged between deregulating states and those maintaining forms of governance and interaction with the social relations of production characteristic of the various post-war settlements (Jessop 1994; Williams et al., 1995). Within the deregulating states there is an important assumption of the necessity of increased marketisation and commercialisation of state formations, but this can take a number of different forms, including privatisation, compulsory competitive tendering, and purchaser/provider splits within the state (Williamson 1994; Cutler and Waine 1994).These initiatives have drawn on models of restructuring, developed particularly in the USA and the UK (Bollard, 1988; Pollitt, 1990; Ferlie et al., 1996). The outcome are a variety of disparate and often contradictory trends and traits, prompting the identification of different models of change (Dunleavy and Hood, 1994; Ferlie et al, 1996; Fudge and Gustafsson, 1989).

In the Anglo-American capitalist states there has been a strong push to promote policies of depoliticisation, in the context of a break or a qualification of the social democratic programmes of the 1950s, 1960s and 1970s. In particular, there was an attempt to define the relation between governments and state employees in distinctive ways. On the one hand, governments pursued policies aimed at redrawing the boundaries of the state, via policies of privatisation and contracting-out of state functions. On the other hand, governments recomposed and redefined state agencies in more devolved and fragmented ways, establishing agency forms of organisation and redefining state managements as 'managements' (Burnham, 1999b).

Analyses of these developments have often failed to give sufficient attention to the role of labour and the manner in which the interaction between labour and management shape the processes of change. What is clear is that the consequences for labour both in and outside the state have not been central to any systematic and comparative examination. The failure to consider labour and particularly work and employment relations is almost equally true for works which celebrate the new entrepreneurialism of the state (Osborne and Gaebler, 1992), welfare provision in terms of post-Fordist analyses (Hoggett, 1991) and more critical perspectives (Jessop, 1994). The neglect of labour has therefore a twofold nature, both as an agent and recipient of changing global state relations. Nonetheless, one particular aspect which has evoked supporting comment is that for workers there is now a vulnerability in employment relations which organised and unorganised labour have found difficult to address (Elger and Smith, 1994). The focus is often on the invidious affect of these changes on workers and the uncertainty and unevenness of their response and resistance, on the other.

2. Scope and scale of change

The reforms in the industrialised social democracies have been defined and premised on the following assumptions:

- Previous forms of government administration were inefficient.
- The construction of 'managerial' grades is a condition for an 'effective and efficient' public service.
- The means of effecting change is to subject state functions to market relations and the monetarisation of these relations.

In this way, the reforms are presented as operational and technical features of a modernised managerial public sector. This is a process of disengagement where the state no longer has an immediate and direct involvement with labour-management relations in these sectors although it continues to define policy objectives.

These policies are predicated on an assumption that there is a tendency for public sector managers to make decisions on the grounds of political expediency and self-interest, rather than in terms of efficiency and effectiveness in service provision. There was an acceptance of the argument that state bureaucracies had in effect become public empires, protecting the interests of the bureaucracy and thereby providing inequitable, unresponsive and ineffective services. Advocates of 'reform' focused on 'contestability' via restructured and market accountable managements, competitive tendering and market-based service delivery (Foster and Scott, 1998a and 1998b; Carter and Fairbrother, 1999).

These developments are associated with debates about managerialism in the public sector, and whether a 'New Public Management' (NPM) is in the process of emerging. The NPM has been variously defined, in three key ways. First, the NPM was defined as the importation of models of private sector management into the public sector, although this was a model that failed to recognise the distinctive features of public sector organisation (Ferlie *et al.*, 1996: 10-12). Second, the model was further developed with an argument that the public sector had become a type of Fordist organisation, characterised by hierarchy, impersonal rules and regulations, a bureaucratised enterprise (Hoggett, 1991). Third, against these arguments Ferlie and colleagues (1996) argue that a distinct public service model remains in existence, reflecting both an adaptation of private sector practices and the retention of distinctive public sector practices and values (Osborne and Gaebler, 1992). However, the NPM debates, while placing management, as a reconstituted stratum of the state apparatus, at centre-stage of enquiry, have given little attention to labour and the ways in which the interaction between labour and management shape the processes of change taking place.

Alongside the recomposition of the public sector as employer, there has been a comprehensive redrawing of state boundaries, in almost every state in the world, via processes of privatisation (Public Services International Research Unit). Privatisation has taken a variety of forms. These include the complete or partial sale of a public asset, which may occur, by private sale, sale by tender or sale by public float. Privatisation may also proceed by the contracting-out of services that had been provided by public sector organisations. Another type involves concessions, as a way of 'privatising' the financing of capital expenditure. One example is the 'build-own-operate' schemes in which a private company builds a piece of infrastructure, such as a tollway, in return for the temporary or permanent assignment of the toll revenues to the company. Another example is the arrangements under the heading of the

Private Finance Initiative (PFI) and forms of public-private partnerships, promoted by governments in the United Kingdom.

The issues that derive from the sale of assets and the franchising of public sector activity are threefold:

- The former state enterprises have either developed as major employers in their own right or been acquired in turn by transnationals and paradoxically other state enterprises operating in these sectors of employment. Such developments are evident in the energy sector (Hall, 1999).
- States have laid down regulatory frameworks in relation to the privatised entities. These frameworks may deal with cross-ownership rules (energy industry in Australia); the provision of services (telecommunications in many countries), and the market relations within and between sectors (health in the UK).
- A recomposition and redefinition of sectors is in process since previous distinctions no longer apply, in some cases because of technological change (most evident in telecommunications where a Computing, Information and Telecommunications (CIT) is in the process of emerging - Fairbrother, 1998) and because of emerging corporate conglomerates (in the energy sector - Hall, 1999).

Forms of privatisation, the marketisation of the public sector, franchising public sector activity and the sale of assets has been extensive and comprehensive in many countries (Hall, 1999). These developments have complemented the creation of the managerial state. Originally an *ad hoc* measure designed to weaken union power, privatisation is now advocated by many policymakers and advisers as an essential element in a restructuring of the state designed to produce competition-induced efficiencies so as to bring about sustained economic growth.

3. Outcomes for 'public sector' workers

The restructuring that is taking place is best presented as a process of both corporatisation and privatisation. On the one hand, there has been a reconfiguration of managerial hierarchies, impacting on the relations between management and workforces. A key feature of this has been the devolution of managerial control and accountability, with the result that there has been an implicit relocation of bargaining and negotiating activities to a more localised level (Fairbrother, 1994; Foster and Scott, 1998). On the other hand, the patterns of restructuring associated with privatisation, in the form of asset sales, transfers of ownership and out-sourcing, have resulted in the fragmentation of former state business enterprises and their subsequent centralisation as part of large transnationals (Hall, 1999).

The result has been a major recomposition of employment in the public sector and privatised industries. There are three aspects to these developments:

- An extensive redefinition of the state sector employment contract, with the introduction of casualisation and a-typical forms of employment.
- A reorganisation of clusters of workers, creating dedicated pools of workers, recreating the standardisation and routinisation of employment clusters, as is evident in call centres.
- A wide-spread incidence of out-sourcing and contracting-out and the recomposition of workforces within newly defined industries, such as the computing, information and telecommunication industries (CIT).

One of the most striking issues to emerge in relation to state restructuring is the extent and influence of multi-national ownership in the former state enterprises. This development raises a number of questions for consideration of the state restructuring that has taken place. First, there has been a change in patterns of ownership, either of state enterprises or functions of state activity. Second, the advent of the marketisation of the state (which may involve privatisation) has been associated with the advent of transnational involvement in the organisation and provision of state services. This development is part of a centralisation of private capital involvement in public sector organisation and activity, via a few major transnationals.

4. The impact on trade unions

The impact on trade unions of these developments are varied, very much depending on the balance between depoliticised forms of labour regulations and the retention of politicised relations. Where the balance is towards depoliticised relations there is a prospect of union renewal while the maintenance of politicised relations open up the prospect of directly engaging with political questions, although usually on a national rather than international basis.

As competition-based policies have been elaborated, the highly centralised and dependent state sector unions of the past face the demands and requirements of more localised approaches to enterprise bargaining, for which they are ill prepared. There are two aspects to this development. Firstly, there has been a shift towards more disaggregated forms of bargaining. Secondly, these developments have stimulated questions about forms of union organisation within the state sector and privatised enterprises and the alternatives facing these unions.

The outcome of these changes in the state sector broadly defined is that industrial relations are no longer as stable and predictable as once was the case. While there may have been disputes between managers and trade unions and while there may have been complicated arrangements relating to procedures and related regulations in the past, there was nonetheless an orderliness that came to characterise most industrial relations systems in advanced capitalist states. With the restructuring of the state as employer, four critical issues become evident:

- Work and employment: Changing job composition and employment relations, with increased casualisation of employment and extensive contracting-out and out-sourcing.
- State policies: A blurring of the relationship between governments and trade unions, as well as in procedures and settlements, taking the form of government industrial relations legislation, regulatory frameworks, the promotion of forms of social partnership as well as encouragement of commercialisation and market-type relations in state agencies and former agencies.

- Ownership: Different owners and in some cases many agreements (evident in the fragmentation and privatisation of the Victorian electricity industry in Australia) and changing owners, with sale, resale, and re-division continuing after privatisation (so that London electricity for example is now on its third private owner)
- Bargaining and Negotiation: Increasing emphasis on workplace bargaining and enterprise agreements, a common feature with the restructuring of the state, clearly evident in agency type arrangements in public services

  (For further details, Fairbrother *et al.*, 1997, Foster and Scott, 1998; Fairbrother and Macdonald, 2000; Hall, 1999 and Hall and Lobina, 1999.

The restructuring of employment presents opportunities for unions that were not there previously, opening up both mundane issues as well as redefining the agenda of concern, particularly at a localised level. These possibilities are rooted in the scale of change and the diverse foci of change. On the one hand, the restructuring and reorganisation of the public sector, particularly in relation to the decentralised and fragmented forms of management, open up prospects for renewed organisation that were not previously evident. On the other hand, the redrawing of the boundaries of the public sector, in particular via the privatisation of major utilities, has resulted in the advent of transnational ownership of these former national utilities. In these circumstances, unions may begin to look at both there localised forms of representation as well as open up the prospects of internationalised forms of negotiation and bargaining (Fairbrother, 2000). Thus there are choices facing union members and their leaderships which may or may not be taken.

5. The agenda for trade unions

5.1. The problem

The process of state restructuring has been clouded by a lack of transparency and clarity about what is happening. In general the argument has been promoted by governments that they have no alternative but to recompose and reorganise the public sector, either because of pressures that arise from international relations or because they are compelled by intra-state bodies and agencies. In both cases there is an atmosphere of fatality and inevitability about the process. Old political ideals no longer suffice and in some cases it is argued are no longer relevant. For workers and their collective organisations there are two difficulties, dealing with immediate and the day-to-day as well as providing an alternative to the strategic thrust of governance.

More specifically, there is a lack of accountability over public authorities and governments as state restructuring is promoted. Workers and their collective organisations in the process of change usually decide the strategies that are pursued in the absence of genuine involvement. Old partnerships between governments and trade unions have either become hollow and formal or there has been an exclusion of trade unions from the processes of change. New partnerships appear to be based on either union weakness or attempts to demobilise more active union memberships. In turn many workers and particularly their leaderships have been beguiled by the mantra of neo-liberalism with the result that alternative strategies are abandoned or not promoted.

5.2. The debate

Not surprisingly, there has been a debate within unions about the appropriate forms of unionism for these changing circumstances. These debates have gone through different forms and stages but have coalesced most clearly around the desirability and effectiveness of the 'service' model of unionism or the 'organisation' model (Bronfenbrenner, 1998). These models are defined as:

- Service: Unions should organise so as to service the membership more effectively and efficiently. Leaders are there to support a beleaguered and often vulnerable and atomised membership
- Organisation: Members are active participants in the way unions organise and operate, thereby contributing to the collective focus and practice of the union.

These debates point to a recognition that the circumstances and conditions for bargaining and negotiation, as well as worker representation, are in the process of transformation.

One argument in relation to the way trade unions may be dealing with these developments is that the depoliticisation and managerial decentralisation of the public sector have opened up opportunities for union organisation and renewal (Fairbrother, 1996 and 2000). The specificity of state restructuring is at the workplace level and it is here that union membership faces their greatest challenges. The prospect of union renewal involves five features:

- Union survival: In the context of restructuring the processes of state restructuring, within the public sector and in privatised bodies are mediated at the workplace and the critical question is how can unions survive and persist without being hollowed out.
- Recruitment of New Generations of Activists: As part of this process of restructuring, many unions face a narrowing of the activist base, where members are beleaguered and uncertain in the face of change and where the removal or negation of activists occurs. In these circumstances, the prospects for union survival may become an issue. When activists are not replaced then the local leaderships often become isolated and removed from members, although they may continue to play an activist role in the union outside the workplace.
- Building workplace activity: It is possible that the restructuring that is in process invites workplace activity in new and novel ways. In the face of the recomposition of workforces (eg casualisation) or other employment conditions (legislative restriction) different forms of representation may be required. In the privatised utilities and the remaining areas of state employment the recomposition of managements has in part been towards more decentralised and fragmented management structures. Under such circumstances it is possible that workplace activists will develop where none existed previously or was minimal.
- Mutual support between workplace union and wider union: The union form requires co-ordinated activity within and between

> workplaces, regions, and nations. It is important for unions to address broader issues, defend workplace from their own vulnerabilities, and to evoke solidarities at a workplace level, region, national and international. Thus while workplace organisation may be central to the union form, it is not confined to this level of activity. (Fairbrother, 2000: 17-22)

In such circumstances, there is the possibility of union renewal, laying the foundation for more participative and involved forms of unionism (Bronfenbrenner *et al.*, 1998 and Pocock, 1998).

The arguments for union renewal are controversial. These types of arguments are countered by arguments which present a picture of trade unions where the emphasis is on unions as nationally-organised institutions rather than workplace-based organisations, with the implication that processes of renewal are much more constrained and restricted. The claim is that unions are limited by continuing to take up conventional issues as well as the difficulties they find in critically reviewing forms of representation. Thus unions are not renewing themselves; alternatively these critics argue that the proponents of renewal see signs of change where none are evident (McIlroy, 1997 and for critical conceptual evaluation of 'renewal', Gall, 1998). Rather than emphasis is on how unions can adapt and rework their capacities for recruitment, representation and negotiation in these changed circumstances. The focus is on adaptation and development of established policies and practices rather than renewal and transformation (Heery, 1998).

5.3. The implications for union organisation and policy

The implication of these debates is that the process of change must be understood in its variety, both within states and between states. There are different patterns of change taking place, invoked by common logics about neo-liberal economic and political agenda. It is also the case that between states, long-standing liberal democracies and more authoritarian and controlled states there are differences, in the parts played by governments in the economy and in terms of the 'guidance' provided by inter-state bodies, such as the World Bank. Although difficult and contentious it is critical that union policy is informed by understandings of these developments, otherwise the thrust of reform is misunderstood and the significance of the benefits of change from one government to another (as was the case in the United Kingdom and Australia) is over-emphasised.

Increasingly, the thrust of reform in the public sector is driven by and qualified by the complex relation between governments and international agencies, international enterprises and complex financial arrangements. Often presented under the rubric of globalisation, the important point to note is that the policies and practices associated with these developments require careful and well-researched analysis. The implication of such developments is that a re-examination of the traditional principles of solidarity and unity are also required with a close consideration of the way these principles are expressed in practice. This draws attention to questions relating to equity, participation and human rights. Policy that is not informed by these concerns is bereft of the touchstones that allow workers to combine, within sectors, between sectors and between states.

One of the consequences of these developments is to draw attention to the importance of re-examining the organisational principles and practice that inform trade unionism. On the one hand, unions over the last two decades have faced difficulties in recruitment, retention, and representation, particularly in long-established and relatively stable trade union movements. In addition, as the processes of depoliticisation of the public sector have proceeded, one of the strengths of unionism in this sector has been removed, introducing more distanced and removed relationships between the government policy and practice. On the other hand, unions in politicised states, where the types of changes seen in the Anglo-American countries are not as evident, face difficulties in establishing the basis for autonomous and independent forms of unionism within highly politicised frameworks. The issue in these circumstances then becomes a question of whether corporatist forms of industrial relations remain in place. In these states the issue is how to develop campaign-oriented and distinctive political voices in otherwise antipathetic circumstances. At the same time it is a question of how to prepare for the possibility of the very complicated relations that are developing between state-owned enterprises and privatised ones, most clearly evident in the energy sector (Hall, 1999).

In these circumstances, state sector unions and unions in privatised industries face a series of pressing organisational questions. What form of unionism is appropriate in the context of state restructuring? How do unions raise issues in ways that impact on government policy? What, if anything, is the role for social partnership in such situations? What is the organisational basis for unity between public sector unions in different countries? Where do the international confederations fit into this process of organisation and re-organisation?

Alongside the depoliticisation of the state sector, there has been a profound recomposition of managerial hierarchies in most state sectors, towards more decentralised forms of control. Such developments raise acute questions for the way unions in this sector organise and operate. The previously centralised forms of organisation no longer suffice, as decision-making takes on the appearance of more devolved forms. This raises difficult questions about the internal organisation of unions. Elsewhere, in politicised states, the very same institutions may be organised and recomposed in ways that assume compliance, supported by decree and legislation, with the policies and practices pursued by these states.

It is important to note that there are both possibilities and profound political dangers in these developments. On the one had the worker as citizen is often placed in very vulnerable and difficult situations as state restructuring proceeds. Jobs are lost. Citizens experience the diminution of services and provisions as change proceeds. Often there is the appearance that the economy is being taken over by multinationals, in the provision of services, the organisation of the economy and in the thrust of government policy. In some cases, such as Australia this has prompted reactionary politics; in other states the consequences of such developments have led to a re-assertion of state control, often with a strong corporatist elements to it, as is the case with arguments about social partnership. The problem for these trade unionists is to develop both the basis for representation within the state and to lay the foundation for progressive unity with the citizenry (Hall and Goudriaan, 1999; Fairbrother, 1998). It is this possibility which has prompted debate about the prospects and possibilities of social movement unionism or forms of community unionism.

Thus, state restructuring is not confined to one state or indeed one type of state. Rather, there is an international basis to these developments: policies on privatisation in one state are not dissimilar to developments in other states; the activities of transnationals in one economy are linked to developments in others; and the policies of governments and supra-state agencies have the appearance of co-ordination and unity. Such developments affirm the importance of trade unions looking beyond the boundaries of their particular state for models and exemplars of development and change. While steps have been taken to address these developments, most notably in the Anglo-American movements, where the consequences of state restructuring have been so marked, there is a case for a more sustained, critical and systematic engagement with the consequences. The question for unions is how to retain and develop the representational base while at the same time addressing the implications of political and economic internationalism.

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Volker Telljohann

The Italian industrial relations system and new forms of participation

1. Introduction

Even today one of the most striking features of the Italian industrial relations system is the low level of external regulation. None of the principal institutions which make it up (trade union freedom, the trade union as an organisation, collective agreements etc.) are subject to legislative control.

The main legislative provision supporting trade union activity within companies is contained in the so-called "Workers' Statute", Law No. 300/1970. In the past this lack of institutionalisation was one of the reasons for the traditionally conflictual nature of the Italian system of industrial relations, which was linked, amongst other things, to the country's strong ideological and political polarisation. This constellation was one of the main factors which hindered the development of a system of institutionalised participation.

Only since the end of the eighties a first phase of spreading of participation experiences at company level can be observed. During the second half of the nineties, i.e. after the signing of the social pact, a further increase of cases of participation can be noted. But all these experiences have been introduced on the basis of company or group level bargaining.

2. The Italian bargaining system

The Italian bargaining system is divided into several levels:

a) national multi-industry level,

b) industry-wide level,

c) company level or territorial level.

The importance of the various levels and their inter-relationships have differed greatly over the years. The role of *multi-industry bargaining* was a central one during the post-war reconstruction period, then again in the years 1975-1985 at a time of high inflation and once again since the beginning of the 1990s in order to meet the standards set by the strategy of European integration. This level consequently seems to be characteristic of "crisis" phases; it has been used mainly to provide basic regulatory standards for the treatment of rights of large sectors of the economy: for instance, the agreements on the automatic cost-of-living adjustments (scala mobile - sliding-scale) as well as the tripartite agreements of July 1993 and December 1998.

The *industry-wide agreement* has always been the fulcrum of the system. It concerns general pay and working conditions, establishing the standard agreements which can then be supplemented at the level of the individual company.

Company-level bargaining played a decisive role in the strong growth and innovation of the system between 1968 and 1975: it was decisive in bargaining for economic and regulatory conditions which improved the industry wide standard conditions and were geared to specific production situations and the individual company's ability to pay, without any precise limit being laid down as to the matters covered.

Since the end of the 1980s, there has been a tendency towards a decentralisation of bargaining. It reflects the general trends in the economy which are favoured by the flexibilisation of production processes. It often appears to be encouraged by initiatives on the part of employers. However, the push for decentralisation has been contained and controlled by trade unions, at least in the more industrialised northern part of the country. Despite the growing spread of decentralised bargaining there is a lasting importance of the industry-wide collective agreement as a stabilising element, in particular for the myriad small firms which make up the greater part of the Italian production structure and for which industry-wide bargaining is realistically the only practical system (Telljohann, 1999).

The multiplicity of bargaining levels and above all the absence of a precise functional co-ordination between levels, understandable while the system was in the development phase, became an element of instability and even an obstacle to the full development of bargaining in the second half of the 1980s. Calls for greater institutionalisation of industrial relations then came from various quarters in the face of the increasing turbulence of the economic and social scene; but even more than legal regulation of the various aspects of industrial relations (conflict, trade union representation, bargaining), they stressed forms of regulation agreed between the social partners, although there started to be a growing pressure for legislative intervention. At the beginning of the 1990s partners came together in order to reorganise the system of collective bargaining guaranteeing a rational distribution of spheres of competence between the levels and controlling the company level in particular, without however suffocating it.

3. The role of tripartite agreements: the objectives of the tripartite agreement of July 1993

At the beginning of the 1990s the amount of deficit spending and the size of the public dept became a serious political problem in the light of 'Europe 1992' and the approach of European Monetary Union (EMU). Faced with the public finance crisis and the risk that European economic and monetary integration might leave Italy behind unions, employers and the government reached a tripartite agreement in July 1993, the so-called *Social Pact*.

The 1993 agreement introduced concertation designed to achieve wage restraint as a final, formal step in the process whereby industrial relations in Italy moved into line with the new European climate of economic and social convergence. The incomes policy agreement was based on the same guiding principles which characterised the gradual approach to European integration: an inflation rate in line with the average in the most sound Community economies, and a reduction in the public debt and deficit. Therefore, one might say that the 1993 agreement set out a new constitution for Italian industrial relations.

The main objective of the agreement of 23 July 1993 was to contain inflation and labour costs. Furthermore, the agreement contains a series of institutional innovations affecting the structures of interest representation at company level on the one hand and the system of collective bargaining on the other.

Company-level interest representation

The agreement of July 1993 defines the trade union representation at company level, the so-called *RSU (Rappresentanza Sindacale Unitaria)*, i.e. Unitary Trade Union Representations. They are unitary structures of plant representation, elected by employees and, for the first time ever, recognised by employers (Arrigo et al., 1994). At present a draft bill which should regulate the election of workers' councils is being discussed.

It is important to underline that there is an explicit mention of the requirement for contact between the trade union organisations that negotiate the national agreements and the Unitary Trade Union Representations set up under those agreements, and hence the composition of the RSU: two-thirds elected by the entire workforce, and one third appointed or elected by the union organisations that are party to the national agreements. This clause was strongly favoured by employers, who wanted an assurance that the RSU is dominated by the same unions as those that sign the sectoral agreement. The one-third rule also acts as insurance for the smallest of the confederations, or for the one that is least favoured by the electorate.

A typical problem of Italian industrial relations which is characterised by the so-called *single channel model* regards the overlapping in a single representative body of both bargaining prerogatives and participation activities (Di Nicola, 1995). The RSU is the only workers' representative body which is legitimised at company level. Although they have in certain cases the possibility to delegate their rights to other participation bodies (e.g. joint committees) created by agreement, this does not overcome the basic contradiction that lies in the fact that the RSU continues to hold a power of veto over the activity and the decisions of such participation bodies.

As to the composition of the RSU, so far, the elections have been a success of the trade unions belonging to the three major confederations CGIL, CISL and UIL; they poll more than 90 %. Voter turnout also appears to be high (80 %). But it has also to be underlined that there are still some sectors where elections have not taken place yet (e.g. banking, insurance companies, public education).

The reform of the collective bargaining system: sectoral and company level bargaining

The Italian system of collective bargaining was redefined by the agreement between the trade union confederations, the employers' associations and the Government. The system is now based on two levels of bargaining: the industry-wide bargaining at national level and a second level which can be either company or territorial (region, district) level. After the 1993 reforms industry-wide agreements are negotiated for four-year periods with regard to the normative section and for two-year periods with regard to wages. The negotiation of wages at national level is exclusively aimed at the safeguarding of purchasing power.

The policy of the trade unions is to guarantee minimum rights and social and pay conditions by means of the national industry-wide agreement. The national agreement is a safeguard for all workers in the sector. On the basis of this, second level bargaining is then carried out in companies with the aim of increasing, on the part of the RSU, trade union control over working conditions, wages and in general over all the specific problems in the enterprise. The second level regards the four-year company agreements, explicitly limited to subjects and measures not covered by the national agreements. In practice these regard mainly wage increases related to company productivity, product quality and profitability. There are also local or regional agreements; they are to be seen as the equivalent of company agreements for the small firm sector (especially artisanal companies), negotiated by provincial union officials and regional employer representatives.

4. Challenges and tendencies of the collective bargaining system: the tripartite agreement of December 1998

At the end of the first four-year cycle of collective bargaining the 1993 agreement has been evaluated by all the parties involved, i.e. trade unions, employers' associations and government. This evaluation has been concluded at the end of 1998. According to the trade union confederations, CGIL, CISL and UIL, the tripartite agreement has shown to be rather effective. It has contributed to both the decrease of the inflation rate and the public deficit creating in this way the possibility to meet the convergency criteria of Maastricht, on the other hand also the purchasing power of wages has basically been defended. Furthermore, the 1993 agreement permitted a substantial renewal of the structures of interest representation at company-level (RSU). A negative result, however, consists in the relative low level of decentralised bargaining (Giugni et al., 1998). Furthermore, bargaining activities are concentrated in the more industrialised northern regions which are also characterised by a higher level of unionisation.

Nevertheless, the trade unions' policy on the matter of bargaining levels was to extend and consolidate the model defined by the agreement of 1993, generalising the second level of bargaining (company and territorial). In order to avoid an overlap of collective bargaining at centralised and decentralised level trade unions proposed to fix a certain period in which decentralised bargaining has to be carried out. In this context, trade unions also endeavoured to find ways how to distribute productivity gains to all workers and not only to those ones who are covered by second-level bargaining.

The trade unions were interested in using the assessment and updating of the central tripartite agreement of July 1993 in order to make progress with regard to an enforcement of participation rights. On the other side the employers' organisations tried to block the consolidation of the two levels of bargaining in every way possible. Finally, following the trade union's resolute determination and capacity for mobilisation, they "resigned" themselves to the application of national bargaining. However, some of them continued to propose the abolition of national bargaining and the limit of trade union confrontation to enterprise level only. The more pragmatic and concrete of them were trying on the other hand to limit and circumscribe the contents of second level bargaining.

The social pact of December 1998 was signed by the Italian government and 32 organisations on the part of the social partners. Above all the agreement is aimed at creating employment by reducing labour costs and taxes on the one hand and reforming the system of professional training on the other. Furthermore trade unions succeeded in defending the two level collective bargaining system.

With regard to concertation the agreement underlines the necessity to extend the involvement of social partners in economic, labour market and social policy decisions from national to local level.

The theme of participation, however, has not been discussed at all. The question of institutionalising participation rights keeps to be a challenge for the future.

5. Representative forms of participation

The tripartite agreement of July 1993 has been up to now the most advanced experience of institutionalisation of industrial relations, especially with regard to trade union representation and the system of collective bargaining which represent the structural basis of participation within the Italian industrial relations system. By defining the bargaining levels and their function, the social pact succeeded in providing the industrial relations system with some stability.

Even if the theme of participation is not explicitly regulated, the July 1993 agreement offers a new starting-point for participatory experiences at the company level as the *results bonus*, i.e. the pay increase which is negotiated at company-level, has to be linked to the results of so-called development programmes agreed between the parties (Telljohann, 1998 and 1999). These programmes are aimed at improving productivity, quality, or any other aspect affecting the competitive position of the company. In general trade unions prefer to link the results bonus to quality and productivity parameters but not to profits as it is more difficult to control and to influence them.

There are various cases in which unions have tried to develop results bonus schemes based on the improvement of quality and productivity by developing autonomous proposals with regard to new forms of work organisation. Thus, in theory trade unions have the possibility to try to get involved in changes of work organisation and the definition of quality programmes which are aimed at strengthening the company's competitive position. That means that these agreements also serve, as do those on restructuring processes, to define participatory models, based in general on the creation of *joint technical committees,* to monitor a series of particularly significant aspects, such as economic and employment strategies and company prospects, work organisation, product quality, vocational training, health and safety, etc. In general, the joint committees have a technical advisory capacity rather than a direct negotiating capacity. There are also cases in which joint committees include outside experts.

As a result of changes in work organisation in some agreements new systems of job classification are set. There are, for example, agreements defining systems of job classification based on a system of valuation which measures the professional competence needed as well as the competence rendered by the employee. In other cases there have been interesting analyses of the work process, the plant organisation and the different methods of valuation of professional competence. On this basis, attempts are made to find new methods based on the recognition of management-, interrelation- and integration-competencies. Finally, there are also cases in which the reduction of working hours is interrelated with changes in work organisation and productivity increases.

The introduction of company-level participation is mainly to be found in the agreements of big groups (e.g. ZANUSSI). ZANUSSI has implemented one of the most developed participation systems which is characterised by a sophisticated system of joint technical committees (Piazza/Telljohann, 1999). In this case participation is also focused on influencing central enterprise decision-making. In other cases, for example ITALTEL, a system of participation has been introduced in order to face processes of reorganisation and in particular aspects like the allocation of production, working hours, work load, etc.

The role of collective bargaining at company level for the diffusion of new forms of participation becomes very clear in a Region like Emilia-Romagna where we find a strong trade union movement along with innovative as well as competitive small and medium-sized enterprises. In the Italian context this Region is considered to be the paradigm of a developmental model careful to conciliate development, competitiveness and social cohesion, while at the same time facing the need for change and sustainability. Therefore, there is a basic mutual interest of trade unions and management in involving worker representatives in the process by which new forms of participation are introduced.

Consequently, with regard to participation in small and medium-sized enterprises, we find the most advanced participatory experiences in the Emilia-Romagna Region. In the mid eighties the metalworkers' unions started to negotiate the introduction of new forms of work organisation and define new models of employee participation. In these cases there was a clear separation of functions: while the trade union structures negotiated the introduction of joint technical committees the members of the committees were workers who were chosen according to their competencies (Telljohann, 1991). This principle has not always been adopted in other sectors and regions. In many cases the composition of the joint technical committees has been decided by the trade union structures at company level on the basis of political criteria.

In the case of the Emilian company BONFIGLIOLI the trade unions' involvement in organisational change is a result of the reduction of working hours. The BONFIGLIOLI company-level agreement is considered one of the most advanced cases with regard to reduction of working hours. In synthesis, BONFIGLIOLI represents a case of an expanding enterprise which needed to extend production capacities and increase the plant utilisation rate. Consequently, new forms of work organisation had to be introduced. Organisational change as well as the reduction of working hours have been negotiated at company level.

Shortcomings with regard to participation experiences

In practice, however, there seems to be some evidence that trade unions have not yet taken full advantage of the possibilities of participation. Although at company-level participatory practices increasingly seem to spread, they still encounter much opposition. The obstacles which still hinder the development of participatory procedures are deeply rooted in the way the system is conceived and in the attitudes of some of the partners as well as in the lack of an unitary union movement and a really stable government committed to promoting participation.

The lack of participatory experiences is also due to the limited spread of company-level bargaining. The coverage of the workforce by company-level agreements varies between 15% and 55% (Giugni et al., 1998). These limits can be put down to the predominance of small-sized enterprises in the Italian economy on the one hand and to the low level of unionisation in Southern Italy on the other. That means, that an increase of the level of participation in the control of company strategies and all those activities which affect working conditions must come about by means of the extension to all companies of decentralised bargaining.

Furthermore, there are two main problems with regard to the effectiveness of the joint technical committees. The first one regards the criteria for the composition of these new organs. Not only trade unions but in many cases also management believes that the involvement of trade unions in the process by which forms of participation are introduced is immensely important. That means that trade unions can exert a certain influence in this field. In practice, taking as an example the joint technical committees which are one of the most common forms of employee participation, the involvement of trade unions may guarantee them a certain amount of control and the management the necessary consensus but, on the contrary, in many cases, trade unions use political and not professional criteria in respect to the choice of the joint technical committees' members. In this case prevails the representative organ and its interest to maintain the control over decision-making processes to the detriment of competence-based participation. It is obvious that in this way the effectiveness of participation might be undermined. The second challenge regards in general the need of qualification for the members of the RSU and the members of the joint committees in order to be able to contribute to the problem-solving process. Otherwise there might arise difficulties with regard to the capability to intervene in work organisation (Piazza/Telljohann, 1999).

In many cases, however, the limits with regard to participatory experiences are due to strategic shortcomings of trade unions which in the field of organisational change have not yet developed autonomous strategies and, therefore, restrict themselves to discuss and negotiate the management's proposal. But even in those cases in which trade unions have succeeded in contributing to development programmes at company level there is another critical point regarding the carrying out of concrete measures laid down in these programmes. In many cases trade unions do not succeed in carrying out jointly defined productivity programmes which are linked to changes in work organisation.

Another critical point regards the widespread tendency of companies to guarantee their competitiveness by cutting costs and increasing productivity which in many cases is not counter-balanced by the prevailing trade union policy at company level. In these cases we often find a strong opposition of management regarding the involvement of employees, worker representatives and trade unions in the process of organisational change. This reluctance can be observed with regard to both institutional and direct participation.

Nevertheless, trade unions seem to be interested in setting up more sophisticated structures of participation. While in the past the main form of participation operated through procedures of consultation and rights to information today trade unions are claiming precise rules for an extension of the system of participation. Referring to advanced experiences as for example the ZANUSSI case trade unions intend to use the renewal of national collective agreements in order to try to achieve a generalised right to introduce new forms of participation at sectoral level.

As to the future prospects, the main problem of the Italian case consists in the spontaneous character of participatory experiences. The lack of a coherent and generalised model of participation implies the risk of a throwback to former practice. Consequently, there seems to be a need for a more regulated system of participation. As for the institutional basis on which participatory experiences are introduced, trade unions, however, clearly seem to prefer collective bargaining as they envisage that legal initiatives might imply the risk of bureaucratisation and, as a consequence, could undermine the effectiveness of participation.

6. Direct participation

In recent years there has been growing interest in finding new approaches to the organisation of work through workplace partnership and flexibility, which are in turn becoming increasingly important for greater competitiveness and higher employment under conditions of market globalisation. With regard to the Italian context, however, the European Fondation's EPOC research results[1] have in some way confirmed that direct participation experiences in Italy are clearly less developed than in Northern European countries (European Foundation for the Improvement of Living and Working Conditions, 1997).

On the one hand, the EPOC research results regarding the Italian situation seem to indicate a broad spread of forms of direct participation, while on the other, the responses to the more specific matters very clearly show that direct participation experiences are less developed than in most other countries.

Apart from the low response rate and the low level of integration among different forms of direct participation, the low scores for the scope of direct participation and management's passive approach to organisational change are indicators of a less developed culture of direct participation.

Another important result regards the relationship between direct participation and institutionalised forms of participation, i.e. the role of worker representatives in the process of introducing direct participation. It is significant that in 88% of cases management considered the involvement of worker representatives to be 'very useful' or 'useful'. Since industrial relations in Italy are characterised by the one-channel system, the involvement of the RSU implies, by and large, a strong position for external trade unions as well.

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1 The EUROPEAN FOUNDATION's EPOC Project (Employee Direct Participation on Organisational Change) has over several years examined the various experiments in direct participation in EU Member States.

This result is confirmed by Castro (1998) according to whom the ELECTROLUX ZANUSSI participation model is the most innovative institutional participation system currently being implemented in Italy. ELECTROLUX ZANUSSI has indeed pursued the strategic choice of considering industrial relations as an essential competitive lever for company success. Castro, however, underlines that an effective system of participation cannot only be limited to forms of direct participation, but that the involvement of worker representatives and external trade unions is necessary towards developing a coherent participation model characterised by the integration of direct and institutionalised forms of participation.

Also, trade unions consider participatory experiences to be of great importance. They see them as an opportunity for achieving greater employee involvement in the decision-making processes within the enterprise and also for improving competitiveness and job security. But at the same time they stress the importance of mutual trust and, consequently, the need to avoid any instrumental use of participation aimed at the unilateral strengthening of the management's position.

Experiences with direct participation are often not regulated by company-level agreements. This might imply the risk of anti-solidarity and anti-union tendencies. Therefore, trade unions are convinced of the importance of jointly-defined rules and procedures with regard to the introduction of forms of direct participation. While the trade unions and the workers' councils should be involved in the definition of the rules and procedures the workers themselves should be involved in the concrete practice of participation.

According to trade unions there are various conditions in order to develop stable experiences of direct participation:

- to give comprehensive information in good time to all workers;
- to guarantee functional autonomy for workers which allows them to intervene in work processes;
- to impart competencies which allow workers to influence choices with regard to the introduction of new forms of work organisation;

- to recognise the involvement and contribution of workers by granting incentives;
- to increase the workers' motivation by extending the degree of autonomy and responsibility.

In conclusion, it should be underlined that there are several aspects which might explain the low level of diffusion and the scope of direct participation. Generally speaking, the reasons are linked to the characteristics and traditions of the Italian industrial relations system. Firstly, we have the strong influence of the trade unions at company level due to the single channel system of interest representation. Secondly, the management also appears to be very interested in trade union involvement in order to guarantee the necessary consensus with regard to the introduction of participatory models. Furthermore, it needs to be mentioned that the Italian industrial relations system has traditionally always been based on collective bargaining and that there is no legal basis for participation. Even today trade unions consider collective bargaining the most effective way for the introduction of participatory models.

7. Conclusion

At the beginning of the 1990s the absence of a shared system of rules was progressively considered a danger by the social actors because of the sudden and unregulated shift in the balance of power. This explains why the social actors agreed upon a new set of rules which is laid down in the Social Pact of July 1993. The Social Pact represents a very ambitious design of a constitution for the Italian industrial relation system. Indeed, this agreement not only outlines new methods of negotiating wages to replace the wage indexing mechanism which was abolished in July 1992, thus ending a long drawn out controversy among the social actors; it also defines a new collective bargaining structure and a new method of constituting union representation in the workplace.

Furthermore, the tripartite agreement represents a qualitative change in the Italian industrial relations system from a basically conflictual to a more participation-oriented model. It is indeed the first instrument in the Italian industrial relations system supporting the development of an elementary model of participation at company level which, however, is to be implemented by company-level bargaining. In the agreement it is laid down that the way to link wage increases to company performances can be defined within the context of company-level development programmes agreed between the partners. In theory, this right implies for trade unions and workers' councils the opportunity to propose their own projects with regard to changes in work organisation. Thus, wage bargaining at company level can become an instrument for getting more involved in the wider field of organisational development. This means that participation is no longer limited to the disclosure of information and to consultation procedures but moves towards real co-determination through the introduction of joint technical committees which have to develop solutions regarding the introduction of new forms of work organisation and appropriate training programmes. As a consequence, today's development programmes represent a concrete and probably the most important lever for trade unions to extend their scope for participation.

Therefore, the new system was considered at the beginning as a real chance to match a general need of innovation of the Italian industries with an enhanced use of human skills and knowledge, the decentralisation of decision-making, the shaping of holistic work tasks and the use of technology as a tool for workers. On the one hand the new wage discipline based on a system designed to program a reduction of the inflation rate and to compensate actual inflation wage losses was able to create a virtuous circle whose main outcome was the fast recover of the very high level of economic deficit of the Italian State; but on the other only a relative little use has been made of the opportunity to broaden the scope of collective industrial relations.

The existing participatory experiences mainly take place within the institutionalised context of the industrial relations system. The ELECTROLUX ZANUSSI case is without any doubt the most advanced experience in the Italian context. Here we find a well-defined model of participation based on a system of joint committees which also have deliberating powers with regard to certain topics. In this case even management is convinced of the fact that an effective system of participation cannot only be limited to forms of direct participation, but that the involvement of worker representatives and external trade unions is necessary towards developing a coherent participation model characterised by the integration of direct and institutionalised forms of participation. Trade unions, on their part, underline the need to avoid any instrumental use of direct participation aimed at unilaterally strengthening the management's position.

According to the shortcomings described above there seem to be various challenges for trade unions:

1. Trade Unions have to develop strategies in order to extend participatory experiences. That means, that on the one hand they have to use more intensively existing company level bargaining in order to introduce participatory experiences, but on the other hand they also have to increase the coverage of company level bargaining which is still limited to certain sectors and regions.
2. In order to use the existing instruments it is necessary to develop the necessary competencies. In particular the RSU need specific support in order to guarantee an effective use of participation at company level. This implies also the need to develop autonomous proposals with regard to reorganisation or restructuring processes.
3. Furthermore, trade unions will have to reflect on responsibilities. What kind of division of labour between trade unions, RSU, employees and experts could be useful in order to guarantee an effective participation. In this context the nature of the relationship between RSU and joint technical committees has to be decided. At the same time the kind of relationship between participation and collective bargaining has to be defined.
4. It has also to be discussed how to consolidate participatory experiences. Is the voluntary approach, i.e. the introduction of participatory experiences on the basis of collective bargaining sufficient in order to avoid the risk of a throwback to former experience? Supporting legal initiatives defining a clear set of rules might be more suitable in order to guarantee both, a more stable and coherent model of participation.

5. Trade unions are also faced with the impact of the Europeanisation of industrial relations on the Italian industrial relations system. They will have to decide, for example, how to transpose European directives into Italian law (Guarriello, 1995). That means, that it will be necessary to shape a more comprehensive system of participation.

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Michael Wortmann

From interdependence to globalisation – multinational companies and the Havana charter

1. Introduction

The narrative of (economic) globalisation could be summarized as follows: There are fundamental structural changes in the international economy and especially in the size and form of international economic transactions. Usually three areas are mentioned: financial markets, international trade and multinational corporations.

The narrative of globalisation goes on, that these structural changes pose new challenges to national and local actors like governments, trade unions and works councils. The debate then is basically on the question: does globalisation have inevitable negative effects on societies or can the national and local actors develop strategies to adapt successfully to the new environment.[1]

This paper will give selective evidence to challenge the core of this narrative: the idea that the problems connected with globalisation have risen externally, in a sphere out of the responsibility of governments and trade union movements.[2]

The first part will be centered around the analysis of a historical document that has almost completely been forgotten for decades: the

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[1] It should be noted that this is the German and also probably European version of the „Globalisation" narrative (cf. Beck 1996, Scharpf 2000, Streeck 1998). In the United States globalisation is rather seen as an extension of a longer development as it is discussed e.g. under the heading „Has globalisation gone too far?" (Rodrik 1997)

[2] I do not mean here the argument, that governments' deregulation and privatisation policies have supported globalisation.

Havana Charter of 1947/48, the founding document of the International Trade Organisation, which unfortunately was never ratified, outlines basic economic mechanisms of a growing internationally interdependent world economy. It shows that international economic integration is not something new and that national economic actors – governments and trade unions – have, for a long time, not been sovereign but interdependent in their economic policies including collective bargaining by trade unions.

The following section will then look at the development of multinational corporations (MNCs), a central actor of the globalisation debate. Using statistical and other data, it can be shown that corporate internationalization is a continuous process, that has been going on for many decades, and that there was no recent fundamental change in either the quantitative dimension or in the quality of MNCs' strategies or structures.

Why is there then the discussion on globalisation? In the post-war period, governments and trade unions have independently pursued policies that were internationally compatible – including productivity oriented wage increases. This changed in the mid 1970s, when the improvement of national competitiveness vis-à-vis other countries became a central goal of economic policy – and included moderate wage increases. In this article, the hypothesis is put forward that intensified competition, unemployment and other problems are not the result of globalisation, but – somewhat to the contrary – the perception of "globalisation" is a consequence of these economic problems, which have worsened since the mid 1970s.

2. The Havana Charter of 1947/48, global interdependence and productivity oriented wage increases

If one follows the contemporary discussion on globalisation, one might get the impression that world-wide economic integration and interdependence and thus also the susceptibility to international crisis is a new phenomenon of the 1980s or 90s. But there was the crisis of 1929ff, and no country was at that time able to escape these problems even though there were no electronic financial markets and derivatives, and world trade and MNCs were much less important than today or at the turn of the century.[3] Obviously, there is something wrong with the popular picture of the good old times with economically autonomous nation states, constructed as an abstract opposite to today's global interdependence.

Based on the experience with the world economic crisis of 1929ff, there was widespread awareness of international macroeconomic interdependence at the end of World War II. Parallel to the regulation of the international monetary and financial sphere through the institutions of Bretton Woods (IMF and World Bank), efforts were made to create an International Trade Organisation (ITO) in order to regulate the real economic sphere. Its founding document from 1947/48, the so-called Havana Charter, describes the fundamentals for a "balanced and expanding world economy":

> *The Members recognize that the avoidance of unemployment or underemployment, through the achievement and maintenance in each country of useful employment opportunities for those able and willing to work and of a large and steadily growing volume of production and effective demand for goods and services, is not of domestic concern alone but is also a necessary condition ... for the well-being of all other countries. (Article 2.1)*

The national economies are perceived as interdependent, and their economic well-being cannot be achieved through national policies alone. From this conception follows a self commitment of the signatory states:

> *Each Member shall take action designed to achieve and maintain full and productive employment and large and steadily growing demand within its own territory through measures appropriate to its political, economic and social institutions. (Article 3.1)*

Here it is stated, that despite their different institutional systems – which today might be called "varieties of capitalism" – the individual countries can pursue an economic policy that serves their own as well as

[3] Historical data can be found in Hirst/Thompson (1996).

all other countries well-being. The core element of these policies is describe in the following paragraph:

> *The Members ... recognize that all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. (Article 7.1)*

The Havana Charter describes the economic core element of the post-war model: wage increases oriented to the increase of productivity are the fundamental pre-condition for economic stability of individual countries but, beyond this, also for the stable development of the world economy. Productivity oriented wage increases must occur in parallel in all countries which are linked by world economic interdependence, in order to achieve a balanced development of the world economy as well as of national economies.[4]

The (implicit) thesis – formulated as some kind of abstract negation of today's globalisation – that until the 1970s there had been nation states with sovereign economic actors, capable of independently formulating their economic policies, really misses the point that there was economic interdependence – even though the density of interactions certainly was lower than it is today.

The Havana Charter was soon forgotten. It was never ratified.[5] Only Chapter IV separately came into power. This was that part of the Charter which regulated the liberalization of international trade, and was known for a long time as GATT. Very early in post-war history negative integration was able to succeed much easier than positive integration:

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[4] This makes it difficult to find an appropriate name for the economic model or model of capitalism of the post-war era. The term "Fordism" concentrates too much on the production model of fordist mass production, while terms like "Keynesian welfare state" put too much emphasis on governments' redistribution policies and also suggest the existence of autonomous national models.

[5] US congress especially refused Chapter III of the Charter which regulated financial aid to developing countries (cf. Borg 1990).

While the part of the Charter aiming at liberalization was successfully institutionalized, the part aiming at regulation and embedding national macro-economic policies (and collective bargaining) into an international regime disappeared from the agenda.[6]

Still, the countries in Europe and North America dominating the world economy have for a long time followed the imperative of productivity oriented wage increases as the result of national "social contracts". Which were institutionalized in different ways and more or less firmly in the individual countries. But despite these differences of the institutions, these national varieties of capitalism had one decisive common core: productivity-oriented wage increases. Even though there was only little coordination of economic policies, this enabled a relatively stable development of the world economy during the post-war period.

3. What is new about global MNCs?

As mentioned above, this paper seeks to show that the problems attributed to globalisation are not caused by a structural change in international economic interactions – be it financial markets,[7] trade, or MNCs. This will be exemplified by presenting some results from an ongoing research project on MNCs' globalisation.[8]

Within the discussion on globalisation, MNCs as new - or rather rediscovered - actors play an important role. Their ability to act across

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[6] It remains undecided whether an international regime for macroeconomic coordination would have developed from the ITO. The Havana Charter does not provide for the possibility of sanctions in this area but only for an „exchange of information and consultation" (Article 5).

[7] Here the most important change happened in the early 70ies, when fixed exchange rates were abandoned.

[8] Cf. Wortmann u.a. (1998); the project on "Globalisation and international mobility of German manufacturing companies" is funded by the DFG; besides the author, Ulrich Bochum, Christoph Dörrenbächer and Klaus Peter Kisker are involved. First results are summarized by Wortmann (2000).

borders and especially to relocate production from one country to another or at least to threaten such a relocation gives them power over national and local actors like governments, trade unions or works councils. It is being assumed, that this power of the MNCs has increased considerably during the last years which has fundamentally changed the conditions for national economic and social policy and for the policies of trade unions and workers' representatives, forcing them to adapt and to make more or less far reaching concessions (Beck 1996, Dörre et al. 11997, Hirsch 1995, Ruggie 1998, Scharpf 2000), which might finally lead to an erosion of the welfare state.

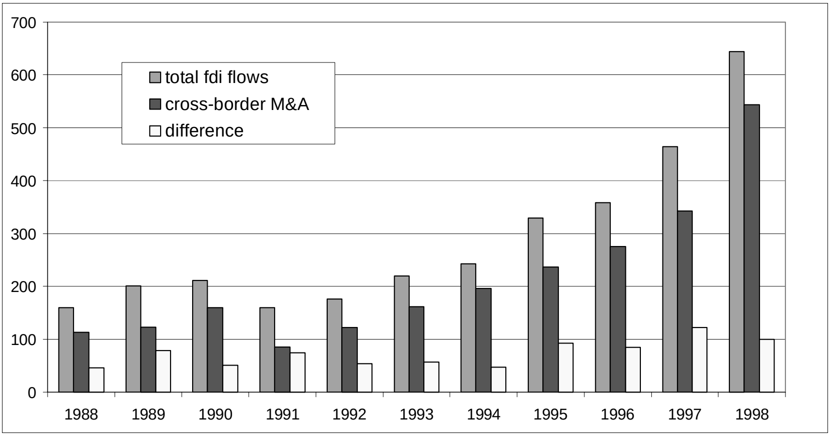
The assumption of an increased power of MNCs is usually based on to two indicators: On the one hand the quantitative growth of foreign direct investment and on the other hand on qualitative changes of MNCs' strategies and structures - often characterized a networks, which increase their cross-border mobility.[9]

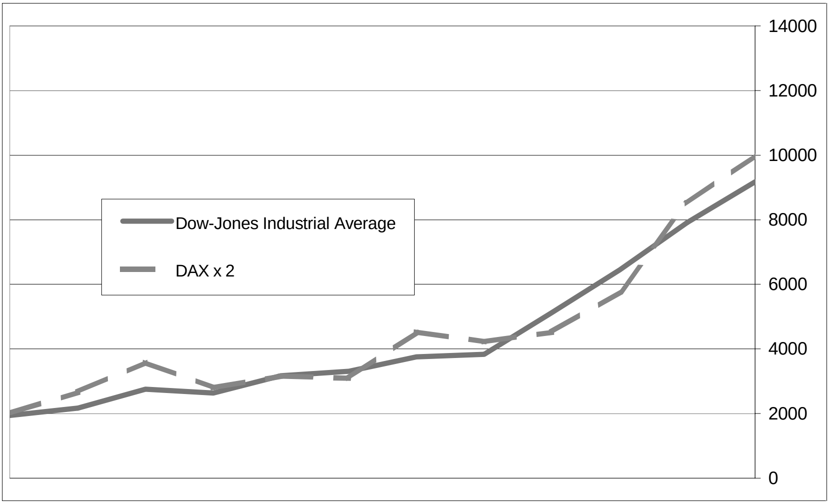
3.1. The growth of FDI and of MNCs

Indeed, annual foreign direct investment (FDI) flows have grown tremendously over the last years, as can be seen in figure 1. An increasing share of FDI flows is due to cross-border mergers and acquisitions (M&A). The difference between total FDI and cross-border M&A has remained relatively unchanged over the years. Thus FDI directed towards an internal expansion of the international activities of MNCs has not increased. The rising value of M&A is probably a result of rising prices paid for the companies acquired, which is reflected in rising stock prices, and does not indicate an increasing number or an increasing size of the companies acquired. Thus, in real terms, the internationalization of the MNCs might not have grown faster than during the decades before.

[9] Hirst / Thompson (1996)

Figure 1a + 1b: Annual foreign direct investment flows and cross-border M&A (bn US$); stock indices Dow Jones and DAX (multiplied by 2)





Sources: UNCTAD, KPMG; Dow Jones, Deutsche Börse; own calculations FAST e.V.

This conclusion is confirmed, when one uses employment data.[10] Tables 1 to 4 present data as far as they are available for several larger industrialised countries. They concentrate on manufacturing – firstly because data availability is higher and secondly because in this sector international mobility and potentials for relocation can be expected to be most important.

Data on Western European MNCs (table 1) indicate[11] that the growth of foreign employment has not increased over time. Within Europe accelerated growth took place in the second half of the 1980s – in advance of the Single Market. Only in Eastern Europe was there a strong increase in the 1990s. The two regions together account for roughly half of total foreign employment. North America and Asia accounted for above average growth rates over the whole period where data are available, while Latin America – an important host region for MNCs in earlier decades – stagnated.

Foreign employment of U.S. MNCs (table 2) – which had traditionally dominated the world of MNCs – had reached a first peak in the 1970s, and then declined in most regions of the world with the exception of Mexico and Asia. In the 1990s, foreign employment increased slightly again, with the highest growth rates again in Mexico and Asia.[12]

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[10] These data have the advantage, that they are not influenced by stock prices, inflation, exchange rates and other fluctuations of the financial sphere. Their main disadvantage is that they are only available selectively.

[11] Unfortunately, employment data for U.K. and French MNCs are not available.

[12] Table 2 also gives data for minority owned subsidiaries. Their importance has decreased over time. Which is interesting, because this contradicts the hypothesis, that new forms of internationalization – like alliances and joint ventures – have become more and more important in today's „globalised" economy.

Table 1: Foreign employment in the manufacturing industry of European MNCs (in 1000)

	'76	'80	'86	'90	'96
Germany	**922**	**1222#**	**1276**	**1647**	**1968**
Western Europe	468	509	552	744	779
Eastern Europe	0	0	3	17	270
North America	58	174#	191	277	346
Latin America	252	343	330	359	251
Asia	87	128	117	154	235
Switzerland	**.**	**.**	**579**	**779**	**871***
Western Europe	.	.	341	444	421*
Eastern Europe	.	.	0	6	31*
North America	.	.	84	145	174*
Latin America	.	.	88	80	91*
Asia	.	.	30	54	86*
Sweden	**.**	**.**	**.**	**524**	**477**
Western Europe	.	.	.	326	272
Eastern Europe	.	.	.	0	25
North America	.	.	.	96	89
Latin America	.	.	.	52	36
Asia	.	.	.	36	39
Italy	**.**	**.**	**239**	**430**	**596**
Western Europe	.	.	87	207	250
Eastern Europe	.	.	2	7	98
North America	.	.	22	49	49
Latin America	.	.	74	96	102
r.o.w.	.	.	52	71	98

remarks: data on Germany and Italy include manufacturing affiliates; data on Switzerland and Sweden include all affiliates of manufacturing MNCs

corrected for the portfolio-like participation of Flick in Grace Chemical

* 1994 and changed method, Asia excluding Japan

sources: Deutsche Bundesbank; Banque Nationale Suisse; Statistics Sweden; CNEL (R&P); own calculations

Table 2: Foreign manufacturing employment of U.S. MNCs (in 1000)

	'66	'77	'82	'89	'96
majority owned subsidiaries	**2615**	**3773**	**3358**	**3247**	**3759**
Western Europe	1334	1951	1628	1509	1624
Eastern Europe	0	0	0	0	90
Canada	545	562	455	455	358
Mexico	102	171	229	290	439
other Latin America	311	539	496	455	416
Japan	40	40	48	75	84
other Asia	102	278	288	418	688
minority owned affiliates	**.**	**1082**	**1075**	**944**	**719**

source: DoC/BEA; own calculations

For Japanese MNCs (table 3) data suggest a strong increase of foreign employment in the 1990s. This might partly be the result of insufficient earlier statistic (cf. Ramstetter 1996). But data also show the high concentration of employment in Asian countries. Despite high growth rate in Europe and North America, the absolute importance of Japanese MNCs in these regions – and especially in Europe – is still small.[13]

Finally, table 4 shows data on employment at foreign owned affiliates in different host countries. Over all, in the big European countries foreign employment did not change much since the 1970s. This is especially true for Germany and France.[14] The only significant increase was that of European MNCs in the UK, where they had for a long time been relatively underrepresented. In the U.S. employment at foreign MNCs – most of it in European MNCs –grew strongly in the 1970is and 1980s, when the U.S. had lost its economic hegemony. In the first half of the 1990s this growth had stopped.

[13] The high importance given to Japanese investment is probably due to the higher inclination of Japanese MNCs for green-field investments – among them several spectacular cases in the automobile industry – the industry in the center of scientific and public attention.

[14] For an interpretation of the development in Germany cf. Wortmann / Dörrenbächer (1997).

Table 3: Foreign manufacturing employment of Japanese MNCs (in 1000)

	'81	'87	'90	'93	'96
world	**626**	**726**	**922**	**1118**	**1775**
Europe	.	66	88	146	197
North America	.	121	282	257	357
Latin America	.	109	99	84	96
Asia	.	391	417	595	1089

source: MITI

Table 4: Employment in foreign owned manufacturing affiliates in various countries (in 1000)

	'76	'80	'86	'90	'96
in Germany	**1268**	**1240**	**1071**	**1242**	**1066**
in France	**838***	**812**	**721**	**766**	**839****
from Europe	504*	495	431	452	544**
in Italy	**.**	**.**	**469**	**521**	**527**
from Europe	.	.	261	349	355
in the UK	**.**	**736ˣ**	**621**	**775**	**815**
from Europe	.	178ˣ	144	236	323
in the USA	**551°**	**1103**	**1543 °°**	**2221**	**2214**
from Europe	381°	862	1034 °°	1458	1411

remarks: * 1975 ** 1997 ˣ 1983 + 1997 ° 1974 °° 1987

sources: Deutsche Bundesbank; Stisi and Sessi; CSO and ONS; CNEL (Ricerche & Progetti); DoC/BEA; own calculations

Summarizing the quantitative developments described so far, one can say that there is no dramatic new development in the growth of MNCs. Europe had been an important host region for MNCs for a long time, especially for those from other European countries and from the U.S.A. Earlier strong growth of employment at foreign MNCs in the U.S.A.

has even slowed down in the 1990s. An acceleration of MNCs' employment occurred in Asia – most of it by Japanese MNCs. In addition, U.S. MNCs have increased their employment in Mexico, and European MNCs have expanded in Eastern Europe. This rather indicates (some further) regionalization or continentalization but not globalisation.

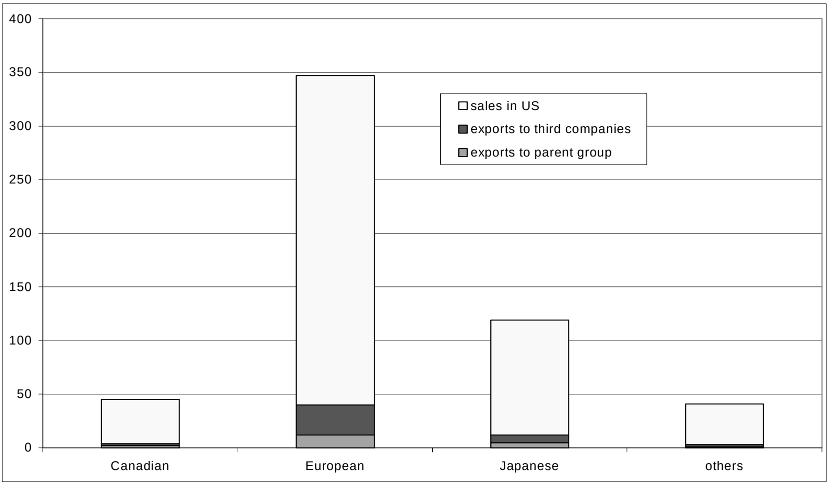
This leads to the conclusion that FDI data should not be interpreted as an indicator for globalisation. Increasing FDI is rather the result of increasing sums of money involved in M&A, which is again a result of rising stock prices. M&A has more and more dominated FDI. For German MNCs it has been shown that their employment growth between 1984 and 1994 in Europe or North America could be totally attributed to M&A, they have – net – not created any additional jobs in these regions (Wortmann / Dörrenbächer 1997). The same is probably also true for MNCs from most other industrialised countries. Within the debate on globalisation it is important to emphasize that M&A does not imply a shift of production. But relocations of production might occur in consecutive restructuring processes (cf. Wortmann 2000).

3.2. MNCs' configuration

After having shown that there is now new quantitative dimension in the development of MNCs, we now turn to the question whether there has been a qualitative change in the structures or strategies of MNCs which might increase their flexibility and mobility. An increased ability to shift production across borders and thus threaten credibly with relocation would give them additional power in concession bargaining with workers representatives. A corporate structure allowing MNCs to shift production from one country to another would imply a global – or rather transnational – configuration, where MNCs' foreign subsidiaries would not be restricted to serving national or regional markets but would be able to produce for the global market including the home market of their parent MNCs. In the following we will present some statistical data from the US and from France which show to which markets the production of foreign affiliates is directed.

Figure 2 shows that the subsidiaries of MNCs from various countries in the U.S.A. sell the vast majority – almost 90% – of their total production in the U.S.A., they export little more than 10%. They are obviously not integrated into global manufacturing structures. This indicates, that a globally oriented relocation of production to the U.S.A. by non-U.S. MNCs might only happen as an exception.

Figure 2: Sales structure of foreign-owned subsidiaries in the USA in 1996 by home country of MNCs and destination of sales (bn. US$)

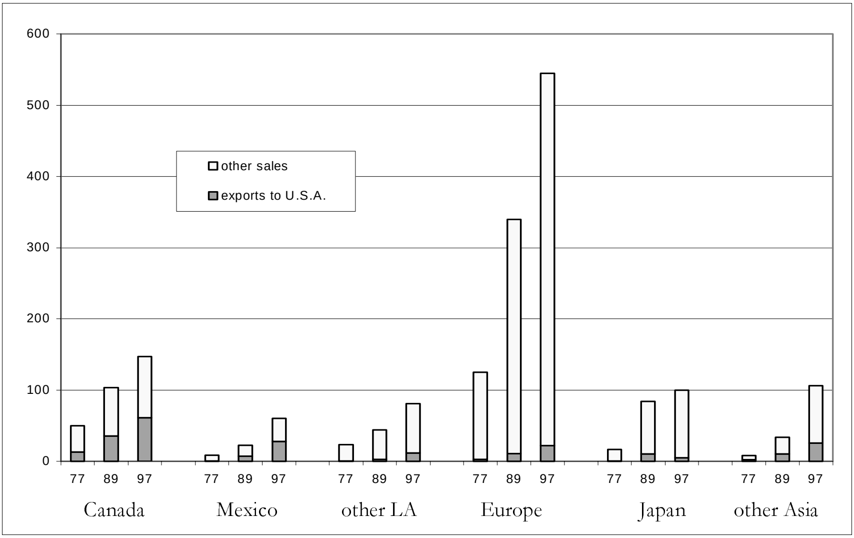


source: DoC / BEA; own calculations

Figure 3 shows data on the development of the sales structure of foreign affiliates of U.S. MNCs. Affiliates in Canada and Mexico have increased the share of their exports to the U.S.A. in total sales continuously from 25% (1977) to 42% (1997) and from 9% to 47%. U.S. MNCs' affiliates in Asia also export a considerable share of their production to the U.S. but in the 1990ies, this share decreased to 24% in 1997, while it had increased from 27% in 1977 to 32% in 1989. Affiliates in Europe and Japan export only very little to the U.S.A. (4%

and 5% in 1997).[15] This shows that integrated global configurations still are an exception – if they exist at all. While regional or continental integration is growing continuously.

Figure 3: Development of the sales structure of foreign affiliates of U.S. MNCs by host country of affiliate and destination of sales in 1977, 1989 and 1997 (bn. US$)



source: DoC/BEA; own calculations

Finally there are data available on foreign-owned affiliates in France. Over time, foreign MNCs' affiliates in France have continuously increased their export ratios from 22.8% in 1980 to 31.2% in 1990 and to 37.8% in 1996.[16] From what they export, the largest share goes to

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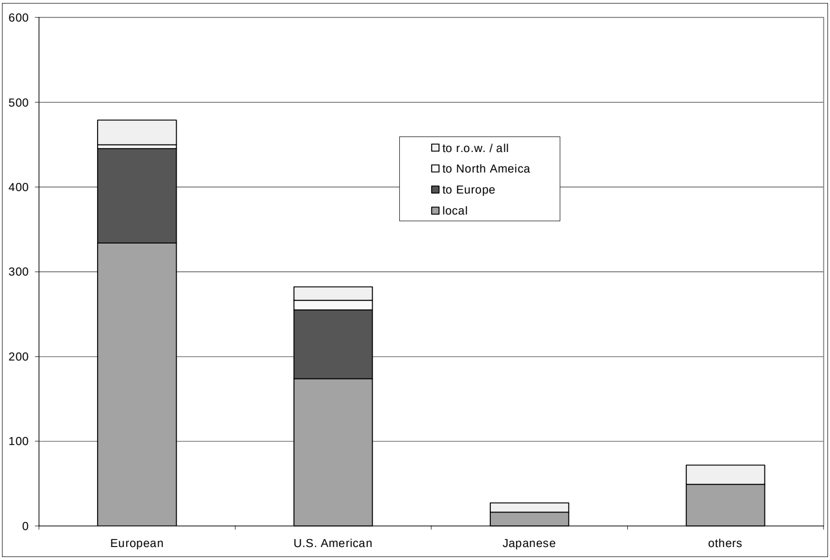
15 In 1977 U.S. MNCs' affiliates in Europe had sold only 2% to the U.S.A. The recent decrease of Japanese affiliates' sales to U.S.A. is caused by the fact that some U.S. MNCs have sold their minority shares in export intensive Japanese companies, like Chrysler in Mitsubishi.

16 At the same time, French owned manufacturing companies had increased their export ratio from 20.9% over 27.2% to 30.8%. U.S. owned affiliates

other European countries. In 1993, less than 10% of their total sales were being exported to countries outside of Europe (cf. figure 4). These data shows that there is a long lasting process of MNCs' affiliates becoming integrated into regional or continental, but not into global production structures.

Figure 4: Sales structure of foreign-owned affiliates in France in 1993 by home country of MNCs and destination of sales (bn. FF)



source: SESSI; own calculations[17]

had a much higher export ratio (43.5% in 1996) than European owned affiliates (33.9%), indicating that U.S. MNCs are the prime movers in establishing integrated European configurations.

[17] The regional distribution of total exports is extrapolated from a representative survey of SESSI conducted in 1993. These data are not available for Japanese and other MNCs.

The interpretation of the available statistical data shows two main characteristics of the configurational development of MNCs: Firstly, global integration is only of marginal importance, integrated production networks are regional or continental. Secondly, regional integration is not a new process, it has developed continuously over the last decades.

3.3. MNCs' coordination

The concept of a global orientation of MNCs has a long tradition in Anglo-Saxon management literature. It is being used to describe companies that have installed global product divisions as the dominant management structure. In reaction to integrating world markets MNCs improve product-specific coordination across borders – at the expense of country-specific coordination across product lines (Stopford / Wells 1972). Many of the large U.S. MNCs have moved to this orientation in the late 60s, and e.g. the first German MNCs had followed in about 1970. Many MNCs have turned to global product divisions later on, but others still do not have global product divisions today.[18] But obviously there is a lasting tendency for MNCs to improve cross-border coordination at the expense of cross-product coordination.[19] And many MNCs have strengthened the global orientation by introducing globally oriented structures within divisions, like global product responsibilities or global functions.

In many cases, the loosening of cross-product coordination has finally led to the independence of whole product divisions, which have then been sold. On the other hand MNCs have often acquired foreign companies with the intention to strengthen their core business, i.e. existing product divisions, and to realize cross-border synergy effects. These synergy effects do not necessarily imply a global reorganisation of

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18 Many examples for the development of MNCs' management structures are given in Humes (1993).

19 The trade-off between regional and product-specific coordination is a permanent topic of international management literature. It management gurus like Bartlett / Ghoshal (1989) develop concepts that overcome this problem ("the transnational solution"), these ideas should not be taken for empirical evidence.

production, which would involve relocations of production – this is usually limited to the regional scale. Synergy effects can also be realized e.g. through a joint use of technology or of sourcing capacities.

To sum this up briefly, global company strategies are nothing new, just as international relocation of production within regions is not new, rather they have developed continuously over (at least) the last 30 years.[20] Just as there is – in the 1980s or 90s – no fundamental change in the structures and strategies of MNCs, it can be assumed that this is also true for international trade or international finance: The most important structural change in international trade could be dated to the late 1960s, when developing countries started to export manufactured products and Japan became an important competitor in world markets. For the international financial markets, the dissolution of the Bretton Woods system and the introduction of flexible exchange rates in the early 1970s was the most decisive turning point in post-war history.

4. International economic crisis and "globalisation"

If international economic interdependence has long existed, and if the most significant structural changes in the world economy took place before the mid 1970s, why is "globalisation" today so often seen as an important new development with far-reaching new impacts on economies, societies and governments? Here, only a rough outline of an alternative interpretation can be given, consisting of two central arguments:

1. Due to a macro-economic background with insufficient economic growth and increasing unemployment, the impact of globalisation and international interdependence – e.g. the international mobility of production – has changed its character and is perceived as a problem.
2. Macro-economic crisis started in the mid 1970s, when the core countries of the world economy departed from the principles laid down e.g. in the Havana Charter and abandoned productivity-related

[20] The relocation of production to world market factories in developing countries also started in the late 1960ies (cf. Fröbel et al. 1977).

wage increases. Crisis – including e.g. high unemployment – was perceived as a permanent problem since the 1980s.

In times of prosperity international economic interdependence could well be ignored. This changed in the mid 1970s. The exogenous shock of the first oil crisis in 1973/74, which had suddenly and simultaneously burdened the national balances of trade of the core countries in the world economy with high deficits, also led to a shrinking of final demand because OPEC countries did not use their additional income immediately in order to buy additional imports but channeled the money to the international capital markets (cf. Cooper 1986). As a reaction to this, in the second half of the 1970s most of the OECD counties – especially those in Europe[21] – compensated for this development not by expanding national (real) demand, but by reorganizing their national accumulation regimes. Austerity policies to improve "national competitiveness" – however defined – became an important part of all national economic policies and of the rhetoric that went with it. This implied the revocation of the countries' national contributions to a balanced and growing world economy as described in the Havana Charter.

Trade unions in most countries learned to accept their new role during the second half of the 1970s. They departed from productivity oriented wage increases and learned the lesson of moderate wage increases as their responsible contribution to improved national competitiveness.[22] And where they didn't, as in the UK, they were forced to adapt later on. A competitive corporatism had emerged (cf. Schulten 1998) – today often institutionalized in the form of national "Alliances for competitiveness and jobs".

The search for an improvement of competitiveness always includes a beggar-thy-neighbor element. Since competitiveness is something relative, it is obvious that it never was (and never will be!) possible for all countries to solve their macro-economic problems through

[21] With the important exception of Great Britain.

[22] The „restructuring" of the welfare state, too, began in the second half of the 1970ies (on Germany cf. Schmitt 1992).

improving their competitiveness at the same time. The result being perhaps not a race – but a creeping - to the bottom, or at least sub-optimal growth.

In the second half of the 1970s, the crisis was generally interpreted as a temporary phenomenon caused by a singular external shock ("oil crisis"). And there was much optimism that it could be overcome quickly by austerity policies and some modernization of national economies. But exactly these reactions made the crisis become a permanent phenomenon. International (economic) interdependence became a central topic in political discussions (and in international relations research). International cooperation ("economic summits") was seen as of great importance. But, international interdependence first was only one element to be considered when looking for solutions to solve the crisis. It was not seen – as "globalisation" is today – as a cause of the crisis of its own.[23] This interpretation only developed after signs of crisis like high unemployment rates obviously were not temporary phenomena, they did not disappear but increased even further. At the same time, the new macro-economic background altered the immediate implications of international interdependence.

This can be explained by looking at the effects of "global" MNCs. In the 1960s and mostly also in the 1970s, (regional) relocation of production by MNCs was not perceived as a problem.[24] But since the early 80s, almost all industries had become affected negatively by unemployment. Additional capacities were only rarely created – be it at

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[23] In the beginning this was only the interpretation of new international division of labor (Fröbel / Heinrichs / Kreye 1977) with developing countries directly affected the loss of jobs in some industrial sectors like the clothing and consumer electronics industry. But this process was seen as a necessary part of the modernization process that would lead to prosperity. When the term globalisation entered the discussion about ten years later, there was not much left of these industries in Germany.

[24] E.g. the annual report of Siemens AG from 1961/62 (p.66; translation MW) says: „We have expanded our factories in Italy; this relieved the strain on our German factories."

home or abroad, and relocation more and more became a zero-sum-game. The awareness, that not every job that had disappeared would ever come back, became dominant everywhere.[25] Under these conditions, MNCs international mobility and cross-border relocation of production – even though they might not be global but regional and even though they are not new – are perceived as immediate problems by employees and their representatives, as well as by societies as a whole. And only in this situation has it become feasible for MNCs' central management to play off works councils of different locations against each other and to extract concessions by threatening a relocation of production.[26]

Globalisation or international economic interdependence are not the cause of economic problems, but these economic problems are the reason for a critical perception of international interdependence now called "globalisation".

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[25] A study of the Belgian Bureau du Plan (Bernard et al. 1994) shows that the immediate reason behind one quarter of all collective redundancies was an international relocation – usually to neighboring European countries (Germany was in the first place).

[26] But, it must be said that concession bargaining not only happens at MNCs through company-internal inter-plant competition but also at single-location factories which have problems to keep up their sales in highly competitive markets. This supports the idea that it is not so much MNCs strategies that have changed but the general economic situation.

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Eileen Appelbaum, Thomas Bailey, Peter Berg and
Arne L. Kalleberg

Do high performance work systems pay off

1. Introduction

There is widespread agreement in both academic and popular reports that the pace of experimentation with innovative workplace practices has accelerated in recent years in the industrialised economies (Marchington et al. 1993; Appelbaum and Batt 1994; Osterman 1994; Freeman and Rogers 1995; Lawler III et al. 1995; Harley 1999: 556-557). However, the notion that new work systems are emerging, in which workers have greater discretion over the work process, is a matter of considerable controversy. What some see as an acceleration in the adoption of fundamental changes in work organisation is viewed by others as a deliberate effort by management to intensify the work process or, more benignly, as merely a quickening of the pace of management fads and fashions (Barley and Kunda 1992; Ramsay 1996). Yet, despite the tendency by corporate executives to favor quick and low cost solutions, many organisations have embarked in the last decade on costly and difficult changes in how work is organised and managed.

A parallel development during this period has been a heightened emphasis at many firms on maximizing shareholder value, often at the expense of other company goals. This has led corporate headquarters to turn plants or work sites into profit centers that are evaluated primarily on their contribution to corporate share performance. This emphasis on short-term profits threatens to derail the slow, difficult, and resource-intensive task of fundamental restructuring of work systems to enhance performance. It favors instead cost-cutting measures that yield more immediate improvements in the bottom line, whatever their ultimate effect on morale or competitiveness (Appelbaum and Berg 1996). Attempts by some firms to combine outsourcing and downsizing with the introduction of high performance practices have demoralized workers and fueled cynicism about management's intentions.

While the process of change faces obstacles and is impeded by a narrow focus on short-term profits, both theory and evidence support the view that firms in a wide range of industries in industrialised, and even some industrializing countries, have begun to implement a new, more participatory, organisation of work. These more participatory work systems are often referred to as high performance work systems (HPWS), where it is understood that the practices are adopted in order to foster high performance, but that it is an empirical question whether they in fact succeed in this aim.

This paper draws on our book, ***Manufacturing Advantage: Why High Performance Work Systems Pay Off***. It examines the question of whether high performance workplace practices pay off for firms that adopt them, and what the outcomes are for workers. Data for this analysis were collected through site visits to 44 plants in the steel, apparel and medical electronic instruments and imaging industries and a survey of nearly 4400 workers employed in those facilities.

The remainder of the paper is organised into four sections. Section 2 explains what is meant by a high performance work system. Section 3 describes our research design and data collection. Section 4 analyzes the effects of high performance practices on plant performance in each of the three industries. Section 5 analyzes the effects on workers.

2. What Is a high performance work system?

High performance work systems are characterized by three components – (1) a work organisation that provides employees with the opportunity for direct participation in operational decisions, and human resource practices that (2) increase workforce skills and (3) create incentives for workers to participate effectively. Firms adopt these workplace practices to improve operational performance at the plant or work site. Unlike past attempts to humanize work or improve the quality of work life, these practices are not designed with the goal of increasing worker control or autonomy or job satisfaction. Whether these practices result in such worker outcomes is an empirical question, but achieving these outcomes is not management's primary motive for implementing these practices.

2.1. Work organisation

Organizing the work process so that non-managerial employees have the opportunity to contribute discretionary effort is the central feature of a high performance work system (HPWS). High performance work systems decentralize the gathering and processing of information to non-managerial employees, who then use this information for solving problems and making operational decisions. To contribute to operational performance, front-line workers need to have the authority to solve problems and influence changes in organisational routines. The precise venues in which front-line workers gather information, process it, and act on it varies in different organisations. This may account for the fact that no dominant combination of practices characteristic of a HPWS has emerged, and may explain the emergence of different HPWS models. To be effective in improving performance, however, workers need to have the responsibility, authority and opportunity to solve problems and make decisions that affect work processes. High performance work systems are rarely about worker empowerment, despite the hype surrounding these workplace practices in the business press, but they are about sharing power on the shop floor.

The scope for decision making by workers in a HPWS would be limited if non-managerial employees lacked opportunities to communicate and coordinate their ideas with workers, managers, and experts in their work groups and in other parts of the organisation. Workers with problem solving and decision-making responsibilities need to be able to call on the expertise of professionals or other specialists in addressing problems they identify, and to communicate proposed solutions to other workers and managers. This type of communication is another important dimension of a HPWS. Coordination and communication among employees in a HPWS, including front-line workers, replace many of the hierarchical interactions that occur in a traditional work organisation. This contrasts sharply with Taylorist work organisation which, as (Aoki 1988: 16) observed, minimizes the need for such communication.

Communication, autonomy, problem solving and decision-making by front-line workers can exist within a variety of organisational settings, but many managers believe that they are enhanced when they are embedded within groups or teams. Thus, self-directed work teams, which are involved directly in the production process, as well as "off-line" problem solving or quality improvement teams not directly involved with production are often elements of a HPWS.

Thus, a more participatory organisation of work, in which employees have the opportunity to participate in substantive decisions, is typically characterized by four dimensions that distinguish it from a more traditional, Taylorist organisation of work. They are (1) the extent of worker autonomy and control over decisions affecting work tasks; (2) the extent of communication that front-line workers have with other workers and managers in their work group and with workers, managers and experts in other parts of the organisation; (3) the extent to which employees work in self-directed teams; and (4) the extent to which employees participate in problem-solving or quality improvement teams. These dimensions can be used to characterize where a particular establishment falls on a continuum from highly participatory to highly traditional.

2.2. Workforce skills

Even if employees have the opportunity to use their initiative, creativity, and knowledge in the interest of the organisation, their efforts will only be effective if they have the appropriate skills and knowledge. Workers who have only a concrete knowledge of their jobs, who are expected to carry out routine functions, and who know little of the broader objectives of the organisation are not in a strong position to make a contribution beyond the performance of their assigned tasks. Workers in a HPWS need better skills and knowledge across a broad front – including basic skills, technical and occupationally specific skills, and leadership and social skills – in order to be effective decision makers.

Staffing practices and more rigorous selection and recruitment procedures can enable a plant to obtain employees with the appropriate knowledge, skills, and abilities to function effectively in a HPWS. Selective staffing is generally expected to lead to a better-educated or more proficient work force. Training is also likely to play an important function in a high performance work system. Firms can increase workforce skills by increasing the amount of formal training or structured on-the-job training in technical skills, problem solving skills, and team building skills.

Selective recruitment practices and training are often complementary practices since additional training is less expensive and more effective when workers are already well prepared. Typically, high performance plants are more selective in hiring and provide more training to workers. Training and selection can be substitutes, however, if an employer is willing to pay wages high enough to recruit workers with the skills it requires or to attract experienced workers from other firms.

The effective deployment of both offline and self-directed work teams associated with a HPWS requires firms and workers to invest in firm-specific worker skills. Firm-specific skill requirements increase because firms share business and financial information with employees and because front-line workers are expected to be knowledgeable about the firm's products and markets. Workers are also expected to develop the ability to meet with customers and to be sufficiently knowledgeable about how the organisation operates to help solve customer problems. Workers need to have a deep understanding of their own organisation and of the customers' needs.

The same is true if workers are to address shop floor problems effectively. The team building, problem-solving, and decision-making activities they undertake, as well as their coordination and communication with coworkers must be carried out in a manner consistent with the organisation's corporate culture. In addition, team members must be able to carry out supervisory tasks, such as assigning tasks and dealing with absences, and do routine maintenance tasks. Of course, some of these skills have general as well as firm-specific characteristics.

Workers in self-directed production teams are also required to increase their technical skills in order to perform multiple tasks, carry out statistical process control, and do quality inspections. These skills may be specific to a firm and investments in them may increase the "asset specificity" of workers' human capital – that is, the extent to which their knowledge and skills are valuable in the employing firm and the degree of difficulty they have in transferring these skills to other settings. Workers need incentives and motivation to make these investments in firm-specific skills as well as to contribute discretionary effort to the production process.

2.3. Incentives

The purpose of work reform and participation is to elicit effort from employees that can not easily be monitored. How can an organisation provide incentives to motivate employees to use their imagination, creativity, enthusiasm, and intimate knowledge of their particular jobs for the benefit of the organisation? Firms can provide three main types of incentives to encourage workers to expend discretionary effort – financial or extrinsic rewards, intrinsic rewards, and a long-term stake in the company.

Incentives are usually construed – perhaps too narrowly – as pay practices adopted by management to align the interests of workers with those of the company. In a HPWS, this is often implemented by making pay contingent on work group or company performance. Indeed, during the last decades, firms have tried a wide variety of ESOPs, profit sharing, gain sharing, merit pay, and other compensation policies that in one way or another give workers a financial stake in the success of the company. The problem with these schemes is that they are subject to externalities – rational individual workers have no incentive to change their behavior if their individual contribution has no discernable effect on the overall profit. This free-rider effect undermines the motivational effects of such pay schemes. Furthermore, profits depend on many factors besides worker productivity and effort. Firms with exemplary productivity can fail if they do not sell their output, and hard working dedicated workers will not be productive if they must work with outmoded equipment. Should the incomes of lower level workers be at risk as a result of factors over which they have no control?

Individual piece rates and commissions tie compensation directly to individual output and are still widely used. On the other hand, piece rates tend to encourage quantity over quality and they create individual interests that may conflict with broader objectives of the team or organisation.

These arguments logically favor gainsharing or group incentives (such as team-based piece rates), which reward workers for tangible improvements that result from identifiable efforts of a relatively small group of workers. The norms and peer pressure inherent in small group dynamics may counteract the externality problems (Kandel and Lazear 1992).

Incentives for high performance work organisation are not necessarily limited to financial rewards. Indeed, a search for intrinsic job rewards from work that is meaningful and challenging was the foundation of most work reform efforts from the 1930s through the 1970s. The notion that workers will be more productive if they are challenged in their work has had a powerful grip on this field. High performance systems generally increase the intrinsic rewards of work, and thereby enhance worker satisfaction and commitment.

Many scholars and practitioners believe that discretionary effort is far more likely to be forthcoming when "employees have a vested interest in the long term performance of the organisation and the expectation that they will benefit from their long term perspective" (Doty and Delery 1997: 38). Workers are more likely to make the necessary investments in skill attainment, to expend the additional effort to gather and share information, and to participate in decision making when their claims to be stakeholders in the enterprise are recognized by the firm and they have a reasonable expectation of employment security. In this context, profit sharing, quality incentives, and other forms of pay-for-performance may be understood, as they are for managers, as recognition by the company of the worker's stake in the firm. For workers, investments in skills are costly in terms of the effort, time, and resources necessary to acquire them; and the payoffs to these investments can only be realized in a long-term employment relationship. Thus, incentive pay practices can be effective in motivating employees to supply appropriate levels of discretionary effort when they are implemented along with other HRM practices intended to increase *mutual* trust and commitment. Indeed the importance of trust has been a staple of the work reform literature for many years.

3. Data for this study

Nearly all recent research on high performance workplace practices relies on interviews with managers. At best, managers can report plant-level rather than individual-level information – the proportion of workers in teams, the average wage of workers in the plant, whether there has been a layoff in the recent past. Sometimes, only the presence or absence of the practice is reported and establishments can only be characterized as having or not having the practices at some level of penetration. Data collected from managers do not permit researchers to relate an individual worker's wage or history of layoffs to whether that particular worker participates in high performance practices, or the extent of that participation.

This study, in contrast, employs a multi-level research design. It interviews managers, collects plant performance data and, in addition, surveys workers about their experiences with workplace practices. During 1995-1997, our research team visited 44 manufacturing facilities across the country. We conducted extensive interviews with managers and collected usable data on practices and performance at all but three of the plants. Managers at 41 plants agreed to share their employee lists and allow us to draw a random sample of their employees and survey them. In unionized plants, we obtained agreement from union officials as well. Workers at one plant went on strike before the survey could be conducted. Employees at the remaining 40 plants were surveyed about their experiences with work organisation and human resource practices at their plants. Approximately 100 workers at each of 40 plants were surveyed – nearly 4,400 employees in all. Telephone surveys of employees were carried out between December 15, 1995 and February 11, 1998. The overall response rate was 68 percent, ranging from 64 percent in steel to 67 percent in apparel and 77 percent in medical imaging.

Table 1.1 presents an overview of the employees who participated in this study. The table describes both the overall employee sample and the nonsupervisory employees who are the focus of the analyses reported here. The sample is quite diverse in terms of the gender, education, and race/ethnicity of workers. Table 1.2 summarizes our data collection.

Table 1: Characteristics of employee sample, by industry

	All	Steel	Apparel	Medical
Plants				
Number of plants	40	14	16	10
Average Establishment Size	2.040	3.754	253	808
Employee Sample				
Number of employees	4.374	2.143	1.227	1.004
Percent of employees	100	49	28	23
Occupation				
Blue collar	3.499	1.903	1.202	394
White collar	610	-	-	610
Supervisor	265	240	25	-
Distribution				
% Blue collar	80	89	98	39
% White collar	14	-	-	61
% Supervisor	6	11	2	-
Nonsupervisory Employees				
Number	4.109	1.903	1.202	1.004
% Female	37	6	93	27
Race/ethnicity				
% White	78	76	78	83
% Black	11	16	11	3
% Hispanic	5	5	6	2
% Other	6	3	5	12
Age (years)	44	46	42	41
Education				
% Less than HS	11	7	25	2
% HS grad	46	54	68	15
% Some college	29	34	15	37
% College grad	14	5	2	46
Seniority (years)	15	20	10	10

Table 1.2: Data collection, by industry

	All	Steel	Apparel	Medical
Site visits	44	17	17	10
Complete manager data	41	15	16	10
Complete worker survey data	40	14	16	10
Complete manager and worker data	38	13	15	10

3.1. Sampling frame

The multi-level research design of this study requires cooperation from both managers and employees, and the assistance of employers' associations and labor unions was important in helping us obtain access to plants. The companies in this study are not a representative sample of firms in these industries. Nevertheless, the companies we surveyed vary substantially on the high performance workplace characteristics that we sought to investigate.

The sampling frame in the steel industry focused on facilities with rolling mills and steel making capacity that produce carbon steel sheet or bar products. We did not include in our sample superprocessors or stand alone rolling facilities that specialize in cold rolling or galvanizing, although these departments are included when they are part of a facility that includes a rolling mill. Our intent was to capture a large part of the steel production process that could be compared across integrated and minimill producers of sheet and bar products. Whereas steel making processes differ across integrateds and minimills, the hot and cold rolling and cold finishing operations are quite similar. Using standard industry guidebooks, and after eliminating new start ups and worker-owned mills, we identified a total of 18 bar mills and 19 sheet mills that were eligible for inclusion in the study. Of these, we conducted interviews with managers at 9 bar mills and 8 sheet mills (12 separate companies).

The main employers' associations (the American Iron and Steel Institute and the Steel Manufacturers' Association) and the steelworkers union (the United Steel Workers of America) helped us identify plants for inclusion in the study to assure a diversity of workplace and management practices. The cooperation of these organisations with the goals of our research was extremely important in light of the multi-level design of the study, which is heavily dependent of the cooperation of both workers and managers. The sample includes 11 minimills and 6 integrated producers. All of the integrateds and five of the minimills are union plants.

In apparel, our strategy for selecting plants to participate in the study was driven by our interest in comparing the performance of module and bundle production systems. This required that we be able to make direct comparisons between module and bundle production of the same product. With the help of the Textile/Clothing Technology Corporation $(TC)^2$, an organisation that is sponsored by firms and unions in the apparel industry and provides consulting services and advice, we were able to identify plants producing the same or very similar products under the two different regimes. A staff member from $(TC)^2$ accompanied us on the site visits and assisted us in obtaining plant performance data.

In all, 17 apparel plants participated in the study. The sample of 17 plants includes manufacturers of a range of products in the apparel basics category plus some that produce more varied products as well. These products represent a majority of the types of garment production that remain in the U.S. The highly varied women's wear segment, which has the highest import penetration ratio, is least represented in our sample.

Medical imaging industries consist of companies that manufacture electrodiagnostic or imaging equipment such as electrocardiograms or ultrasound equipment. Using standard industry guidebooks, we identified 328 firms listed as doing business in the medical electronic instruments and diagnostic imaging segment of the industry. Through telephone contact, we identified 144 companies that actually manufacture an imaging device or ECG in the U.S. Forty-four of these companies employ 100 or more employees (median size of firms with 100 or more employees was 263). Companies in this industry segment tend to be mainly medium-sized, rather than big, with some exceptions (e.g., Hewlett Packard).

We contacted all 44 companies in the industry with more than 100 employees that manufacture either ECG or imaging equipment in the U.S. (we assumed that smaller companies were mainly engineering firms that outsource manufacturing). Of these, 10 plants (9 companies) participated in the study.

We had considerable difficulty in getting research access to medical imaging equipment manufacturers. These difficulties stem from various factors specific to this industry. First, the industry is in flux, as reflected in merger activity and the many "low tech" firms that are going out of business. Second, employers' associations such as the American Electronics Association were not able to provide us with access to the firms we identified. Finally, very few workers are unionized in this industry, so we were not able to rely on employees' associations such as a union to facilitate access.

3.2. Multi-level research design

A major strength of this study is that it employs a multi-level design that combines:

- a site visit to the factory,
- collection of plant performance data,
- interviews with a variety of managers (including the plant manager, division superintendents or department heads, human resource manager, training manager, and others),
- interviews with union officials where appropriate, and
- surveys of a stratified random sample of about 100 employees at each plant (in large steel plants, about 100 each in the hot rolling mill and the finishing mill).

We conducted a survey of blue-collar workers in all three industries, a survey of supervisors in steel and apparel, and a survey of white-collar employees in medical electronics and imaging. A professional survey organisation drew a stratified random sample of workers from the employee list at each plant. Workers were then notified of the project and interviewed by telephone at home. Data from the surveys of blue and white-collar nonmangerial employees are used to develop measures of the three components of high performance work systems.

4. High performance work systems and plant performance

One of the interesting insights to emerge from this work is that plant managers in different industries track different plant performance measures. In the auto industry, which has been widely studied, managers adopt a more participatory work organisation to reduce "build hours" associated with producing a wide range of models and styles on a single assembly line and to improve productivity (MacDuffie 1995). In finishing lines in steel, having workers coordinate the production process and take responsibility for many of the day-to-day operational decisions increases the running time of the equipment, increases the amount of steel that is galvanized on those lines, and raises productivity (Ichniowski et al. 1997).

In many cases, however, the real payoff to plants from high performance workplace practices comes on the revenue side, rather than on the productivity or cost side, of the profit equation. The gains from horizontal coordination of production by front-line workers show up in performance improvements that increase the company's sales and profits without necessarily increasing productivity or reducing labor costs. Team sewing allows plants to develop a "quick response" capability and respond to unexpected changes in consumer demand in just a few days. As a result, these plants can develop long term relationships with retailers and are more profitable despite the fact that sewing time per garment has not gone down. The processing and communication of information by sewing operators in modules creates value for the company. Economists call this extra value "information rents" (Aoki 1990) because it comes from the gathering and processing of information by workers in a more participatory work setting.

Plant managers in the three industries we studied emphasized different performance measures. In the capital-intensive steel industry, managers carefully track uptime of the equipment. The gains to participation are expected to come from increased productivity and a superior ability to adhere to production schedules. In apparel, where sewing operations are labor intensive, managers traditionally emphasized sewing efficiency at the expense of throughput time – the time it takes for cut pieces of material to be assembled into finished garments. The gains to team sewing are expected to come in reductions in throughput time and increased responsiveness to retailers. And in medical imaging, where the cost of materials and components is very high, the gains to participation are expected to come from reductions in work-in-process (WIP) and finished product inventories.

4.1. Plant performance in steel

One of the key concerns in rolling and finishing operations in a steel mill is reducing "delays" – hours when the rolling or finishing line is scheduled to operate that are lost because of unscheduled stops of the line. These delays are costly in two ways. First, when a line is not operating, it is not producing steel. Increasing the "uptime" of a line increases productivity. Once technology and product mix are specified, production depends on uptime (Ichniowski et al. 1997). Second, delays interrupt production and prevent the mill from keeping to its production schedule. As a result, the mill may have difficulty meeting customer requirements for on-time delivery. Thus, uptime is important to plants whether they compete on the basis of cost or of on-time delivery.

Steel mills track uptime for every line and at every production stage. In this study, we have data on uptime for 48 rolling or finishing lines across 13 plants at which we were also able to conduct worker surveys. The 48 lines include rolling mills, electrogalvanizing and regular galvanizing lines, pickle lines, temper mills, and cold rolling mills. There is high variation in uptime across these departments. In order to examine the effects of workplace practices on performance, we control for other factors, such as technology and product variety, that may affect uptime.

From the manager interviews we obtained information about the formal introduction of workplace practices. Thus, when we asked managers about the opportunity workers have to participate in decisions, we learned whether self-directed work teams or problem-solving teams had been formally introduced. We also learned whether the rolling mill or finishing line superintendents relied on operators for statistical process control. When we asked managers about human resource practices, we learned what percentage of workers received formal training in the previous year, whether there was a formal employment security agreement with workers, and whether workers received a quality incentive as part of their pay.

From the worker survey we obtained information about informal workplace practices. Workers told us whether they participated in self-directed work teams or problem-solving teams, the extent to which they had autonomy over work tasks, and the extent to which they communicated with other workers, managers and experts. With respect to human resource practices, we asked each worker whether they had received formal training in the previous year, whether they thought the company would go to great lengths to avoid laying them off if there was a fall off in demand, and whether they received a quality incentive.

In the cross section analysis of performance in the 48 departments, we averaged the responses of workers and managers to obtain composite variables. Managers and workers might agree that the value of a workplace practice variable is high or that it is low. Or, they may disagree because they are looking at different aspects of complex organisational practices, or because practices may exist informally even when the company has not formally introduced them. We have four composite variables – opportunity to participate, training, employment security, and quality incentive practices. We also do a cluster analysis and find that the lines in the steel mills cluster into four systems. These are traditional system (fair on training but not much else.); incentive system (emphasizes the quality incentive); work organisation system (high on the scale that measures workers' opportunity to participate) and high performance work system (high on work organisation, quality incentive, employment security, and training).

When we examine the effects of the four practices additively, we find significant effects for quality incentive and employment security, which together raise uptime by almost 8 percent. When we examine the effects of clusters of practices, however, we find evidence of synergies among practices. Compared to the traditional system, the incentive system raises uptime by about 13 percent, the work organisation system raises uptime by 14 percent, and the high performance work system raises uptime by 17 percent.

4.2. Plant performance in apparel

One of the key characteristics of apparel production is that the production process differs for each garment that is produced. This makes it impossible to compare sewing minutes per unit of output across garments. In addition, sewing is not a continuous process. Machines stop and start constantly as fabric is lined up and guided through the sewing process. There is no meaningful analogy to uptime in steel. However, plant managers in apparel track data on labor costs at a high level of detail for every garment. We take advantage of this detailed cost data to compare the costs of production of identical products within a single plant in the traditional bundle system and in the module system. In this way, we are able to identify the sources of cost savings, if any, that are due to differences in work systems. Twelve apparel plants in our study produce the same product in bundle and module systems. We have complete cost data for nine.

The distinguishing feature of a high performance work system in apparel is the formal introduction of self-directed teams and team sewing. Self-directed teams, which balance production and eliminate bottlenecks, provide operators with opportunities for substantive participation (Batt and Appelbaum 1995; Batt 1998). Skills are higher in team sewing. Workers in modules are typically responsible for two or three operations, often operate more than one type of sewing machine, and may be responsible for routine maintenance of the equipment. Module operators also need team building and communication skills. Incentives are different as well. Compensation in all the modules in this study was based on a group piece rate, while all the bundle operations used individual piece rates. The incentive in team sewing focuses effort on maximizing group, rather than individual, output. Thus team sewing exhibits the characteristics of a high performance work system, while bundle operations are more traditional.

We make a straightforward comparison of identical products produced in modules and bundle operations without any adjustments for skills and incentives, and examine their effects on throughput time and labor costs. Plants introduce modules in order to reduce throughput time and to become preferred suppliers to the many large retailers who hold low levels of inventory. Our data confirm that modules are, indeed, effective in accomplishing this goal. The reductions are dramatic. On average in the 12 plants, sewing throughput time was reduced 93.5 percent. In one plant, the length of time from the moment the cut pieces for a garment enter the plant to the moment the finished garment is ready to leave the plant is two weeks in the bundle system and less than half an hour in module system. In the plant in our sample with the smallest difference, throughput time in bundles is 28 hours (3.5 days) and in modules it is 6.4 hours (less than 1 day).

We also compare labor costs in bundle and module operations while holding constant the target hourly wages used by time study engineers and managers to set the individual and group piece rates. We find that 7 of the 9 plants have substantial cost savings, ranging as high as 37 percent although typically less than half that much, in module as compared to bundle operations. In 6 of the plants, the target hourly wage of workers in modules was increased when modules were introduced. This caused unit labor costs to rise modestly in some plants and fall less steeply in others. On average, there is no difference in unit labor costs between module and bundle operations. Modules can pay higher wages to operators without increasing unit labor costs.

4.3. Plant performance in medical imaging

Nearly all plants in the medical imaging industries have formally adopted some version of cell production. There is little variation, therefore, among the 10 plants medical plants in our study (5 manufacturing electrocardiogram machines, 5 manufacturing imaging equipment), in manager reports of the presence of formal work teams, problem-solving teams, or other practices. We are able to use the worker survey, however, to observe variations in work organisation among plants. Plants can be differentiated on the basis of the extent of worker participation in substantive decisions, as measured by a scale that captures worker autonomy and control over work tasks, team production, participation in a variety of problem solving or quality improvement activities, and communication with workers, managers, and experts elsewhere in the plant. This scale measures workers' opportunity to participate. We then relate this opportunity to participate scale to plant performance.

We develop a plant-level measure of workers' opportunity to participate in substantive decisions by aggregating the responses of all workers in a given plant. We find that the correlations among the four components of the participation scale are relatively high. That means that plants that have one practice, say self-directed work teams, also tend to have all of the other practices – problem-solving teams, more autonomy and control over work, and more communications.

Raw materials costs as well as the costs of purchased components and subassemblies are a big expenditure in this industry. Profits in medical imaging are highly correlated (Pearson correlation = 0.73) with value added per dollar spent by the plant on raw materials and purchased components. We find that the opportunity to participate scale for a plant is highly correlated (0.74) with value added per dollar of costs. We also find high correlations between the opportunity to participate scale for a plant and plant profits as well as between that scale and workers' perceptions that productivity and quality are above average or excellent.

5. High performance work systems and worker outcomes

The effect of high performance work systems on workers is much less studied, though no less important, than the effects on plants. This neglect is a major weakness of much previous analysis of the effects of practices that enhance plant performance. The worker survey enables us to examine the effects of work organisation and HR practices, adopted by managers mainly to improve organisational performance, on workers. We examine the effects of opportunity to participate in decisions, skill enhancement practices, and incentives designed to increase motivation on worker outcomes. The large sample size of the worker survey enables us to examine a much richer array of skill enhancement and incentive practices than was possible in the analyses of plant performance. Our measures of skills and incentives include seniority and education; the worker's perception of how secure his or her job is – measured by the workers perception of the extent to which the company is competitive, and by the worker's assessment of how likely it is the company will avoid layoffs in case of a downturn; and the worker's perceptions of the extent to which the company shares information with employees and helps workers balance work and family demands.

5.1. Non-monetary outcomes

We examine the effects of high performance work systems on five worker outcomes – the extent to which workers trust their managers, the degree to which workers perceive their jobs to be intrinsically rewarding, organisational commitment, job satisfaction, and work-related stress. More participatory work systems are often high trust workplaces as well. We find that trust and intrinsic rewards are outcomes that come directly out of workers' experiences with high performance work systems. Further, these two outcomes largely explain the effect of work organisation and the opportunity to participate on organisational commitment and job satisfaction. We also examine the effects of high performance practices on wages.

We first consider trust and intrinsic rewards. Trust in organisations is related to trustworthy behavior by managers (Clark and Payne 1997; Whitener et al. 1998) and to the kinds of managerial actions that create an "ethos of common destiny" (Adler 1998: 16). The characteristics of high performance work systems are examples of such behavior by managers, and we find that these practices increase employees' trust in managers. Thus, we find that high performance work systems enhance trust in all three industries.

Jobs are intrinsically rewarding when they are meaningful and challenging. Theory suggests that opportunities to participate in substantive decisions should increase intrinsic rewards by involving workers in decisions about their work and in decisions related to the work process. These opportunities challenge workers and require them to be creative and to utilize their skills and knowledge. Higher skilled jobs are expected to be more intrinsically rewarding for the same reasons. We find that the opportunity to participate in decisions has a strong and positive effect on intrinsic rewards in each of the three industries. Employees who have more seniority, more formal training in steel and apparel, or white-collar professional jobs in medical also perceive that they have more intrinsically rewarding jobs.

Organisational commitment reflects a worker's identification with the employer, attachment to the organisation, and willingness to expend effort on the organisation's behalf (Porter et al. 1974; Mowday et al. 1982). The third component, in particular, reflects a key aspect – discretionary effort – of a high performance work system, and should be enhanced by the opportunity to participate in decisions. Other characteristics of high performance work systems – especially our measures of incentives – should also enhance organisational commitment (Lincoln and Kalleberg 1990). We find that the opportunity-to-participate scale has a positive effect on organisational commitment in the steel and medical industries, but not in apparel. Workers who have a greater opportunity to participate are more committed to their organisations because they place greater trust in their managers and receive greater intrinsic rewards. In medical imaging industries, the effects of participation on organisational commitment are fully explained by trust and intrinsic rewards. In steel, about half the effect of participation on commitment is explained by these two variables.

Job satisfaction is a widely studied indicator of the overall quality of an employee's work experience. Prior research suggests that the components of high performance work systems – the opportunity to participate in decisions that matter, greater skills, and incentives – increase job satisfaction (Kalleberg 1977). However, we find that the overall opportunity to participate is positive and related to job satisfaction only in steel and has no effect in apparel or medical imaging. Moreover, in steel the effects of participation on job satisfaction are fully explained by trust and intrinsic rewards. When these variables are included in the analysis, the effect of participation on job satisfaction is no longer significant.

Finally, we examine the controversial question of whether a more participatory work setting increases stress by placing greater demands on workers to help their team or plant succeed. Job and organisational stressors affect overall stress (Parasurman and Alutto 1981; Parasurman and Alutto 1984). We analyze the effect of the opportunity-to-participate scale on each of five job stressors. These are: whether workers regularly have too much work to do or too many demands on their time; whether workers are required to work overtime involuntarily; whether workers find their physical surroundings problematic; whether workers feel they have inadequate resources to do their jobs; and whether workers experience increased conflict with coworkers. Workers in more participatory workplaces report less mandatory overtime, are less likely to report that they work in unsafe or unclean conditions, are less likely to report they have inadequate resources to do their jobs, and report less conflict with co-workers. Moreover, the extent to which work settings are participatory is unrelated to whether workers feel that they regularly have too much work to do or too many demands on their time. It is also unrelated to our overall measure of work-related stress. Thus, we find no evidence that changes in work organisation amount to a "speed up" that can negatively affect workers.

5.2. Work organisation and wages

There are few studies of the effects of teams and other high performance workplace practices on workers' wages. We would expect the greater discretionary effort required of workers in more participatory work settings, and the superior performance of the plants in which they work, to be linked to higher pay for workers in high performance work systems. Organisations would be expected to provide incentives for such discretionary effort. This may take the form of incentive pay linked to performance or of efficiency wages that elicit greater effort through the reciprocal "gift" relationship that develops when a firm pays a worker more than he or she can earn elsewhere (Burks 1997). Alternatively, unions may bargain for a share of the firms' gains from its improved performance. Finally, firms whose performance is enhanced by workplace practices may be better able to pay higher wages.

However, the empirical evidence for such a relationship is weak, and studies usually find no relationship between teams or other participatory practices and pay. Sometimes, there appears to be a negative relationship (Osterman 1998). Most analyses, however, are based on manager interviews and compare average wages in a plant with the plant's workplace practices. Information on whether individual wages vary with participation in practices is lost when averages are calculated. Moreover, managers' perceptions of how widespread practices are or how much autonomy and control workers have is a less-than-satisfactory means of measuring workers participation in these practices. A worker survey provides direct evidence on this question. We are able to use individual worker's wages from the worker survey and relate them to individual worker characteristics and the worker's participation in high performance practices.

We find that the earnings of steel and apparel workers in more participatory work settings are higher than are those of comparable workers in more traditional settings. Comparing the most participatory work system with the most traditional, we find that earnings are 10% higher in steel and 16% higher in apparel. If we focus specifically on team production, we find that working in a self-directed team raises the earnings of apparel workers nearly 12%, but has no effect on workers in the other two industries.

6. Conclusion

Overall, our results suggest that in manufacturing, the introduction of high performance work systems leads to win-win outcomes for plants and workers. Plant performance in each of the three industries is higher on the measures that matter to managers in those industries. The opportunity-to-participate scale derived from the worker survey has a positive effect on worker outcomes as well. Trust and intrinsic rewards are enhanced by a greater opportunity to participate and by other workplace characteristics associated with a high performance work system. In turn, participation increases organisational commitment in steel and medical imaging and job satisfaction in steel, largely via its effects on trust and intrinsic rewards. We find no support for the view that more participatory workplace practices increase workers' stress. Importantly, we find a significant improvement in wages associated both with working in teams and with the extent of the opportunity to participate.

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Udo Rehfeld

European Works Councils and union bargaining strategies

1. The underdevelopment of European collective bargaining

The question of the emergence of a European system of industrial relations (IR) is only a very recent one[1]. Europe, i.e. the European Community (EC), now the European Union, has emerged as a level of social regulation since the 1960s. In this sense, there has always been a "social dimension" of European integration, even though it is constantly behind the economic dimension which is its main driving force. The question that has arisen recently is whether social regulation, which is mainly brought about through intergovernmental (and some supranational) legislation, may also be implemented through negotiation between social actors (nowadays called "social partners"), i.e. through European collective bargaining. Scientific debate on this topic began as early as in the 1970s. The answers at that time were rather sceptical. A number of juridical and sociological obstacles supposedly forbid European-wide collective bargaining (Lyon-Caen 1973-74). The "balkanisation" (Trentin 1984) of national bargaining structures seemed to make any attempt to harmonise the national IR systems quite impossible. Even an "articulation" of those systems with a newly created European (Community) system of IR seemed very difficult.

As a matter of fact, there were (and still are) considerable differences between the systems of industrial relations of the EC member countries. Some concern cultural factors which form the context of a system of IR, namely the ideological and strategic orientations of the actors. Others concern structural traits of the organisation of the actors themselves

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[1] An earlier version of this paper has been presented at the *IREC (Industrial Relations in Europe) 1999 Conference* in Aix-en-Provence, May 20-22, 1999.

(unionisation rates, degree of organisational centralisation etc.). Others finally concern procedural aspects of the IR system, such as

– the role of law and collective bargaining in the IR system,
– the model of IR (single vs. dual channel),
– the philosophy of IR (voluntarism, juridical proceduralism, State intervention),
– the main level of collective bargaining (nation-wide, industry, firm, workplace),
– the scope and duration of collective agreements etc.

Despite these obstacles, European legislators were eager to create the conditions for the emergence of a European system of IR. In 1984, the term European "social partner" was officially introduced into the Treaty of Rome (art. 118 B) and the task was assigned to the European Commission of developing "social dialogue" in a way that might favour collective bargaining relations. After a period of a quasi-tripartite European Social Dialogue with rather modest results, European governments then followed the suggestion of the European social partners (ETUC-UNICE-CEEP agreement of 31 October 1991) and introduced a pre-emptive role for them in the European legislation process. This was the quintessence of the "Social Protocol" annexed to the Maastricht treaty (1992), which has now been introduced into the Amsterdam Treaty (1997) and will have a binding character also for the United Kingdom.

From the juridical point of view, we have now a neo-corporatist (even quasi "archeo-corporatist") European legislation. European unions and employers' organisations have gained a public status and a strong pre-emptive power in the social legislation process. They can force the European governments (and the European parliament) to extend a negotiated agreement as a basis for European social legislation. But has this juridical empowerment fostered the emergence of a European system of IR?

In reality, progress towards European collective bargaining has not been very great. The main reason for this is that some European employers' organisations are still strongly opposed to any form of collective bargaining on the European level. They have used their veto power within UNICE in order to limit European social dialogue to negotiations on "soft" subjects (such as parental leave), avoiding antagonistic subjects (such as consultation-information) on which even the opening of negotiations was refused. As a consequence, we have today only three agreements on the basis of the Social Protocol and very few agreements on the industry level, mainly in those areas where some industrial policy making on the European level is involved.

2. New perspectives for European collective bargaining through European Works Councils?

The question is, whether this "underdevelopment" of collective bargaining might be compensated for by the development of bargaining on the European company level. Some observers and some actors (mainly amongst unions and European officials) are in favour of such a development and hope that it will emerge through the generalisation of European works councils (EWCs). If this should become reality, it would mean that the European trade union movement would enter a new strategic phase after the failure of a similar strategy of the international union movement in the 1970s. This strategy, which had been fostered by some international trade secretariats and particularly by Charles Levinson (1972), tried to develop multinational collective bargaining on the company level through the establishment of "world corporation councils". We have argued elsewhere, that the reason for its failure was its "voluntaristic" bias (Rehfeldt 1993 and 2000). In the absence of any international juridical framework, unions were not able to impose international collective bargaining on management of multinational corporations (MNCs). The question may be raised whether the existing European legislation on EWCs might now foster a renewal of the older bargaining strategy of the unions.

Our answer will again be sceptical. There are three reasons for our scepticism. The first concerns the juridical framework on the European level. The two other concern the strategic attitudes of the main actors, unions and management.

The existing juridical framework of a European system of IR is today limited to the EWC directive of 1994. There is no European legislation on collective bargaining, on union rights or on industrial action. The Social Protocol explicitly excludes wages and union rights from European legislation. Of course, that cannot hinder unions with a "voluntaristic" tradition from entering European wide collective bargaining or even industrial action. But it is far more difficult for unions with a strong juridical national framework of IR to integrate such a strategy. These obstacles have made it difficult for the unions to participate in some of the "European strikes" (namely in the railway and the road transport sector) in more than a symbolical way[2].

The EWC directive does not preclude any evolution of EWC practice towards collective bargaining. Its originality is precisely to encourage Europe-wide company negotiations to reach an agreement that defines the structures of an EWC. It makes no prescription as to the structures or the competence of such an EWC (not even its name). The only binding prescription is that it must deal with information-consultation. On the other hand, it is quite clear that the idea of an "EWC" has a double inspiration: the French "comité de groupe" and the German works council, more precisely the "Wirtschaftsausschuss" (economic committee). In other words, the EWC is an institution concerned with economic information, embedded in a dual system. This is quite clear from the "subsidiary prescriptions" which are automatically applied if negotiation fails. Unions do not appear in the EWC directive, neither in the subsidiary prescriptions, neither in the composition of the "special negotiation body" (SNB). Negotiation for establishment of an EWC is therefore, strictly speaking, not "collective bargaining", which supposes the involvement of unions. Only in a few countries does the national

[2] In Germany, a strike is illegal when it aims for objectives which cannot be obtained through collective bargaining. This excludes any "political" strike. A strike is possible only after a collective agreement has run out or a negotiation has been declared to have failed. There is no individual right to strike guaranteed by the constitution. Workers with civil servant statute (numerous in public services like the railways) have no right to strike at all.

transposition law of the directive give unions some rights in the process of designation of national delegates within the SNB.

To sum up, the European legislative framework neither encourages nor supports any EWC practice that would shift from consultation towards bargaining. But one might also be sceptical whether such a shift is desired by the actors within EWCs. In our empirical research[3], we have never found any management representative and have rarely found union representatives who expressed their wish or their hope that EWC practice might shift towards collective bargaining. Most union representatives think that it is already difficult enough to ensure that information and consultation rights are respected by management. Only in one notable case, that of BSN-Danone, has the EWC-type institution taken the form of a permanent collective bargaining body and produced a number of collective agreements.[4]

Observation of EWCs that have a long practice behind them shows that in the present phase, the main function of an EWC is to bring employee representatives from different national IR contexts together and to help them to understand the functioning of employee representation in the different systems. It is only after that preliminary phase that representatives are able to agree on strategic objectives and to address common opinions or even claims to the central management of their MNC.

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[3] Our empirical research on EWCs began in 1989, shortly after the first EWCs were established on a voluntary basis by some French multinationals. It was extended to Germany when the first German based MNCs had joined the movement. After the adoption of the EWC directive, we participated in two four-country projects which analysed EWCs concerning MNCs and their subsidiaries in Germany, France, Italy and the United Kingdom (cf. Lecher et al. 1999).

[4] Some EWC members complain that it is easier to negotiate these agreements than to supervise their local application. In any case, BSN-Danone seems rather exceptional and firmly linked to a particular management philosophy represented by its former president, Antoine Riboud.

3. The Renault-Vilvoorde affair

Recently, the "Renault-Vilvoorde affair" (1997) seems to have strengthened the arguments of those who wish for a more "aggressive" use of EWCs by unions. As a matter of fact, for the first time, unions of different European countries co-ordinated their action in order to prevent a plant closure, in this case the Renault plant in Vilvoorde (Belgium). This action had great impact on the media, which analysed the simultaneous one-hour strike in three countries as the first "Euro strike" in history.[5] But a more critical analysis shows the limits even of this case of "best practice" as an alternative use of EWCs (Richter 1998, Rehfeldt 1998).

In the Vilvoorde affair, unions were able to take advantage of a very exceptional context which made a politicisation of the conflict possible and ensured a broad support of public opinion in the two main countries of the conflict, France and Belgium. In France, there were several favourable factors for public support: the emblematic character of Renault as a public enterprise with a history as a "social vitrine", the controversial role of the company president Louis Schweitzer, a socialist technocrat who deliberately tried to give his company a pure-capitalist profile on the eve of its privatisation, in order to raise its share value on the stock exchange. This economic transition from public to private status was paralleled by a political transition from a right-wing to a left-wing government. (The future winner of the elections, Lionel Jospin had publicly taken on a commitment to find an "alternative solution" to the closure of the Vilvoorde plant.)

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5 There is a certain loss of collective memory. As a matter of fact, the simultaneous strike of workers of Dunlop-Pirelli plants in Britain and Italy in June 1972 might be considered the first real European strike of this type. Their objectives were rather similar to the Renault case, as they wanted to prevent a reduction of employment after the merger and the restructuring of Dunlop-Pirelli. In contrast to the Renault-Vilvoorde affair, the Dunlop-Pirelli strike was initiated by rank-and-file shop-stewards without the support of national union organisations (cf. Piehl 1974).

The particular political conditions in Belgium concerned linguistic antagonism. The plant was situated in the suburbs of Brussels, in the Flemish speaking territories of Belgium. The fight against the Renault plant closure was also a fight of the Flemish community against "French hegemony". Last but not least, there was a European dimension sharpened by the small distance between Vilvoorde and the Brussels headquarters of the European Commission. Whereas unions and also some political leaders denounced the lack of European social legislation on transnational industrial restructuring, the European Commission tried to defend its EWC directive and accused the Renault management of infringing on the "spirit" of European legislation, by refusing to consult its EWC.

Despite these favourable circumstances, the unions involved in the action of the Renault EWC finally failed to achieve their objectives. They were not able to prevent the plant closure and they were not able to negotiate an alternative industrial plan based on a reduction of working time in all European Renault plants. All they got was a redundancy plan for the workers in Vilvoorde which avoided dismissals. The main reason for this failure was a difference in industrial relations "style" between Belgium and France. In Belgium, the unions could count on strong support of the workers (unionisation rate close to 100 %), but had little legal right to economic information. Unions were accustomed to using their power in the negotiation of redundancy plans. In the Vilvoorde case, they were backed by a vote of the majority of the work force. Only the less qualified middle-aged assembly workers, who had neither the perspective of early retirement nor the hope of quick reemployment, were ready to continue radical industrial action. The unions accepted the offer of the Renault management for quick negotiations of a redundancy plan, which a large majority of the workforce accepted by a second vote.

This pragmatic orientation contrasted with a more sophisticated strategic approach developed by one of the French unions in Renault, the CFDT, which was also the co-ordinator of the EWC activities. The CFDT wanted to gain time in order to elaborate an alternative industrial plan based on reduction of working time. The unionisation rate in

France is very low, and even lower within the Renault plants. Besides strikes, the employee representatives mainly use the information rights of the comité d'entreprise, including rights to autonomous expertise, in order to gain time and to obtain better conditions in cases of restructuring and redundancy plans. In extreme cases, they do not refrain from going to the courts. In the Vilvoorde affair, the French unions used a mix of these means. They finally stopped the elaboration of an alternative plan, for the Belgian unions expressed their preference for local negotiation of a redundancy plan.

It remains to be seen whether the alternative plan in preparation would have gained the backing of the majority of the workforce and of the unions of all the Renault plants. Initially there was a common front among the unions from France, Belgium and Spain, which lasted until the phase of common industrial action, but this unity rather quickly broke up when some local French and Spanish unions accepted to negotiate the reallocation of production after the Vilvoorde plant closure. It is also doubtful whether a majority of the French unions would have accepted a collective reduction of working time if this had meant a partial reduction of salaries.

4. Lessons from the Renault-Vilvoorde affair

Finally, the most important positive outcome of the collective action of the Renault EWC was an indirect one. Two court rulings established a right to prior information and consultation of the EWC in cases of restructuring or collective redundancy procedures that has "significant effects" on the workforce.[6] This decision had a direct effect only for Renault (and will indirectly have an effect on French based MNCs), but it might create a precedent for a consolidation of the information rights

[6] On 7 May 1997, the Versailles court of appeal stipulated that consultation has not necessarily to be prior to the decision, but must at least have "useful effects", which means that consultation must leave scope for observations and criticism, in a way that the initial decision might eventually be modified (cf. Moreau 1997).

of all EWCs, especially in the case of an announced revision of the EWC directive.

Similarities to the Renault case can be found in a couple of other cases of involvement of EWCs in international restructuring of European companies (Groupe Alpha et al. 1998, Syndex et al. 1998). They all point to the necessity to consolidate the information and consultation rights of the EWCs, including the right to external expertise. But the optimal use of these rights will continue to challenge the unions involved in the EWCs. The EWC alone will always have great difficulties when it tries to define common interests of the workforce in different European plants and in different economic situations. Union intervention will always be necessary in order to facilitate a compromise between different interests and different strategic approaches. Neither the ETUC, nor the European industry federations have yet been able to play this role of interest inter-mediation and arbitration.[7] The Renault case shows that such an inter-mediation can be established between different national unions on a bi- or trilateral basis.[8]

Once cross-national compromises are reached, real negotiations will most likely continue to take place on a national and local level. Unions have better bargaining conditions on these levels, for they are nearer to the workforce and they can make better use of political and legal resources. On the European level, such external power resources are still very scarce. Interest cleavages between unions are more likely to appear on the international level and the balance is too much in favour of management who can always use the threat of social dumping and delocalisation. Unless economic, juridical and cultural conditions become more uniform than there are now, a development of

7 In the case of Renault-Vilvoorde, the European metal federation EMF was not even able to organise a European-wide solidarity action which would have included the German IG Metall.

8 A recent example of such a bilateral interest inter-mediation is the common declaration of the French and German Chemical unions FCE-CFDT and IGBCE to co-operate in order to defend employees in both countries after the merger of Hoechst and Rhône-Poulenc (Rehfeldt 1999).

transnational collective bargaining on the company level seems very unlikely. Another question is whether this uniformisation can be brought about through the channel of transnational industry-wide or inter-sector bargaining. We already mentioned in the beginning the structural obstacles mentioned that oppose such a development. Recently, a discussion has begun, whether there is a "third way" of collective bargaining between purely national and (momentarily impossible) European collective bargaining on the industry level.[9]

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[9] This discussion was initiated by a meeting of metal workers unions from Germany, Belgium, the Netherlands and Luxembourg in Doorn in September 1998. The unions declared their intention to co-ordinate their national wage bargaining on the basis of common objectives and an exchange of union officials, participating as "observers" in the negotiations.

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List of authors

Jürgen Hoffmann	Hamburg School of Economics and Politics
Dieter Läpple	Technical University of Hamburg-Haburg
Thomas I. Palley	American Federation of Labour-Congress of Industrial Organisations, Washington, D.C.
Rob Scott	Economic Policy Institute, Washington, D.C.
Fujikazu Suzuki	Research Institute for the Advancement of Living Standards, Tokyo
Roy Green	National University of Ireland, Galway
Matthew Steen	University of Sydney
Andrew Wilson	South Bank University, London
David Foden	European Trade Union Institute, Brussels
Antonio Prado	DIEESE and Pontificia Universidade Catolica de Sào Paulo
Andrew Glyn	Corpus Christi College, Oxford
Ingemar Lindberg	LO, Sweden
Graciela Bensusan	Universidad Autónoma Metropolitana, Mexico
Kuriakose Mamkoottam	University of Delhi
Arnold Wehmhorner	Friedrich Ebert Foundation (FES), Bonn

Martin Upchurch	Bristol Business School, University of the West of England
Andy Danford	Bristol Business School, University of the West of England
Peter Fairbrother	Cardiff University and Monash University, Victoria
Volker Telljohann	Institute for Labour Foundation, Bologna
Michael Wortmann	FAST, Berlin
Eileen Appelbaum	Economic Policy Institute, Washington, D.C.
Thomas Bailey	Columbia University
Peter Berg	Michigan State University
Arne L. Kalleberg	University of North Carolina
Udo Rehfeldt	Institute for Economic and Social Research (IRES), Paris