Case 2: Province of Ontario, Canada: Removing the obstacles to negotiated adjustments

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1. Introduction

Technological change and labour relations exert a reciprocal influence on each other. Betcherman, for example, has estimated how changes in technology affected trade union bargaining leverage over wages [Betcherman, 1991]. Ozaki and others have used case studies from various jurisdictions to demonstrate that industrial relations factors influence the way in which firms introduce new technologies.¹ A third theme has been taken up in separate studies by Houseman and Osterman [Houseman, 1991; Osterman, 1988]. Their work points to the important relationship between labour standards and labour market policies, on the one hand and, on the other, the types of bargains over adjustment that labour and management can strike at the level of the firm.

This case study deals with the system for regulating labour-management relations in the province of Ontario. The focus is on the industrial relations difficulties which confront the province’s manufacturing sector in dealing with significant changes in technology, work organization and competitive conditions. The case study makes three arguments:

(a) the industrial relations system in Ontario is not well adapted to achieving negotiated adjustments;

(b) the difficulties in achieving negotiated adjustments at the workplace level undermine the capacity of the province to pursue a socially progressive restructuring path that preserves living standards and prevents a deterioration in income distribution;

(c) removing the obstacles to negotiated adjustments requires changes to both the industrial relations system and to labour market policy.

Firms that find themselves encumbered with industrial relations systems that impede adjustment to competitive pressures seek whatever ways of escape are available to them. The most typical of these is

¹ Ozaki et al. [1992]. The brewing industry is discussed in Davis [1986].
under-investing in the physical and human capital of unionized operations and transferring production to non-union plants.\textsuperscript{2} This disinvestment triggers a self-fulfilling expectation. Lazonick describes the relationship between disinvestment and labour relations:

\ldots once workers perceive that management… is taking the managerial surplus out of the enterprise rather than putting it back in… cooperative shop-floor relations will turn into conflict. As both management and workers engage in what Thorstein Veblen called "the conscientious withdrawal of efficiency", a process of cumulative value creation gives way to a process of cumulative value depletion. [Lazonick, 1990, p. 352]

\textit{For Canada — but particularly for the province of Ontario — the central industrial relations problem is how to move from a system that has attached virtually exclusive priority to issues of distribution and procedural fairness to one that promotes a positive, but equitable, adjustment to new economic conditions.} The context in which Ontario must accomplish this change is far from optimal. With the emergence of a predominantly tariff-free North American market, companies have significantly more latitude in choosing where to invest.

Section II of this case study reviews the restructuring pressures on the Ontario economy and also discusses the implications of different patterns of adjustment to these pressures. Section III describes how important features of the present industrial relations system in Ontario impede the adjustment process at the level of the firm. Section IV proposes a strategy to remove the obstacles to negotiated adjustments by making mutually reinforcing changes to the industrial relations system and to labour market programmes. \textit{It is a central argument of this paper that changes in the industrial relations system will not achieve their purpose without commensurate changes in labour market programmes. Conversely, changes in labour market programmes will lead to disappointing results without concurrent changes in the industrial relations system.}

\section*{II. Restructuring pressures}

Every industrial region within the OECD is experiencing some degree of restructuring in response to new technology and to changes in competitive conditions. In some regions, however, restructuring pressures are much more acute. The province of Ontario is one of these regions.

\begin{footnotesize}
\footnotesub{2} The significance of disinvestment in the American context is described in Kochan et al. [1986], especially pp. 72-75.
\end{footnotesize}
Ontario is the most industrialized region in Canada. The province generates close to 50 per cent of Canada's total merchandise exports and accounts for an equivalent proportion of its manufacturing sector employment. Two features of Ontario's manufacturing sector are important to this discussion. The first is that direct United States investment accounts for just under half of the employment in Ontario's manufacturing sector [Economic Council of Canada, 1988, Chart 9]. The second important feature of Ontario's manufacturing sector is its dependence on the domestic market. Although Ontario generates half of Canada's overall merchandise exports, the province nevertheless runs a trade deficit with the rest of the world. This deficit is offset by the province's trade surplus with the rest of Canada. Indeed, roughly two-thirds of Ontario's merchandise output is sold within Canada. Ontario's manufacturing has been crucially dependent on its preferred access to the domestic market. Much of this preferred access was founded on tariff protection.

The protective tariff shaped the course of Ontario's industrialization in two ways. The first was to foster domestically owned manufacturers that were dependent on tariff protection. The second, and equally important, effect was to encourage foreign-owned companies to establish branch plants behind Canada's tariff wall. Some two-thirds of those branch plants were US-owned. The vast majority were established in Ontario making this province one of the leading branch-plant based economies in the industrial world.

The restructuring pressures that are now bearing down on the Ontario economy stem from two closely related causes: the elimination of tariff protection and a shift in the logic of specialization within the international economy. Table 1 summarizes the reduction in both nominal tariffs and effective rates of protection.

Although tariffs on US products will not be erased completely until 1999, United States companies are determining what to do with their Canadian operations as if tariff protection had been eliminated. The choice comes down to closing the Canadian operation or assigning it a North American product mandate. The latter option implies choosing a Canadian operation over alternative American plants. In many cases, the Ontario-based plants are not technologically on par with their American counter-

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3 These observations are based on Ontario, Treasurer of Ontario and Minister of Economics [1992], various tables, and Canada, Statistics Canada [1992], various tables.

4 This analysis of Ontario's trade balances is based on Ip & Schwannen [1992, p. 37]. In 1989 — the last year before the current slump — Ip and Schwannen report that Ontario's trade deficit with the rest of the world was $10 billion, while its surplus with the rest of Canada was $12.9 billion.
parts. This conclusion was confirmed by a recent study commissioned by the Economic Council of Canada. The implication of this technology gap is clear. If Canadian subsidiaries are to secure North American product mandates they will have to accelerate the rate at which they introduce both new technologies and changes in work organization. Similar requirements are being faced by many domestically-owned manufacturers. These companies also face the added problem of developing export markets at the same time that the domestic market is opened to increased competition from imports.

Table 1: Nominal tariffs and effective protection rates, Canada

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<tr>
<th>Year</th>
<th>Nominal tariffs</th>
<th>Effective protection</th>
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<tr>
<td>%</td>
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<tr>
<td>Nominal tariffs</td>
<td>13.57</td>
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<tr>
<td>Effective protection</td>
<td>22.53</td>
<td>20.09</td>
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Note: Economic Council of Canada [1975, Table 2-4], and Economic Council of Canada [1987, Chart 3-3]. The measure of effective protection rates for 1987 represent the author’s own estimate. Tariff removal under the Canada-US Free Trade Agreement is, of course, confined to Canada-US trade. However, this trade represents 88 per cent of Ontario’s international exports. Cf., Ontario, Treasurer of Ontario and Minister of Economics [1992, Table 16]. Effective protection expresses tariff protection as a percentage of domestic value-added, viz., net of imported inputs.

Tariff reductions are only the proximate cause of Ontario’s restructuring difficulties. The more fundamental problem is a shift in the logic of specialization within the international economy. The comparative advantage of the OECD economies has shifted to industries that are research-intensive and that rely on skills not easily reproducible in low wage economies. To some degree, the shift in the logic of specialization dictates that the OECD economies move out of some of their traditional industries. However, adjustment to changes in the logic of specialization can also take the form of reorienting traditional industries towards greater research intensity and greater reliance on more highly skilled workers. Cohen and Zysman have pointed out that the balance between these two forms of adjustment has differed between countries [Cohen & Zysman, 1987, pp. 75 ff].

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5 D.G. McFetridge [1992, p. 44]. McFetridge’s conclusions support an earlier finding by the Economic Council of Canada: “Our general finding is that new technology diffuses slowly into Canada from other regions. It also diffuses slowly from firm to firm and region to region within the country” [Economic Council of Canada, 1983, p. 61].
Changes in the logic of specialization within the international economy are especially important for the province of Ontario. In 1988, a provincial government report noted that only 10 per cent of the value-added generated by Ontario’s manufacturing sector is in high-growth industries [Ontario, 1988, p. 64]. The balance is generated by mature industries. These are industries with limited potential for market expansion, declining employment requirements and growing vulnerability to competition from imports. Figure 1 depicts the comparative position of the Ontario economy in terms of high growth industries.

Figure 1: Share of value-added in high wage industries accounted for by high-growth industries, Ontario, 1985


Changes in the logic of specialization imply that the Ontario economy would be facing severe restructuring pressures even in the absence of tariff elimination. The scale of these pressures is evident in the pattern of job loss in the current economic downturn. Between 1990 and the autumn of 1992, total employment in Canada declined by 332,000 persons. Ontario’s employment loss accounted for 71 per cent of this overall reduction in the
number of jobs, even though the province represented only 39 per cent of the 1990 employment base. Moreover, these job losses were heavily concentrated in the manufacturing sector. Approximately 70 per cent of the 332,000 lost jobs were in manufacturing [Canada, Statistics Canada, 1992, calculated from Tables 12.3 and 2.3]. More directly indicative of the structural changes in the Ontario economy is the proportion of permanent lay-offs attributable to partial or complete plant closures. As Figure 2 illustrates, there has been a sharp increase in the proportion of permanent lay-offs attributable to plant closures.

Figure 2: Permanent lay-offs caused by partial or complete closures as a percentage of all lay-offs

![Chart showing the increase in permanent lay-offs](chart.png)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
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<tbody>
<tr>
<td>1982</td>
<td>24.2</td>
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<tr>
<td>1983</td>
<td>38.5</td>
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<tr>
<td>1984</td>
<td>53.1</td>
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<tr>
<td>1985</td>
<td>55.5</td>
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<tr>
<td>1986</td>
<td>60.2</td>
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<tr>
<td>1987</td>
<td>72.6</td>
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<td>1988</td>
<td>69.8</td>
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<td>1989</td>
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<td>1990</td>
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<td>1991</td>
<td>61.3</td>
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<tr>
<td>1992</td>
<td>63.5</td>
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</tbody>
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Source: Ontario Ministry of Labour, Office of Labour Adjustment, Permanent and indefinite layoffs.

Since Ricardo, it has been recognized that structural change does not necessarily tend towards full employment within any reasonable period of time. There is more at stake, however, than a drawn-out adjustment process. A 1988 OECD report commented that protracted restructuring difficulties could undermine the impetus to growth within a region.\(^6\) There

\(^6\) OECD [1988]. The report comments: “the virtuous circle of innovation, growth and employment might be weakened if the transition costs during the process of job destruction and job creation turn out to be unacceptably high” [p. 11].
is a risk, in short, that the Ontario economy will go through a period of protracted decline stemming from its difficulties in dealing with restructuring pressures.

III. Impediments to negotiated adjustment

In Canada, collective bargaining agreements, rather than statutes, are the main source of procedural rules for dealing with the implementation of changes in technology and in work organization. Among non-office workers in the goods producing industries the rate of collective agreement coverage is 60-70 per cent. This coverage rate is roughly double that in the United States [Meltz, 1990]. Collective bargaining is therefore a significantly more important influence on the restructuring process in Canada than in the United States. In Canada, public policy has no choice but to take industrial relations factors into account when addressing the problem of economic restructuring.

In Ontario, as in the other Canadian jurisdictions, the industrial relations system is based on the Wagner Act model that was originally adopted in the United States in 1932. Ontario's industrial relations system therefore shares important traits with the American system. Among these are:

(a) the presumption that management's rights are unfettered unless there are contractual provisions to the contrary;

(b) litigiousness;

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7 Data on unionization are based on the Statistics Canada Labour Market Activity Survey, summarized in Coates et al. [1989].

8 In Canada, labour relations is principally within the jurisdiction of the provinces. During the Second World War, the federal government assumed jurisdiction over labour relations under its special war-time powers. It used these powers to introduce the Wagner Act model of clearly-defined bargaining units, a statutory duty to bargain, certification of exclusive bargaining agents and "de-recognition" of company unions. At the end of the war, jurisdiction reverted to the provinces which, in turn, enacted Labour Relations Acts based on this model. The retreat from the Wagner Act that took place in the United States with the Taft-Hartley amendments had no counterpart in Canada. Several of the provincial Labour Relations Acts have further enhanced the bargaining position of unions by incorporating provisions for certification of unions based on membership cards rather than employee votes, access to arbitration for first agreements and prohibitions on the use of replacement workers during a strike. All of the provincial Labour Relations Acts prohibit strikes or lock-outs during the term of a collective agreement. Disputes about the application of a collective agreement must be resolved through arbitration. A standard text on Canadian labour relations is Anderson & Gunderson [1982].
(c) job control unionism;
(d) the association of union representation structures with Taylorist forms of work organization;
(e) a high degree of decentralization;
(f) a tradition of autonomy from government.

The cumulative effect of this system is to impede the process of restructuring at the plant level.

1. Presumption of management’s right to manage

The Anglo-American common law tradition derives an employer’s rights from the rights of property. An employer’s right to manage is deemed to be limited only to the extent that specific contractual provisions fetter managerial discretion. There is no legal presumption of codeterminative or consultative rights as there is in some European jurisdictions.

In Ontario, the Labour Relations Act envisions two distinct intervals in the collective bargaining relationship. Each interval is defined by the operation of rights and obligations that are specific to it. During the first interval, labour and management are subject to the statutory duty to “bargain in good faith and make every reasonable effort to make a collective agreement.” This duty to bargain commences when the union serves notice to bargain, which it may only do in the last months of a collective agreement. The duty to bargain ends when a new collective agreement is ratified. This first interval is the likely to run from a few weeks to perhaps a couple of months.

The second interval is the period of administration and enforcement of a collective agreement. The length of this period is fixed by the term of

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9 Ontario Labour Relations Act, sec. 15. Those familiar with the United States National Labor Relations Act will note a difference between the American and Canadian application of the “duty to bargain”. Under the NLRA, the “duty to bargain” is not limited in time, viz., the "duty to bargain" continues to apply even after ratification of a collective agreement. In practice, virtually all collective agreements limit the operation of the “duty to bargain” so that it largely ceases to operate after ratification of a collective agreement. Unlike the NLRA, the Canadian labour codes make no distinction between mandatory and permissive bargaining issues. In Canada, all issues are bargainable. The limitations on bargaining are temporal, not substantive. For a discussion of the duty to bargain see Consolidated Bathurst Packaging Ltd. and International Woodworkers of America (Ontario, Labour Relations Board, 10 September 1983) reported in 4 CLRBR (NS) pp. 178-231. The Board decision reads, in part: “... it would be stretching legislative language and intent to the point of breaking for this Board to infer along American lines a full blown continuing duty to bargain... [C]ollective bargaining in Canada has significant temporal as opposed to substantive limitations.” (p. 214).
the collective agreement. Typically this is two or three years, but in no event less than one year. During this period, the duty to bargain does not operate. In its place, two distinct rights are counterpoised against one another, namely, an employer's right to manage and a union's right to grieve. Grievance rights refer to a union's ability to force to arbitration a dispute about an alleged infraction of a collective agreement. Because grievances must be founded in a collective agreement, their scope is limited by the provisions of those agreements.

2. Litigiousness

The structuring of rights during the "second interval" of a collective bargaining relationship leads to a pronounced litigiousness in union-management relations. Trade union practice during the second interval is dominated by challenges to management decisions and by grievance activity. The volume of this litigation can increase significantly when management is endeavouring to introduce changes in the way that work is organized. What often ensues is a process akin to trench warfare in which each grievance represents the struggle for a few yards of battlefield and litigation makes the process of change both protracted and uncertain.

Commenting on labour relations litigation in the United States, Derek Bok described United States labour law as a "tangled web of statute and precedent" in which "an early articulation of simple standards is typically followed by a constant embellishment of exceptions, qualifications, complex reformulations and ad hoc decision making." [Bok, 1971, p. 1394, p. 1462]. Bok's observations are equally applicable to the tenor Canadian labour law.

The litigiousness of Ontario's labour relations system cannot be explained simply by pointing to the adversarial nature of industrial relations. Whenever there are distinct and often opposed interests between parties, there is bound to be an element of adversarialism in their relationship. Litigiousness is a particular form taken by adversarialism. It is not one notably conducive to negotiated adjustment. The litigious, as opposed to the adversarial, character of Ontario's industrial relations stems from the way in which the collective bargaining relationship is parsed into two intervals.

3. Job control unionism

Seniority rules operationalize the notion that workers "acquire property-like rights in employment opportunities" [Meyers, 1965, p. 202]. Fallon and Weiler have argued that "the rights and expectations surrounding seniority make up what is probably the most valuable asset that
[a] worker ‘owns’, worth even more than the current equity in his home.”

Arbitrators in Ontario have generally echoed the view expressed by a 1964 arbitration decision that “seniority is one of the most important and far reaching benefits which the trade union movement has been able to secure for its members by virtue of the collective bargaining process.” (re: Tung-Sol of Canada Ltd., Labour Arbitration Cases, Vol. 15, p. 162).

In current practice, seniority rules are closely linked to narrow job definitions and strictness in the enforcement of job demarcation lines. This is true, even though seniority rules and narrow job definitions have distinct origins. Narrow job definitions preceded the emergence of collective bargaining. They stem from the Taylorist organization of work that was applied with such stunning impact on industrial productivity from the 1920s onwards. It has been argued that the Taylorist model of work organization was carried to a higher degree of articulation in North America than in either Europe or Japan [see, for example, Womack et al., 1991]. What is undeniable is that in both Canada and the United States, modern industrial unionism confronted fully articulated job structures that were based on Taylor’s principles of “scientific management.”

Prior to the advent of industrial unionism, foremen assigned workers to jobs and decided which workers would be laid off. For the semi-skilled and unskilled workers who made up the bulk of the workforce in American plants, the CIO’s demand for seniority rules was one of the major attractions of its brand of unionism. That philosophy was brought to Canada by the CIO organizing committees that emerged in Canada in the 1930s and 1940s.

Demarcation lines, seniority rules and comparatively narrow job descriptions are the elements of what is now commonly called “job control unionism.” [Kochan et al., 1986, pp. 28 ff]. Demarcation lines protect workers from having the functions of their jobs stripped away. Job stripping typically precedes mechanization, job combination or downgrading. Seniority rules are distinct from job demarcation rules. Seniority principles rarely operate without a “skills and ability” qualifier. When jobs consist of many functions, the relative weight of the “skills and ability” qualifier is increased. For this reason, seniority rules have led to a union bias towards comparatively narrow job definitions. Comparatively narrow job descriptions are also believed to impede reductions in labour requirements.

The desire to limit arbitrariness on the part of management is only one of the motivations behind job control unionism. Labour relations in North America are conducted in the context of comparatively low managerial commitment to employment security for production workers. Vulnerability to both short-term and permanent lay-off is a central fact of life for hourly-rated workers in non-office jobs. The European practice of reducing hours to avoid lay-offs is relatively uncommon in North America.

Seniority is the means by which a worker achieves relative security from the threat of lay-off. The value of seniority rights, as we noted, is enhanced by “tight” job structures. Conversely, in the absence of other changes, the value of seniority rights is diminished when a “tight” job structure is replaced by one based on broad job definitions. Broader job definitions are the obvious means for managers to overcome the problem of job demarcation lines. The difficulty, however, is that this increased managerial flexibility is not costless to workers. Increased flexibility is achieved at the expense of security, or at least at the expense of the security of more senior employees. It is not surprising, therefore, that North American unions have been much more resistant to new forms of work organization that has been characteristic of unions in Europe.\textsuperscript{11}

4. \textit{Union representation structures and work organization}

The Ontario Labour Relations Act makes no reference to union representation structures in the workplace. The rights of union representatives are matters for collective bargaining. By grounding the rights of union representatives in collective agreements rather than in statute, Ontario’s Labour Relations Act gives unions a stake in preserving a particular model of work organization.

Union representation structures necessarily reflect, in some manner, the way that work is organized. The Taylorist system of organizing work relies on extensive front-line supervision and minimal delegation of decision-making responsibility to non-supervisory workers. Counterpoised to each foreman is a union steward who is elected by the membership he or she represents. In a typical plant, there will be one union steward for roughly every 20 members. The steward system is the foundation of union strength in the workplace. Union enforcement of negotiated working conditions largely depends on the steward system. A union’s ability to mobilize workers for industrial action is similarly dependent on the strength of its steward system.

\textsuperscript{11} This contrast is discussed by Thelen [1991], esp. Ch. 9, “The politics of work reorganization: A comparative perspective”.
Union structures in the workplace are premised on a sharp distinction between the role of management and the role of the union. Management's role is to initiate and to decide; the union's role is to grieve management actions that violate the collective agreement. The steward structure presumes, therefore, that management does not share its decision-making power with either workers or their representatives. If the power to initiate and to decide is delegated or shared, the union is put in the untenable position of grieving against its own members.

The retreat from Taylorist principles in organizing work weakens the traditional union representation role. New models of work organization emphasize reducing direct supervision, delegating decision-making power to front-line workers and replacing the foreman-centred hierarchy with semi-autonomous work teams. When routine problems are dealt with by semi-autonomous work teams, the steward's representation role is diminished. While some industrial unions in Canada have been willing to explore changes in work organization in exchange for new rights, the predominant view in the private sector labour movement is to resist such changes. The tenor of this opposition was forcefully expressed in a widely circulated statement of the Canadian Autoworkers — the largest industrial union in Ontario:

We will not support management attempts to use the team concept or quality circles... The truth is that management's agenda is not about surrendering its power, but [about] finding more sophisticated ways to extend it... What we are saying no to is concessions and to structures that undermine union solidarity.12

As long as trade unions' rights are grounded in collective agreements and largely confined to "the right to grieve," industrial unions will have a stake in preserving the model of work organization out of which they initially grew.

5. Decentralization and autonomy from government

Industrial relations in Canada is radically decentralized. Unions are certified on a workplace by workplace basis. In Ontario, the presumption of the Labour Relations Act is that bargaining will also take place on a workplace by workplace basis. This presumption was confirmed in the

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12 Canadian Autoworkers (CAW) [1989]. A similar rejection of semi-autonomous work teams was set out in Canadian Paperworkers Union (CPU) [1990]. Openness to a new bargain has been expressed by the United Steelworkers (USWA) [1991] and the Communication and Electrical Workers of Canada (CWC) [1990].
1984 decision of the provincial Labour Relations Board. The Board found that a union was bargaining unlawfully when the union called a strike in support of its demand that a company bargain with them on a multi-employer basis rather than independently. Indeed, so strong is the decentralist presumption of Ontario's labour relations law that unions are barred from using a strike threat to force a company with more than one workplace to bargain on a company-wide basis.

Radical decentralization limits the substantive involvement of government in the collective bargaining process. While governments can discuss industrial relations issues with central labour bodies and with employer organizations, these bodies have no real authority over the conduct of collective bargaining. Moreover, the tradition of decentralized bargaining has fostered a deep antipathy to any substantive involvement by government in the collective bargaining process. Substantive involvement by government in collective bargaining is exceptional; it is usually associated with statutory termination of a strike in an essential service.

Ontario's industrial relations system deals reasonably well with distribution issues, viz., determining wages, benefits and various types of premium pay. The system has also brought in procedures which promote a high degree of fairness in discipline, lay-offs and promotions. These are significant achievements. It is not surprising that unions are reluctant to experiment with changes that might erode the sources of their shop-floor support and thereby jeopardize these gains. There are, however, significant costs in maintaining the present industrial relations system in an unmodified form. Ontario's industrial relations system impedes economic restructuring at the plant level. The system thereby encourages a regional relocation of industry. With the advent of a tariff-free North American market, these costs have become much more severe. Without changes to its system of industrial relations, Ontario's adjustment to the elimination of tariffs and to changes in the international economy will be strongly biased towards adjustment out of manufacturing rather than within manufacturing. This type of adjustment process will accentuate the problems of re-employing laid-off, industrial workers and absorbing semi-skilled, young workers into the labour force. It will also contribute to the deterioration in

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13 In its 1984 case Burns Meat Ltd., the Ontario Labour Relations Board found the United Food and Commercial Workers guilty of bargaining "in bad faith" when the union struck over the company's refusal to remain in a nationwide, multi-employer bargaining structure that had operated in the meat-packing industry for almost 40 years. (See Burns Meat Ltd., 1984, OLRB Report 1049.) Relying on this precedent, the Steel Company of Canada terminated its involvement in "chain bargaining" and insisted that the United Steelworkers bargain with each of its plants separately and autonomously.
income distribution that has become increasingly evident.\textsuperscript{14} Moreover, the momentum of growth, once lost, may prove difficult to regain. There are, therefore, compelling reasons to explore modifications to the industrial relations system which would foster negotiated adjustments within the manufacturing sector.

\textbf{IV. Promoting negotiated adjustment}\textsuperscript{15}

The term “negotiated adjustment” has been used thus far to describe a \textit{bargained} response at the level of the workplace to changes in technology, work organization and competitive conditions. A negotiated adjustment contrasts with a managerially dictated response to change. It also contrasts with a union policy of obstruction or malicious compliance. For management, a negotiated adjustment holds out the prospect of shop-floor cooperation in the implementation of changes in technology and work organization. The OECD report, \textit{New Technologies in the 1990s}, has this in mind when it distinguishes between the rate of installation of new technology and the rate of \textit{successful} utilization [OECD, 1988]. For labour, a negotiated adjustment holds out the opportunity to advance a number of traditional union goals: greater employment security, more training, improved health and safety and a better ergonomic design of both jobs and technology.

A negotiated adjustment is ultimately about the terms on which shop-floor cooperation is extended in exchange for a company’s willingness to use the “managerial surplus” to strengthen the capacity of a plant to provide employment security and good jobs.\textsuperscript{16} The managerial surplus may be thought of as the yield on a company’s assets that is in excess of that which must be paid to lenders and dividend-oriented shareholders. An industrial relations system that fosters negotiated adjustments encourages management to invest in both machinery and skills to avoid jeopardizing

\textsuperscript{14} Economic Council of Canada [1990]. Significantly, the deterioration in the distribution of labour market income was more pronounced in the province of Ontario than in other regions. This suggests that the deterioration is related to the impact of economic restructuring on the labour market.

\textsuperscript{15} The term “negotiated adjustment” to describe the labour relations dimension of restructuring within a firm was introduced in Thelen [1991]. The term was used in a broader sense to describe an adjustment process mediated by consensus in Zysman [1983] and Kaussen [1985].

\textsuperscript{16} This analysis is based on William Lazonick, “The basic analytics of shop-floor value creation” in Lazonick [1990].
the shop-floor cooperation is an important factor in the return on past investments. In this way, negotiated adjustments accelerate the rate of both technical innovation and organizational change. By the same token, negotiated adjustments also encourage restructuring within industries rather than out of them.

It has been conventional to separate labour policy into two distinct boxes. The first contains policies dealing with labour standards and with industrial relations. The focus of policies in this box is the balance of economic rights. The second box comprises labour market policies, viz., policies aimed at income support for the unemployed, training and other types of adjustment assistance. The goals of policies in this box are labour market efficiency and supporting long-run growth in the economy by increasing the skill levels of the labour force. Section III discussed how the balance of economic rights in the workplace can inhibit rather than encourage negotiated adjustments. At the same time, the design and implementation of labour market policies can widen or narrow the type of bargain that is available to labour and management.

The previous section noted that vulnerability to temporary and permanent lay-offs is one of the central facts of life for hourly rated workers. While all workers are vulnerable to lay-off, there are important differences of degree. Paul Osterman has pointed out that the wage system and the salary system involve different “bargains” over security and flexibility [Osterman, 1988, especially Chapter 4]. In the wage system, employers confer comparatively little security and, in turn, are subject to significant constraints on how they deploy labour. These constraints take the form of job control unionism, viz., seniority rules, narrow job definitions and strict demarcation lines. In the salary system employers endeavour to provide significantly more security from lay-off — especially temporary lay-off. In return for this security, employers enjoy much greater flexibility in assignment and work organization. In periods of accelerated adjustment the rigidities of the wage system can limit the ability of firms to restructure internally. Public policy, therefore, has an interest in enabling unions and employers to strike a more socially efficient bargain over security and flexibility.

There are two issues that need to be considered. The first is the propensity of labour and management to seek negotiated adjustments. The second is their ability to strike a different bargain over security and flexibility. The way in which economic rights and obligations are configured is critical to the first issue. The second is affected in significant ways by the design and implementation of labour market programmes. There are two features of labour market policy that warrant particular attention: the low level of commitment to both work-sharing and to training
and the low level of involvement of labour and management in the implementation of labour market programmes.

The present industrial relations system impedes restructuring at the level of the workplace. To move out of this pattern will require changes both in labour relations policy and in labour market policy. These changes must be framed with an understanding of the way in which labour market policy and collective bargaining interact.

1. **Duty to bargain**

The focus of this traditional collective bargaining relationship is on distributive and procedural fairness. Economic restructuring brings to the fore a different set of issues. These include: how skills are accumulated; how the costs of skill acquisition will be shared; how work will be organized to both use and reward those skills; and what support will be available for workers whose jobs are eliminated by changes in technology or market conditions. The two-interval model of collective bargaining is ill-equipped to deal with these restructuring issues. That model, it will be recalled, confines substantive bargaining to a period of six to eight weeks every two to three years. The balance of the relationship between labour and management is defined by the counterpoising of the employer's right to manage with the union's right to grieve. To deal with restructuring issues requires an on-going duty to bargain.

In the United States, section 8 of the National Labour Relations Act applies the duty to bargain to the entire collective bargaining relationship. One might consider, therefore, emulating section 8 of the NLRA in the Canadian labour codes. Indeed, some labour codes do require bargaining during the life of a collective agreement when new technology is introduced. In practice, however, neither section 8 of the NLRA nor the "tech change" provisions of some of the Canadian codes have had much impact on labour-management relations. The difficulty lies in presumption that management's rights prevail except when there are provisions to the contrary in a collective agreement. To move beyond the two-interval model of collective bargaining requires a legal presumption that certain issues are properly the subjects for co-determination.

Ontario has opted for a co-determinative model in some aspects of the employment relationship. The province's Occupational Health and Safety Act, for example, is premised, at least in part, on the notion of "joint responsibility". The legislation mandates the establishment of joint committees and provides for certification of those committees by a bipartite agency. Ontario's Pay Equity Act takes the co-determinative model a step further. This legislation requires labour and management to evaluate jobs
and to devise an explicit plan for eliminating gender-based inequities in wages and salaries. Proposed legislation to promote equal opportunities for women, the disabled and other types of workers draws on this model by similarly requiring labour and management to agree upon an employment equity plan. What this legislation (and proposed legislation) have in common is that they establish joint responsibility over certain aspects of the employment relationship. This contrasts with the way that rights are configured in the second interval of the collective bargaining relationship. What this suggests is a "Human Resources Development and Labour Adjustment Act" that would mandate jointly negotiated human resource plans, at least among mid-sized and large employers.  

2. Rights of union representatives

In none of the Canadian jurisdictions does the labour code set out the rights of union representatives in the workplace, save for the right to negotiate a collective agreement and to lodge a grievance. All other rights must be negotiated. These include consultation rights, information rights, the right to hold membership meetings or to conduct union work on company premises and the right of union representatives to take time off work. The articulation of these rights varies significantly from one workplace to another — a pattern that would be expected when rights are dependent on bargaining leverage. The dependence of union rights on bargaining leverage makes unions reluctant to cooperate with new models of work organization that are based on semi-autonomous work teams. There is a well-founded fear that this type of work organization will weaken the traditional role of union stewards without conferring any compensating recognition on the union. This fear is underscored by management consultants who promote employee participation programmes as union substitution devices. What is required, therefore, is a chapter in the provincial labour codes setting out the basic rights of a union and its elected representatives. By grounding the rights of union representatives in statute, public policy would loosen the link that now ties the union's representation role to Taylorist forms of work organization.

3. Sectoral structures and labour market programmes

One of the significant developments in collective bargaining during the 1980s in Canada was the emergence of bipartite, sector-based bodies to

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17 This proposal is developed in O'Grady & Warrian [1991].
address issues related to labour adjustment and skills development.\textsuperscript{18} Important initiatives have now taken shape in the basic steel industry, the auto parts industry and the electrical and electronics industry. In several other sectors, unions and employers are exploring the establishment of sector-based undertakings. The emergence of bi-partite, sector-based organizations reflects three characteristics about adjustment and training issues:

(a) it is difficult for unionized employers to deal with adjustment and training issues without involving their unions;

(b) unions and employers cannot easily deal with adjustment and training issues within the two-interval framework of traditional collective bargaining relationships;

(c) agreements are more easily reached when the locus of bargaining is shifted from the plant level to a sectoral level. This may result from moving the treatment of adjustment and training issues into a forum which is not directly related to grievance handling and traditional bargaining over economic issues.

The emergence of bipartite, sector-based bodies provides a counterweight to the decentralization that otherwise dominates collective bargaining. Agreements that are reached at the sector level provide greater scope for negotiated adjustments at the workplace level. The strength of sector-based bodies is their voluntarist character. There is no role for statutory status or statutory regulation. However, public policy can strengthen sector-based institutions by assigning to them a central role in the implementation of labour market programmes that deal with adjustment and training. In Ontario, as in the rest of Canada, labour market policy is currently much more oriented towards regional and community structures.

4. Labour market policy

Temporary lay-offs represent approximately 75 per cent of all lay-offs in the manufacturing sector in Canada. An analysis based on 1984 data indicated that workers on temporary lay-off accounted for roughly one-third of regular unemployment insurance benefits [Robertson, 1989]. The reliance of industry on temporary lay-offs is believed to be more marked in Canada and the United States than in other OECD jurisdictions.\textsuperscript{19} In

\textsuperscript{18} The emergence of bipartite, sector-based organizations is discussed in Sharpe [1992].

\textsuperscript{19} Lemaitre et al. [1992]. The view that Canadian employers are comparatively more reliant on temporary lay-offs was echoed in a recent study by Michael Porter which was jointly financed by the Government of Canada and the Business Council on National Issues.
those economies, reductions in average hours are a more common response to cyclical downturns.

Reliance on lay-offs heightens insecurity. *Vulnerability to lay-off is at the foundation of the job control unionism that is so characteristic of North American industrial relations.* The comparatively low commitment of many private sector companies to employment security for production workers is a major impediment to negotiated adjustments. Labour market policy ratifies this reliance on lay-offs by its presumption that complete lay-offs will be the norm and work-sharing the exception.

Figure 3 summarizes the distribution of beneficiaries under the unemployment insurance system in Canada according to the type of benefit they received. The low proportion of workers who receive work-sharing benefits or training benefits is striking. On average over the period 1990-1992, for every one worker on work-sharing benefits there were 40 workers on regular benefits. The ratio of workers on regular benefits to workers receiving training benefits was 24:1.

What is required is a reconfiguring of unemployment insurance benefits to make work-sharing a much more common response to economic downturn. This change would be particularly important if it were linked to the introduction of negotiated training and adjustment plans. At present, for the vast majority of workers on temporary lay-off, their lost time is pure economic waste. Linking work-sharing to negotiated training and adjustment plans could lead to a much greater use of lost time as an opportunity for expanding skills. Where sector-based organizations have been established, these are likely to play an important role in providing support for such training. *The critical issue, however, is using labour market policy to*

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The "Porter Report" commented as follows: "... the prevailing management outlook is characterized by a tendency to view labour as a variable cost, not a 'fixed asset.' This attitude, which contrasts sharply with the outlook of most companies in Japan, Germany and several other successful economies, has consequences for the competitiveness of Canadian industry. Viewing labour as a variable cost has encouraged frequent resort to lay-offs as a short-term response to competitive forces or downturns in the economy. The long-run implications of this short-term cost orientation to managing the workforce have been overlooked by Canadian firms." Porter and the Monitor Company [1992, p. 186].

On average, work-sharing agreements in Canada entail reductions in regular working hours of 1½ days, viz., 30 per cent of paid hours. Unemployment insurance covers 53 per cent of this loss as of December 1992. Formerly, the ratio of income replacements was 60 per cent. Employers wishing to implement work-sharing must make special application for this type of benefit. There is a ceiling on the total amount of work sharing that the unemployment insurance system will sanction. Should permanent lay-off occur after exhaustion of a work-sharing agreement, the unemployment benefits to which laid-off workers become entitled are reduced. An employer's average hourly payroll costs are somewhat higher under work-sharing owing to the cost of maintaining benefit plans for workers who would otherwise have been laid off.
break the pattern of reliance on short-term lay-offs. Unless this pattern is broken, there is little prospect of negotiated adjustments becoming the dominant industrial relations response changes in technology, work organization and competitive conditions.

Figure 3: Average number of monthly beneficiaries by type of benefit, unemployment insurance, Canada, 1990-1992

![Diagram showing average number of monthly beneficiaries by type of benefit, unemployment insurance, Canada, 1990-1992.]

Source: Statistics Canada: CANSIM.

In discussing the institutional regulation of the labour market, Sengenberger commented that: “where labour organizations and labour market regulation have appeared in conflict with adjustment requirements… this was not so much a function of the excessive development of labour institutions as of their insufficient development” [Sengenberger, 1991, p. 238]. This case study has developed that argument in the context of a region that is experiencing intense restructuring pressures.

The high rate of collective agreement coverage in the Canadian manufacturing sector makes the industrial relations system an important factor in how restructuring issues are dealt with in the workplace. The bias of the present system is to impede the process of adaptation at the workplace. This is especially the case when innovation requires changes in
the way that work is organized. Because the industrial relations system
does not make negotiated adjustments the norm, the restructuring pattern
that is likely to predominate will entail significant social costs. Removing
the obstacles to negotiated adjustments will require changes to the legal
framework within which industrial relations are conducted. The duty to
bargain must be expanded so that it applies to restructuring issues. Trade
union rights in the workplace need to be founded in statute so as to loosen
the link that many unions currently see between those rights and the
Taylorist forms of work organization out of which union representation
structures originally grew. The radical decentralization of Canadian indus-
trial relations means that labour market policy plays an important role
in influencing the kinds of bargains that can be struck at the workplace.
The current bargain in most manufacturing workplaces over security and
flexibility is socially inefficient. If management and labour are to strike a
different bargain, the biases of labour market policy must be changed.
Labour and management must become much more directly engaged in the
design and implementation of labour market programmes through sector-
based organizations. Labour market policy must also encourage greater use
of work-sharing and training in place of the current heavy reliance on
temporary lay-offs.

Collective bargaining is a powerful institution for regulating the labour
market. Through its influence on the labour market, collective bargaining
inevitably affects the way in which economies respond to changes in com-
petitive conditions. The industrial relations system that has emerged in
Ontario, and in Canada as a whole, is focused primarily on equitable
distribution and procedural fairness. The system is not well suited to
dealing with intense restructuring pressures. To change that will require
altering the legal framework of collective bargaining and reconfiguring
labour market policy to broaden the range of potential bargains that are
available to labour and management.

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Case 3: Lorraine, France: Labour standards and economic reconversion

Philippe Méhaut
Marie-Claire Villeval

I. Introduction

For several decades, the monopolistic wage-employment relationship (rapport salarial) was based on the production of labour standards consistent with the then current mode of accumulation. A certain number of contradictions and blockages then emerged, both in the accumulation process and in the link between that process and the wage-employment relationship. Whatever their point of view, analysts agree that work and employment relationships lie at the heart of the process of change. While the apostles of deregulation denounce labour and labour standards either as contributing to the rigidification of productive and social structures in a rapidly changing environment or simply as being a “luxury” that current difficulties make unaffordable, strategies based on deregulation have not yet succeeded in triggering an expansionist spiral nor in preventing a widening of regional differences. In fact, the basic question is not whether labour and labour standards impede or encourage redevelopment, but rather under what conditions it might be possible to move from labour standards relatively consistent with a certain logic of accumulation prevailing at a given period to a different wage-employment relationship consistent with a new logic of accumulation that will offer greater economic and social efficiency rather than erode protection for the labour force.

In order to pursue this question, this case study will look in detail at a region of France (Lorraine, whose iron and steel-producing districts were described in the 1960s as the “French Texas”) that has been profoundly affected by industrial restructuring. This decision may seem marred by a methodological constraint, since labour standards in France are the product of government policy and practices at industry and enterprise level, with the region as such having little or no role. For all that, the structure of economic activity (by sector and by size) and the ways in which enterprises are linked (existence or otherwise of networks of firms) do mean that standards are differently configured from region to region. Even though the region is an inadequate framework, it does constitute a space in which the various dynamics at work can be observed.
After summarizing the main features that characterize the structures of economic activity in the region and the processes of industrial restructuring that have affected it in the past decade (Section II), the nature of the labour standards involved in these processes will be outlined (Section III). The focus will be in particular on the dynamic of the various levels of intervention in the construction of those standards. Finally, a local and regional survey of economic and social reconstruction that will highlight the new conditions for the utilization and reproduction of the labour force and the role of standards will be offered (Sections IV and V).

II. The regional situation before restructuring

Before the last major crisis in the iron and steel industry, the characteristics of the Lorraine region could be summarized fairly rapidly by several indicators.

1. A region dominated by heavy industry
   (mining and intermediate products)

   In the mid-1970s, employment by sector was distributed as follows: primary — 4.8 per cent; secondary — 50 per cent; construction and public works — 8.2 per cent; tertiary — 37 per cent.

   In 1976, 42 per cent of the 269,000 people employed in industry were working in iron ore mining, iron and steel making or coalmining. However, intra-regional differences were very great, since these industries were concentrated in a few coal or mineral fields (notably, in the case of iron and steel, in the districts of Briey, Longwy, Thionville, Neuves Maisons and Pompey, which will be a particular focus of attention later in this case study).

   This concentration of employment in traditional heavy industry was also reflected in a very specific structure by size of firm, dominated by large establishments. Thus in the Longwy and Briey districts, 75 per cent and 59 per cent of workers, respectively, were employed in establishments with more than 50 employees (compared with about 50 per cent for the region as a whole).

2. An employment structure typical of a traditional industrial region

   Employment in the region was predominantly manual, as is shown in Table 1.
Table 1: Employment structure typical of a traditional industrial region

<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>Lorraine</th>
<th>Longwy</th>
<th>Birey</th>
<th>Nancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled manual</td>
<td>34.5</td>
<td>42.5</td>
<td>44.8</td>
<td>46.9</td>
<td>39.5</td>
</tr>
<tr>
<td>Unskilled manual</td>
<td>20.9</td>
<td>23.5</td>
<td>27.7</td>
<td>24.3</td>
<td>20.6</td>
</tr>
</tbody>
</table>

Source: Enquête structure des emplois (ESE), 1978.

The rate of feminization was low. In 1975, the female participation rate was 31.8 per cent in Lorraine, compared with 36.6 per cent for France as a whole. Even when adjusted for the structural effect, the gap is 2 percentage points. For female employees in firms with more than 10 employees, the gap was even wider: 25.9 per cent in Lorraine, compared with 36.2 per cent in France as a whole.

Like other industrial regions in northern France, the percentage of the population in full-time education at that time was below the average for France as a whole. On the one hand, the percentage of the population in full-time education at or around the minimum school-leaving age of 16 placed the region in the third quartile of French regions; on the other hand, the percentage of young people attending lycées (high school) was approximately 7 percentage points below the French average. Finally, and in contrast, participation in short training courses for manual occupations (including apprenticeships) was higher than average.

3. A crisis that had already begun in the mid-1970s

Finally, it must be stressed that, although the crisis of the 1980s was more far-reaching, the destruction of the fabric of the iron and steel industry was already under way by the mid-1970s. Between 1974 and 1979, while the total number of workers remained more or less static in France, the number fell from an index of 100 to one of 96 in Lorraine. Almost 28,000 jobs were lost in the iron and steel industry and the iron ore mines during this period. In iron ore mining alone, virtually 50 per cent of jobs disappeared. Nevertheless, these changes did not lead to the total disappearance of these industries from Lorraine. Furthermore, and despite the emergence of a general crisis, the job losses took place against a background in which jobs were still being created in certain sectors of industry and in services. At that time, the slump in employment was still viewed largely as a temporary cyclical crisis [Villeval et al., 1990].
III. Labour standards in the restructuring process

We shall make use here of the typology drawn up by Werner Sengenberger: participatory, promotional and protective standards. However, two further distinctions have to be made, firstly between general standards (laid down in an inter-occupational agreement or in law, as is the case of the minimum wage or the right to training in France) and standards specific to certain industries or enterprises and, secondly, between general standards and dedicated standards (those applied in the restructuring process). The latter cannot exist without the former, and we shall attempt to keep the link between them in mind, even though the main focus of attention here is on the standards specific to the restructuring process.

1. The dynamic of protective standards

As far as the evolution of protective standards is concerned, the current structural crisis has revealed three trends. Some are proving to be relatively permanent (the guaranteed minimum wage and social protection, for example), others are being destroyed (the abolition of the need for prior official authorization in the event of redundancies and the development of specific employment forms) while at the same time new standards are emerging (the development of additional social protection schemes, particularly in the field of retirement pensions, programmes to alleviate the consequences of job losses in which training plays a new role, etc.).

These developments are calling into question the very meaning of protective standards. For example, protective standards might be taken to include all measures intended to avoid restructuring being achieved through externalization of the labour force and dismissal and rehiring policies (diversification policies, reduction of working time, short-time working, etc.). However, measures intended to improve conditions for the external mobility and reclassification of workers might also be regarded as employment protection standards. In France, government policies and those pursued in the traditional industries undergoing restructuring have concentrated since the 1980s on the development of this second category: the emphasis has been on protection for the unemployed and the management of unemployment rather than on guarantees against the loss of employment. Let us illustrate this statement.

A. Government policy

In the course of the last decade, government policies have strengthened standards of protection for workers made redundant, but not until the employment contract has been terminated, which has increased the
role of UNEDIC (Union nationale pour l'emploi dans l'industrie, le commerce et l'agriculture) and of the worker himself, considered as an active participant in his own retraining.\(^1\) A new legal regulation on the termination of employment contracts has been introduced: in the case of so-called “conversion agreements”, workers are not dismissed but the employment contract is terminated by mutual consent. These measures are complemented by long-established state benefits (temporary graduated benefit in compensation for reduced pay, relocation grants) and by new forms of assistance to firms: financial support for the establishment of placement units, support for those providing advice to SMEs, etc.

The aim has been to support the enhanced role of external mobility in the management of restructuring by introducing new measures that focus rather on protective standards for the transitional period between jobs. Nevertheless, government policy has also attempted, particularly by means of the National Employment Fund (NEF), precautionary training agreements and retraining and adaptation contracts, to assist firms in upgrading the skills of their current workforce rather than substituting categories of the workforce by recruiting in the external labour market. Assistance during the transition to half-time and short-time working is also intended to reduce redundancies, although the impact of such assistance remains limited.

Government measures aimed at young people and the long-term unemployed also illustrate the changes in labour standards associated with restructuring. As far as young people are concerned, labour market entry programmes emphasize either alternating training (qualification contracts, employment adaptation contracts, etc.) or direct entry into employment (employment induction courses, community work, now abolished in favour of employment solidarity contracts). For the long-term unemployed, alternating labour market re-entry courses, local labour market entry programmes and, more recently, return to employment contracts have been introduced. These measures are intended to facilitate the entry or re-entry into employment of categories of workers whose labour market position has been made even more difficult by successive waves of industrial

\(^1\) These policies are enshrined in the national inter-occupational agreement of 20 October 1986 and taken up in the law of 30 December 1986 on conversion agreements and the law of 2 August 1989, which makes it compulsory for all firms to offer a conversion agreement to all employees affected by mass redundancies. Employees who accept this agreement have their skills evaluated and may then be offered a place on a training course. For a maximum period of five months, they receive an allowance to the value of 70 per cent of their former wage; they are considered as workers without a job but actively involved in a retraining programme. Their employment contract is terminated as soon as the so-called “conversion leave” begins.
restructuring and the removal of barriers to entry into firms. However, they have also exerted downward pressure on other standards by reinforcing labour market segmentation, under the pretext of seeking various forms of flexibility. In a sense, they have been more effective in reducing labour costs (acceptance of pay below the guaranteed minimum wage) than in increasing the efficiency of the workforce (the training element is often limited).

On the one hand, therefore, the norms regulating job losses have been strengthened (even in firms applying minimum standards), while on the other there has been a rapid increase in the number of specific employment statuses that do not offer a right to higher standards (for example, conversion agreements apply only to workers with at least two years' seniority in their firm).

B. Protective standards at industry level

In Lorraine, it is the iron and steel industry that has the most advanced standards for alleviating the consequences of restructuring. The 1984 general agreement on social protection in the iron and steel industry can be distinguished from previous agreements by the introduction of training-conversion contracts, alongside classic early retirement schemes (from 50 years of age onwards) and internal transfers. For a period not exceeding two years, during which their employment contract remains in force, workers are paid 70 per cent of their regular wages and may attend training courses. Employers are obliged to make workers two offers of employment on contracts of indefinite duration.²

The introduction of these measures, which offer greater protection than is available in common law, cannot be dissociated from the labour standards that have traditionally prevailed in this industry (generally higher than average, at least as far as stability is concerned) and the industry's earlier desire to stabilize its workforce. However, their objective is certainly to facilitate the reallocation of the workforce and not to compensate workers for the loss of their jobs.

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² On being offered a placement, a worker is paid a sum equivalent to 65 per cent of the wage he would have continued to receive for the remaining period of the training-conversion contract. If a worker rejects the offer of a training-conversion contract, he receives a one-off payment of 65 per cent of the total sum he would have been paid during the two years of the contract ("immediate capitalization"), on condition that he can supply proof that he has found a new job; in this case, the employment contract is terminated immediately and the employer is under no obligation to make him a job offer. If the new job offers less pay than the old one, a worker may receive a temporary allowance, paid on a sliding scale, for a period of up to two years.
Initially, the standards introduced in the iron and steel industry influenced both common law (introduction of training leave in 1985 and of conversion agreements in 1986 — see above) and practices in other industries (conversion-training contracts were introduced in the shipbuilding industry, and placement units were set up in Lorraine textile firms). Subsequently, however, practices in the iron and steel industry tended to draw closer to common law.\(^3\)

2. The evolution of promotional standards

Two examples of the development of promotional standards will be given.

Training has been accorded new roles, both at the level of initial education and of continuing training. Has not the government’s stated aim of bringing 80 per cent of any one age group to a level equivalent to the baccalauréat between now and the end of the decade itself established a new promotional standard? Moreover, the increasing institutionalization of the rules governing mobility (both internal and external) means that training has acquired new importance. In particular, firms engaged in the process of industrial restructuring can reject hire and fire policies because of their limitations (loss of skills, demobilization of personnel, difficulties of recruiting staff with certain qualifications) and opt for internal reconversion strategies. In that case, training becomes a tool to be used in the reconstruction of the internal labour market (reorganization of work groups, of promotion paths, of selection methods and of mobility strategies), taking it beyond its older status as a standard for individual promotion or as an adjustment variable [Méhaut, 1992]. More broadly, the most recent research on firms’ training policies shows that training is an increasingly active element in the reconstruction of the wage-employment relationship, which has an impact on its three components: the reorganization of work, the reconstruction of mobility and the transformation of the rules governing pay determination. This new mobilization of training (not only in company policies but also in government policy, for example through the so-called commitments to the development of training) marks a fairly clean break with the former characteristics of the French labour market which, unlike occupational markets, accorded relatively little importance to training in the allocation of jobs (at the very least, it was not the key principle; training frequently came after promotion rather than

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\(^3\) Thus, the 1987 general agreement on social protection reduced the maximum duration of conversion-training contracts to one year and the number of compulsory job offers to one.
preceding it) or in pay determination. In this sense, it might help to close the gap between promotional standards and protective standards (with the latter no longer necessarily being confused with the various social programmes intended to alleviate the consequences of job losses).

Another example of an evolving promotional standard is provided by interventions by the state and by industrial groups in national and regional development, although such interventions do not directly affect the relationship between the employee and his firm. During the restructurings of earlier decades, the main plank of state policy was to assist the mobility of capital (replacing lost jobs by shifting industries to priority regions). In the 1980s, as the pace of restructuring quickened, two strategies emerged.

A. *From troubleshooting to preventive action*

In 1984, the government classified the 15 areas worst affected by the restructuring of traditional industries as "conversion poles"; extra financial resources were pumped in in order to help plans for new firms to get off the ground (regional development grants were made available, and government representatives were installed in prefectures to assist with the task of reconversion). Two of these "conversion poles" were in Lorraine (in iron and steel making districts) and, in addition, a special government representative was appointed to take charge of redeployment. Lorraine also benefited from a special measure under which the state took responsibility for three years for one-third of the wage bill for any job created in a tightly defined list of communes.4 Although some government jobs were moved to Lorraine, the government's main objective was to promote the notion of endogenous local development by taking action to improve the infrastructure and educational provision and by taking responsibility for a certain proportion of labour costs.

From 1988 onwards, the "conversion poles" fell into abeyance. The ministry responsible wished instead both to promote the preventive management of industrial restructuring, of labour and of regional development and to develop active partnerships with other agencies: the state could not and should not take sole responsibility for local redevelopment. With the impetus being given by central government agencies, development programmes were set up in partnership with local bodies (local authorities, chambers of commerce, universities, large companies, etc.). Since then, the notion of zoning (the talk now is of "arcs" rather than "poles" of

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4 Translator's note: the term *commune* as used here denotes the smallest unit of local government in France.
development) and the instruments of development have become commonplace [Wachter, 1991].

B. The development of group action programmes for local redevelopment

As early as the 1970s, large industrial groups were setting up their own regional development departments (known as “group DATARs”, after a government department responsible for regional development). The 1980s saw the development of “conversion companies”. These companies have directed their activities in two directions: they provide financial and logistical assistance for the establishment of new firms and offer incentives to workers to leave the group (by offering low-interest loans, helping to draw up business plans for banks and giving advice on the choice of activity). Here again, there has been a two-fold development. Firstly, these companies were set up originally as a way of helping to compensate for the loss of jobs at the plants being shut down; now, the programmes are tending to become more preventive and structural and to look beyond the areas most directly affected [Raveyre, 1988]. Secondly, some groups, at the same time as refocusing their attention on their own activities, have been seeking to forge links, both market and non-market, with the firms they have helped, with the aim of creating a local network of firms. Nevertheless, many questions remain unresolved, in particular that of how these initiatives might constrain the quality of standards in newly-established firms.

3. The evolution of participatory standards

At the national level, two sub-periods need to be isolated. The arrival in power of the socialist government was initially reflected in the establishment of new collective frameworks. The “Auroux laws” of 1982 gave workers a whole new set of rights; collective bargaining was further institutionalized at various levels (it became compulsory at both industry and firm level to conduct annual negotiations on pay and training) and attempts were made to regulate the use of temporary workers more tightly. However, the conditions under which these laws were implemented proved to be highly dependent on power relationships at the local level, to the extent that the obligation to negotiate did not mean there was any obligation to reach agreement. Moreover, reinforcing bargaining at firm level may help, a priori, to restrict the scope of protective and promotional standards relative to those implemented at industry level [Petit, 1986, pp. 35-64]. Since the end of the 1980s, labour lawyers have identified a different trend, namely the emergence of a proliferation of new, indivi-
dualized rights, including an individual right to training, to conversion, to qualifications and to training grants. This development is not an indication of a fragmentation of labour law but does reflect the weakening of the previous collective structures of employee representation and the strengthening of individualized compromises (thus, in the case of conversion agreements concluded under common law, the fact that the employment contract is terminated before the conversion agreement comes into force means that employee representatives are prevented from monitoring the retraining and placement processes). And, as A. Lyon-Caen [1992] has underlined, this tendency also in part reflects the failure of the French trade unions, faced with large-scale economic and social restructuring, to put forward an alternative collectivist strategy (unlike, to a certain extent, their Swedish and German counterparts). This strengthening of individualized standards, products of the drive towards greater flexibility, undoubtedly heralds the emergence of a new logic to underpin the wage-employment relationship.

Industry-level bargaining has also led to the emergence of new participatory standards directly linked to the processes of restructuring. If we turn again to the example of the iron and steel industry, consultative structures have been strengthened (at both regional and local level, through the establishment of new bodies such as district committees, regional committees set up to monitor general agreements on social protection, etc.) while at the same time the ability of trade unions to influence decision-making has weakened [Chaskiel & Villeval, 1988]. Again, however, two periods should be distinguished. Between 1983 and 1986, the firm was still an active locus for the management of conversion, even though the number of surplus workers was determined by the group and the political authorities and the industry-level agreement laid down the principal measures for dealing with the consequences of job losses. Trade union representatives at firm level were able to obtain significant local improvements to the provisions made at industry level (notably in the spheres of training and pay). After 1986, group management took greater control of the process; the increasing difficulties the trade unions were experiencing in mobilizing their troops at a time when the old work groupings had completely collapsed and a new logic of individualized placements was developing limited the power of workers’ organizations on these so-called consultative bodies. The unions were divided both within sites and between sites; within the same organization, individual plants were incapable of adopting a common, long-term strategy to counter employers’ decisions and the trade
unions' position remained essentially defensive. At the same time, despite the establishment at the beginning of the restructuring process of inter-communal organizations for the development of economic revival programmes, communes of differing political complexions did not succeed in fostering offensive strategies (with the exception of one organization — Pôle Européen de Développement — in the north of the region, and even here the achievements were limited — see below). As a result, it was difficult to create the conditions for a real partnership that could promote regional redevelopment. This was due in part to the fact that reconversion can be analysed as a process of desocialization and subsequent resocialization [de Chassey & Receveur, 1990] in which the first term is considerably more advanced than the second. The philosophy of "every man for himself" that was implicit in the way reconversion was handled (with the emphasis being placed on individual career plans) served to deepen the crisis in the collective structures (loss of factory and then neighbourhood solidarities, questioning of the ability of trade unions to defend the interests of workers in the reconversion process, etc.).

Before examining the regional effects of these developments, it should be stated that the institutional framework has not completely fragmented, but has rather undergone a process of transformation. Certain specific standards produced by the reconstruction process are based on general standards (unemployment benefits are based on previous wages, and early retirement schemes are based on general retirement schemes), while others are intended to circumvent general standards (specific employment forms, measures for young people entering the labour market and for the long-term unemployed, etc.). These standards cannot simply be interpreted as substitutes for general standards that are in the process of vanishing.

---

5 Throughout the whole process, the Confédération générale du travail (CGT) opposed any decision to declare firms unviable and thus rejected all reconversion measures, whatever they were (it refused to sign general agreements on social protection since training-conversion contracts lead to dismissals, and it rejected early retirement unless it was offset by new hirings). The Confédération française démocratique du travail (CFDT) accepted a reduction or even the total disappearance of employment in the iron and steel industry in the areas affected and advocated an all-out training strategy as a means of dealing with job losses; at the end of the process, it sided with management and the government to defend the strategy of "rapid re-entry into employment".
IV. Regional restructuring and the contrasting effects of standards

It is not possible within the scope of this discussion to offer a general survey of developments in the region nor to draw any direct conclusions on the role of standards. We shall confine ourselves to defending two arguments:

(a) the depth of the recession in the iron and steel producing districts has not had a widespread depressive effect on the region as a whole even though its overall position has been weakened by depopulation;

(b) the combination of general and specific standards is reflected in a containment of the general effects of impoverishment, but has not prevented the concentration of poverty in specific groups; in the region as a whole, on the other hand, there has been a reduction in the differences between Lorraine and the other regions of France.

1. The destruction of industrial employment and the relative failure of local revitalization

A. The destruction of the industrial fabric

At differing rates and with differing degrees of intensity, all the districts traditionally dominated by a single industry are going through the same process of complete deindustrialization.

This process is particularly marked in the iron and steel and iron ore mining areas, as the example of Longwy shows. Over a period of 30 years, an industry that employed more than 23,000 people has almost totally disappeared. On the regional level, the largest iron and steel companies (ASCOMETAL and UNIMETAL) shed 12,000 jobs — half of their workforces — between July 1984 and December 1986. Although jobs are now being lost at a slower rate, the process is continuing and almost 4,000 more jobs are expected to go. By 1995, no more than 15,000 will be employed in the iron and steel industry in Lorraine (Table 2).

The effects have been felt far beyond the iron and steel industry itself. A large network of subcontractors (in the construction industry, for example) and of service providers upstream and downstream of the production process (transport companies, for example) was dependent on the industry. And the process of depopulation (and probably also the effect

---

4 One job lost in the iron and steel industry is estimated to cause the loss of 2.5 further jobs.
on consumption of the ageing of the remaining population) has led to a
general decline in trade and services (including public services such as
health and education). Thus in the Longwy district, for example,
employment by major sector has evolved as shown in Table 3.

To a lesser extent, similar conclusions could be drawn for the other
iron and steel producing districts, particularly the Nancy region.

Table 2: The declining significance of the dominant industry in various
employment areas

<table>
<thead>
<tr>
<th>Share of dominant sector</th>
<th>Share of industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>in industrial employment</td>
<td>in total employment</td>
</tr>
<tr>
<td>1968 %</td>
<td>1975 %</td>
</tr>
<tr>
<td>Steel/iron ore</td>
<td></td>
</tr>
<tr>
<td>Longwy</td>
<td>84 %</td>
</tr>
<tr>
<td>Briey</td>
<td>85 %</td>
</tr>
<tr>
<td>Thionville</td>
<td>76 %</td>
</tr>
<tr>
<td>Coal</td>
<td></td>
</tr>
<tr>
<td>Bassin-Houiller</td>
<td>76 %</td>
</tr>
<tr>
<td>Textiles/clothing</td>
<td></td>
</tr>
<tr>
<td>Epinal</td>
<td>58 %</td>
</tr>
<tr>
<td>Saint-Dié</td>
<td>52 %</td>
</tr>
<tr>
<td>Remiremont</td>
<td>70 %</td>
</tr>
<tr>
<td>Lorraine</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
</tr>
</tbody>
</table>

Source: Institut national de la statistique et des études économiques (INSEE).

Table 3: Employment in the Longwy district

<table>
<thead>
<tr>
<th>Total no. of employees</th>
<th>Percentage change from 1.1.1982</th>
<th>Compared with:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Briey</td>
</tr>
<tr>
<td>Industry</td>
<td>9 030</td>
<td>-29.7</td>
</tr>
<tr>
<td>Construction</td>
<td>1 190</td>
<td>-19.7</td>
</tr>
<tr>
<td>Commerce</td>
<td>1 940</td>
<td>-15.8</td>
</tr>
<tr>
<td>Services</td>
<td>9 300</td>
<td>-5.8</td>
</tr>
<tr>
<td>Overall¹</td>
<td>21 510</td>
<td>-19.1</td>
</tr>
</tbody>
</table>

Note: ¹ Including agriculture.
Source: INSEE - Estimations d'emploi.
B. Depopulation and unemployment

Analysis of unemployment in these districts does not reveal such marked changes as those outlined above. Firstly, the system of social protection has functioned effectively. Secondly, one of the major phenomena to be observed is depopulation. This trend became well established between 1975 and 1982 and continued at a slightly slower rate between 1982 and 1990 (and was probably linked with the general ageing of the population) (Table 4).

Table 4: Population trends (without double counting)

<table>
<thead>
<tr>
<th>Employment districts</th>
<th>Briey</th>
<th>Longwy</th>
<th>Lunéville</th>
<th>Nancy</th>
<th>Toulouse</th>
<th>Meurthe-et-Moselle</th>
<th>Lorraine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(% per annum)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975-1982</td>
<td>−1.32</td>
<td>−1.52</td>
<td>+0.04</td>
<td>+0.29</td>
<td>+1.03</td>
<td>−0.11</td>
<td>−0.07</td>
</tr>
<tr>
<td>1982-1990</td>
<td>−0.60</td>
<td>−1.47</td>
<td>−0.18</td>
<td>+0.24</td>
<td>+0.54</td>
<td>−0.09</td>
<td>−0.08</td>
</tr>
<tr>
<td>Rate of change due to migration (%) per annum</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975-1982</td>
<td>−1.50</td>
<td>−2.18</td>
<td>−0.07</td>
<td>−0.40</td>
<td>+0.39</td>
<td>−0.67</td>
<td>−0.57</td>
</tr>
<tr>
<td>1982-1990</td>
<td>−0.76</td>
<td>−1.80</td>
<td>−0.44</td>
<td>−0.40</td>
<td>−0.18</td>
<td>−0.61</td>
<td>−0.58</td>
</tr>
</tbody>
</table>

Source: INSEE, Population Census, various years.

Data are not yet available on the structural characteristics of migratory flows for the later period. However, several studies show that it is mainly young people who are leaving the old industrial districts and that, of these, the rate of migration is higher for graduates and for those in more skilled jobs [Lhotel & Papa, 1986].

If cross-border commuters working in Luxembourg or Belgium are also taken into account (the number of cross-border commuters living in the Longwy district rose from an index of 100 in 1981 to 130 in 1987, compared with 108 for Lorraine as a whole), it can be seen that the unemployment rate has been kept down appreciably (Table 5) and that this indicator cannot be considered directly representative of the extent to which industry in the former iron and steel districts has collapsed.
Table 5: Evolution of local, regional and national unemployment rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Longwy</td>
<td>10.8</td>
<td>11.8</td>
<td>11.5</td>
<td>11.2</td>
<td>11.5</td>
<td>11.9</td>
</tr>
<tr>
<td>Briey</td>
<td>13.1</td>
<td>15.0</td>
<td>14.2</td>
<td>14.5</td>
<td>14.2</td>
<td>13.6</td>
</tr>
<tr>
<td>Thionville</td>
<td>10.1</td>
<td>11.8</td>
<td>12.2</td>
<td>12.2</td>
<td>12.4</td>
<td>12.0</td>
</tr>
<tr>
<td>Nancy</td>
<td>7.7</td>
<td>8.9</td>
<td>9.0</td>
<td>9.3</td>
<td>9.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Lorraine</td>
<td>8.6</td>
<td>10.2</td>
<td>10.5</td>
<td>10.7</td>
<td>10.8</td>
<td>10.4</td>
</tr>
<tr>
<td>France</td>
<td>8.3</td>
<td>9.7</td>
<td>10.2</td>
<td>10.4</td>
<td>10.5</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: INSEE.

C. The current limits of reindustrialization

Attempts at reindustrialization have to date produced very limited results. Efforts to set up a network of electronics companies in Longwy in the 1980s ended in virtual failure. Some automotive firms have set up factories and are now developing their activities (+ 500 jobs approximately).

Since 1985, the Pôle Européen de Développement has been planning to promote the so-called “three borders area” and has put forward a general redevelopment programme that includes the reclaiming of abandoned industrial sites, improved communications, the development of higher education and support for the establishment of new industries. It is planned to create 3,000 subsidized jobs in new or expanding firms, mostly small or medium-sized firms, often foreign-owned (Japan, Korea, Italy, etc.), some of which are subcontractors or assembly plants (video recorders, electric motors, metal or plastic parts for the automotive industry).

In another iron and steel district, less dominated by a single declining industry and closer to Nancy, the number of subsidized jobs created after the disappearance of an iron and steel company that employed 4,200 people is as follows: “from 1984 to 1987, 80 firms were established in the district. Nine hundred and seventy-four jobs were created on the site, to which must be added a further 610 jobs created off the site (…). Three companies account for half the jobs created on the site, each employing about one hundred people (…). The 43 other establishments set up provide an average of 12 jobs each, reflecting a tendency towards Balkanization in the area. On the other hand, these newly created jobs have been of little benefit to the steel company’s former employees, since they occupy only 22 per cent of the 1,584 new jobs” [Villeval, 1990, p. 67].
Despite a high level of involvement from the iron and steel companies in the redevelopment of local industrial fabrics (through redevelopment companies and grants for setting up new companies or subsidiaries) and considerable state support (various exemptions and job creation subsidies), the overall picture in the former iron and steel producing districts remains very bleak: a net loss of industrial jobs not offset by the creation of service-sector jobs, a high level of depopulation and accelerated ageing of the population and a very slow start to the task of reconstructing local economic structures. If account is taken of extremely worrying demographic trends, it seems unlikely that the region will return, even in the medium term, to a level of economic activity in any way comparable with that of the past.

2. The management of reconversion: Between exclusion, downgrading and re-employment

The iron and steel industry has made massive use of early retirement schemes for employees aged 50 and over. In Lorraine in 1989, more than 41,000 workers took early retirement (1.7 per cent of the total population). Almost half had previously worked in the iron and steel industry. This figure can be compared with the 91,000 people seeking employment in the region. Lorraine accounts for 4 per cent of the population of France, but has 6.5 per cent of those who have taken early retirement. Early retirement schemes have undoubtedly reduced the immediate unemployment rate, while at the same time guaranteeing a reasonable income for those involved (approximately 70 per cent of their previous pay). In this respect, they have acted as shock absorbers, restricting both impoverishment and the massive increase in the number of older people seeking work. They partly explain the fact that there are fewer long-term unemployed in the districts affected (the long-term unemployed in France tend to be relatively old).7

A. The case of Pompey

If we now turn to the former steel workers thrown on to the labour market, the impact of the various support measures implemented can be illustrated by the case of Pompey.

---

7 In contrast, the Vosges region, which was dominated by the textiles industry (with a high share of unskilled female workers and a less generous level of support) has a higher long-term unemployment rate.
Depending on the nature of the support measures introduced, Figure 1 shows the fate of former steel workers approximately two years after being made redundant.

There are four main observations to be made:

(a) a proportion (12 per cent) of the former steel workers have become self-employed, often at the price of a loss of security and income and much longer working hours;

(b) if those who say their new working conditions are at least as good as their former situation are added to those who say their current position is better (upwardly mobile and no change on the diagram), 45 per cent of the original population can be considered "protected" from downgrading (on average, taking all criteria into account), although this has not prevented a general trend towards an intensification of work;

(c) twenty-three per cent of the population has suffered downgrading (loss of classification, fall in pay, worsening of working conditions and social protection);

(d) the unemployment rate is considerably higher than the local and regional average; the support measures have provided new employment opportunities for only a proportion of those made redundant. The remainder (notably older workers and the less highly skilled) are ensnared in a cycle of permanent exclusion from the labour market.

In general terms, the extent of the upheavals that have affected employment and working conditions and pay and which have impacted selectively on the sub-populations involved has been measured. Some have become ensnared in a downward spiral of impoverishment and marginalization, while others have in fact improved their situation. If the effect of early retirement schemes is also included, it is clear that the relatively homogeneous status that used to prevail has been shattered and become fragmented.

Various tests can be used to isolate the variables that determine individual trajectories. Thus, it can be shown that a combination of work history (extent and nature of previous mobility) and certain individual variables (nationality) help to determine a person's presence in a particular reconversion path (corresponding roughly to a greater or lesser degree of protection). Thus, taking account of an individual's reconversion path strengthens the probability or otherwise of downgrading (see Figure 1).
Figure 1: Reconversion paths and occupational outcomes

DEPARTURES
14.5%

68%

26%

85%

Class 1 - 11.7%
Self-employed

Class 2 - 12.9%
Upwardly mobile in external labour market

Class 3 - 7.3%
Upwardly mobile in same firm (A)

Class 4 - 9.3%
Upwardly mobile in same firm (B)

Class 5 - 15.7%
No change of status in same firm

Class 6 - 12.4%
Downgrading (A)

Class 7 - 10.7%
Downgrading (B)

Class 8 - 20%
Unemployed

TRANSFERS
24.7%

25% (1)

29%

84%

(2)

39%

79%

62%

27%

7%

22%

24%

28%

11%

56%

38%

11%

17%

11%

18%

47%

19%

15%

11%

66%

TRAINING/CONVERSION CONTRACTS
21.5%

CAPITALIZATION
("cashing-in")
39.2%

(1) For example, 25% of those transferred go to Class 3
(2) For example, 84% of those in Class 3 are the result of transfers
(a) transfers within the group are the surest way of reproducing previous standards and offer the highest overall level of protection, even if the new jobs are often considerably more professionally demanding;

(b) departure from the firm encourages self-employment; however, in view of the fragility of such ventures (a third of all companies go bankrupt or cease trading in less than three years), it can be a route into unemployment; it is accompanied by an increasing divergence of status relative to the previous period;

(c) training/conversion contracts have been taken up by a heterogenous population which includes skilled workers who have been able, through additional training, to improve their situation (particularly in terms of classification) but also large numbers of unskilled workers (often of foreign origin) who have benefited very little from the training they have received; it is among this latter group that the highest proportion of downgradings are to be found; overall, it is a route that offers fairly effective protection against unemployment but at the price of more frequent downgrading, particularly because jobs are more commonly found in SMEs;

(d) finally, "direct capitalization", or "cashing-in" (lump sum on departure and immediate termination of employment contract) was the measure that provided the largest amount of money in the short term but offered the lowest level of protection in terms of standards; for less skilled workers, it was an almost certain route to unemployment or downgrading.

Thus we can see that the reconversion paths that offer the best statutory protection during the changeover from the old job to a new one and a significant level of support during transition are those that offer greatest protection against unemployment and occupational destabilization.

B. The role of standards in re-employment: a comparison between the steel industry and conversion leave

This partial conclusion, which relates to the various conversion paths offered to former steel workers, can be strengthened by a comparison of the support offered to former steel workers in their search for new jobs and that offered to participants in general conversion leave programmes, which tend to offer less protection (all things not being equal, incidentally).

The rate of re-employment is higher for participants in measures provided under the iron and steel industry's general agreement on social protection than for participants in the general conversion leave programme
(89 per cent of the former still have a job two years after completion of their training/conversion contract, compared with 48 per cent of the latter group). The greater length of the period of transition under the iron and steel agreement (the fact that it begins before the employment contract is terminated) and institutional support for those re-entering the labour market are the factors that facilitate re-employment” [Villeval, 1990, p. 84].

3. Local dynamic and regional dynamic: The differing pace of developments

It should not be inferred from the above remarks, which refer essentially to the iron and steel producing districts and their populations, that the depressive effect of the crisis in the iron and steel industry was felt in the same way throughout the region, despite the fact that the industry dominated the region’s economic and employment structure.

A. Inter-district migration and net depopulation

The first trend that should be noted is the region’s changing demography. We have already pointed to the extremely negative effect of this trend for the iron and steel producing districts. On the regional level, two trends have emerged. Firstly, the urban districts are experiencing significant demographic growth, reinforced by an influx of people from the iron and steel producing districts. Secondly, the long-term trend is towards a net outflow of people from the region (Lorraine today has a negative migratory balance with 17 of the 21 regions of France, compared with 6 in 1975).

B. Deindustrialization and tertiarization

The pace of deindustrialization, a phenomenon that can be observed throughout the French economy, is more rapid in Lorraine than elsewhere, largely because of the region’s historical characteristics and the dominance of traditional industries. Thus, while industry’s share of total waged employment has fallen 10 percentage points in France as a whole, it has fallen by 17 percentage points in Lorraine. However, in contrast to the former iron and steel districts, the service sector in the region is growing more rapidly, with a net creation of service sector jobs (Table 6).8

---

8 These outcomes are not strictly comparable since in this case they were measured one year afterwards; however, the trend is confirmed.

9 In the iron and steel districts, tertiarization is taking place against a background of a reduction in employment in both industry and the service sector, although at differing rates.
Table 6: Index of waged employment by sector in 1989  
(1986 = base 100)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>91</td>
</tr>
<tr>
<td>Farm-produce industry</td>
<td>98</td>
</tr>
<tr>
<td>Energy</td>
<td>84</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>91</td>
</tr>
<tr>
<td>Capital goods</td>
<td>105</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>91</td>
</tr>
<tr>
<td>Industry</td>
<td>93</td>
</tr>
<tr>
<td>Construction</td>
<td>100</td>
</tr>
<tr>
<td>Commerce</td>
<td>100</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>103</td>
</tr>
<tr>
<td>Market services</td>
<td>112</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>100</td>
</tr>
<tr>
<td>Non-market services</td>
<td>101</td>
</tr>
<tr>
<td>Total</td>
<td>100.1</td>
</tr>
</tbody>
</table>

Source: INSEE, Regional and sectoral employment.

In 1988, service sector employment in the region accounted for 60.8 per cent of total employment (3 per cent less than the national average). However, this process of tertiarization is not sufficient to compensate fully for the loss of employment in industry. Thus, between 1975 and 1988, while total employment increased by 3.3 per cent in France, it fell by 7.7 per cent in Lorraine. In a more recent period (1981-1988), wage employment alone fell by 4.8 per cent in Lorraine.

Thus, the balance of economic activity in the region is tilting very rapidly in favour of the two main urban centres and, even more markedly, to the benefit of a certain number of employment areas linked to them and centred around medium-sized towns. At the regional level, there is a real trend towards economic diversification, in both a negative sense (as a result of the disappearance of dominant industries) and a positive one, as a result of the development of new activities.

C. SMEs and dependence on large groups

The departure of the large iron and steel (and textile) firms has led almost automatically to a reduction in the size of establishments in Lorraine. Nevertheless, the average size of establishment is higher than the national average (12.4 employees in Lorraine, compared with 10.9 in France as a whole). In the case of industrial firms, those with fewer than 500 employees account for 44 per cent of employment in the region, compared with 50 per cent in France as a whole, and the size of these SMEs is higher than the French average. Thus it would seem that the structural characteristics of the region's productive system, while tending to evolve towards the national average, have retained the dual specificity of a slight over-representation of industry and, in particular, an over-representation of medium-sized and large firms.

Furthermore, while large groups in Lorraine have been worst affected by the crisis (iron and steel, textiles), the region's dependence on national
or multinational groups has increased. In industry, for example, foreign
groups account for 15 per cent of regional employment in that sector (1987
figure); in terms of foreign penetration, Lorraine ranks fourth among
the French regions, and 72 per cent of workers in the region's industrial
sector are employed by national or multinational groups.

While the extent of sectoral distortion is glaringly obvious, this has
not been reflected in a total reversal of the region’s previous
characteristics.

4. The relative homogenization of the employment
   and earnings structure

The atypical structure of employment in the region that characterized
the 1970s seems now to have given way to a structure more typical of the
country as a whole (or rather of the country outside the Paris region).

(a) Between 1984 and 1987, the structure of employment by qualification
   (for firms with more than 10 employees) evolved as indicated in
   Table 7.

   The sharp reduction in manual employment has affected proportionally
   more unskilled than skilled workers; the proportions of white-collar
   workers have grown closer together. Nevertheless, although the skill
   structure within the manual categories remains relatively higher than
   the national average, the general trend towards a reduction in
   employment in these categories has been manifested in a slower rate
   of reduction for unskilled manual workers than in France as a whole;
   the disparity for senior managers also remains high. A dual effect is
   at work here: a regional effect in the strict sense of the term, one
   characteristic of French centralism, and one linked to the dependence
   on large industrial groups noted above.

(b) The share of women in the working population is rising steadily and
   has now reached 41.4 per cent (45.8 per cent for France as a whole).

(c) Examination of earnings and wages shows that some standards have
   been maintained or have even improved.

   Gross disposable income per capita rose by 19.5 per cent between
   1983 and 1986 (+17.5 per cent in France as a whole).

---

10 However, it should be taken into account that Lorraine has a border with Germany. German groups are particularly prominent in the department of Moselle.
Average wage differentials evolved in different directions depending on whether Lorraine is compared to France as a whole or to the French provinces excluding the Parisian region.

In 1984, the gap between Lorraine and the rest of France was 8.3 per cent, rising to 8.5 per cent in 1989. For the same period, the gap between Lorraine and provincial France changed from −0.5 per cent to +0.3 per cent. There is nothing in these figures to indicate a collapse in the relative levels of regional pay.

The changes in each category (private sector employees only) are also very significant. Taking as a reference point (100) average pay for each category in provincial France (excluding Paris), the figures for Lorraine are shown in Table 8.

Table 7: Structure of employment (wage employment, firms with more than 10 employees)

<table>
<thead>
<tr>
<th></th>
<th>Managers/other professionals (cadres)</th>
<th>Intermediate professions</th>
<th>White-collar workers</th>
<th>Skilled manual</th>
<th>Unskilled manual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984 Lorraine</td>
<td>5.1</td>
<td>17</td>
<td>18.8</td>
<td>40.1</td>
<td>18.3</td>
</tr>
<tr>
<td>1984 France</td>
<td>9.1</td>
<td>19</td>
<td>22.5</td>
<td>31.6</td>
<td>16.9</td>
</tr>
<tr>
<td>1987 Lorraine</td>
<td>5.8</td>
<td>18.6</td>
<td>20.6</td>
<td>38.2</td>
<td>16</td>
</tr>
<tr>
<td>1987 France</td>
<td>10.4</td>
<td>20.4</td>
<td>23.2</td>
<td>30.4</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Source: INSEE, Enquête structure des emplois (ESE)

Table 8: Wage indices by category, 1984 and 1989

<table>
<thead>
<tr>
<th></th>
<th>Senior managers</th>
<th>White-collar workers</th>
<th>Skilled manual workers</th>
<th>Unskilled manual workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>92</td>
<td>102</td>
<td>102</td>
<td>103</td>
</tr>
<tr>
<td>1989</td>
<td>99</td>
<td>99</td>
<td>108</td>
<td>104</td>
</tr>
</tbody>
</table>

Source: INSEE, DADS.

5. The repercussions of negative conditions: Limited consequences for other populations?

One of the hypotheses most frequently advanced is that protective standards in certain populations may have negative consequences for other categories. In the case of Lorraine, a particularly relevant question would be the extent to which the statutory protection offered to workers in the iron and steel industry (which has particularly affected the pay of middle-aged men) has had a negative effect on more vulnerable populations...
(women and young people). As far as women are concerned, we saw above that female participation rates are tending rather to catch up with the national average; in the case of young people, evaluation is made more difficult by the fact that this is the population most affected by migration. We have no reliable data on the fate of young people leaving the region. For those who stay, the data are as follows [Biret, 1990] (young people leaving the education system after level V vocational training and/or before the baccaulauréat).

The rate of entry into paid employment fell between 1975 and 1986, but the rate of decrease was lower than the national average; the rate of unemployment among school leavers rose less rapidly. This is not explained by a higher proportion of apprenticeships (whereas this used to be a characteristic of the region), nor does a high take-up of the various schemes intended to assist young people entering the labour market seem to be characteristic of the region (with the exception of community work).

A similar picture can be painted as far as employment forms are concerned. If all the specific employment forms (employment induction courses, community work, fixed-term contracts, temporary work) are added together and their prevalence calculated as a percentage of “normal” jobs, the rate of “precariousness” for France as a whole turns out to be 6 per cent, compared with about 5 per cent for Lorraine.

Nevertheless, phenomena indicative of selective poverty can be found. Thus, for example, the number of people in Lorraine (particularly the departments of Meurthe and Moselle) receiving the RMI (Revenu Minimum d'Insertion, or minimum wage for new entrants to the labour market) is higher than the national average (there is also a fairly close correlation between the geographical distribution of unemployment and that of the recipients of RMI) [Villeval, 1991].

V. Labour standards and the dynamic of the wage-employment relationship: Elements for discussion

What do these regional experiences teach us about the relationships between the evolution of labour standards and the process of restructuring?

(1) The combination of general minimum standards that have remained more or less intact (minimum wage, social protection) and specific standards, based on the previous ones and introduced to support the reconversion process, seem in general terms to have helped to avert a recessionary spiral that would have made the region a wasteland and its
inhabitants paupers. Nevertheless, it has to be stressed that the present discussion is made up of a series of assumptions about the effect of such standards rather than a demonstration of any such effect in the strict sense of the term, for which different methods would be required (inter-regional comparisons involving several countries, for example). This combination has probably had the effect of preventing any worsening of inter-regional disparities, and may even have helped to reduce them. In this sense, standards have in fact acted as a safety net, which has been all the more effective since it has contributed to the management of crisis in the region and the maintenance of relative "social peace".\textsuperscript{11}

In other respects, this combination does not seem to have slowed the pace of restructuring in Lorraine; rather, the socialization of mobility and income guarantees have facilitated the processes of modernization and the reorganization of production processes. The pace with which the wage-employment relationship is being reconstructed would not seem to be any slower in Lorraine than in other regions of France or Europe. On the one hand, the existence of evolving general standards — legal constraints and various government incentives (the Auroux laws, development of training, etc.) — has tended to work in favour of a radical restructuring and the construction of new rules for the utilization, allocation and reproduction of the labour force rather in the direction of total break-down. On the other hand, specific standards, although closely modelled on those previously in force in the iron and steel industry, have played a fundamental role in the restructuring process, channelling labour flows, changing the employment expectations and requirements of the workers affected and promoting the establishment of small firms or departures from larger ones.

(2) Nevertheless, these standards have not prevented the emergence of resegmentation, both in the labour force and in geographical areas, a potential source in the long term of new blockages. Thus, as we have seen, the situation in the iron and steel districts is continuing to deteriorate and intra-regional disparities are widening. Similarly, knock-on effects cannot be excluded. Although young people and women in the districts involved do not seem to have been directly affected, there is a need to examine in greater detail inter-regional migration, for example, as well as the fates of young people who have left the region. Similarly, the new firms that have been set up in Lorraine might well have been encouraged by public funds specifically targeted at the region, but it is towns less directly affected by

\textsuperscript{11} It should be noted that in the late 1970s and until about 1984 Longwy and, to a lesser extent, the region as a whole, experienced some very bitter industrial disputes, some of which led to violent confrontations.
the shutdown of traditional firms that have been the main beneficiaries of government assistance. These funds have not been channelled towards other regions in difficulty but not necessarily affected by such massive job losses. Moreover, there remains one specifically French characteristic that cannot be overlooked, namely the persistence of a level of unemployment significantly higher than that in many other EC member states (Italy being one exception). Thus, it can be said that, although they have not been harmonized upwards to a sufficient extent, standards can have a redistributive effect on other populations and spaces. As Persky [1991] shows in the case of the USA, the trend towards convergence of per capita income between the various states associated with the mobility of capital and labour has not prevented the widening of differentials in certain states and the exporting of greater inequalities. Convergence at national level should not be the only goal of government policies; they should also help to reduce inequalities.

(3) What will happen in the medium to long term? On the one hand, there are various indications that the situation in the region remains fragile. Net emigration continues and the population continues to age, the economic structure is still characterized by a high level of external dependence and the process of industrial reconstruction is not yet sufficiently advanced to be capable of generating and sustaining a momentum of its own.12

On the other hand, the available data have not really enabled us to characterize the new jobs and modes of labour force management in the newly established firms. Although there is no indication at the moment of any large-scale trend towards precarious employment or deskilling, for example, it would be necessary to analyse in greater detail the evolution of the modes of labour force management in these new establishments, as well as their role in the production of new standards.

This raises the crucial question of the stabilization, over the long term, of a new configuration of the wage-employment relationship. What is at stake is the concerted evolution of all standards (general standards/specific standards associated with restructuring; protective, promotional and participatory standards), not only in the resolution of local restructuring crises but more broadly in the continuing process of "modernization" that impacts on the very organization of labour markets and social relations. As

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12 From this point of view, the situation created by the virtual disappearance of the iron and steel industry seems to have retained some of the characteristics of the past, although on a very different foundation. The single dominant industry certainly gave rise to a strong economic fabric, but it was completely dependent on the iron and steel industry, and collapsed with it.
Sengenberger observes, “labour standards do not merely represent a collection of regulative interventions in various fields of the labour process. Instead, protective, promotional and participatory standards complement and reinforce one another to form a coherent package of regulator instruments and institutions. They should be seen as interactive” [Sengenberger, 1990, p. 11]. Thus, for example, the best economic and social results in reconversion situations have been obtained when the establishment of new firms on old industrial sites has been combined with training programmes for former steelworkers transferred to those companies and measures intended to sustain their income at its former level and to have their seniority in the steel industry taken into account. As a result, the skills of these workers have been rapidly enhanced to the benefit of the economic efficiency of the work process. On the other hand, the fact that these firms subsequently hired young people not benefiting from the same standards to do the same jobs created divisions within the workforce and led to lower productivity (for example, the younger workers refused to do certain jobs or to accept the intensity of work, since their guaranteed wage was lower than that of the former steelworkers who were doing the same jobs).

This example underlines the importance of coordinating the evolution of the various types of standards, taking into account the risks of segmentation. More fundamentally, however, it poses the problem of the dynamic of standards and of the internal coherence of the wage-employment relationship. A three-fold trend can be observed: the relative erosion of certain long-established characteristics, both general (redundancy law, for example) and specific (mobility within the iron and steel industry, for example), the collapse of other characteristics (the link between pay, prices and productivity, for example) [Boyer, 1990] and a shift in the points at which certain norms and rules are applied (the stress on training and qualification and the management of mobility, for example). These internal shifts in the forms and components of the wage-employment relationship suggest that a new coherence will eventually emerge; at the moment, however, the main elements in this new coherence are not yet clearly visible, and the modes of institutionalization have not yet stabilized. And the shape of the spaces in which capital will be accumulated and the social groups affected by and sustaining these new forms of wage-employment relationship will function still seems to be very fluid.

Thus, the real issue for the future is the coordination of the transformation of the various types of standards involved in the modification of the wage-employment relationship rather than the maintenance or disappearance of standards.
**Bibliographical references**


Case 4: Emilia-Romagna, Italy: Labour standards and flexible industrialization

Vittorio Capecchi

I. Introduction

The history of industrialization in Emilia-Romagna is a success story despite the absence of large-scale mass-producing factories. This region of Italy has in fact seen the spread of a particular form of industrialization, characterized by flexible specialization\(^1\) and based on industrial districts and urban industrial sub-systems\(^2\) that combine medium, small and very small firms engaged in specialized short-run production lines tailored to customer requirements.

The beginnings of this form of industrialization may be traced to the first half of this century even if its period of expansion was not to occur until the 20-year period 1950-1970.

In Sengenberger [1990], attention was focused on the important role played in industrial development by three types of labour standards (standards of participation, standards of protection and security, and standards of promotion) and the arguments tending to minimize this role were effectively countered.

Analysis of industrialization in Emilia-Romagna does in fact support Sengenberger's theses: trade unions have always played a very active role in this region and successive left-wing regional authorities have, since the turn of the century, paid consistent attention to labour standards.

This case study refers the reader back to Capecchi [1990] for a history of industrialization in Emilia-Romagna. Here an attempt is made to investigate further the role played by labour standards in the industrialization process.

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\(^1\) The differences between industrialization based on flexible specialization and industrialization through mass production are set out in Piore & Sabel [1984] and in Sabel & Zeitlin [1985]. The analysis of industrialization employed in the present case study follows those proposed in publications by Adele Pesce [1987, 1989] and Sebastiano Brusco [1989]. Previous essays by Capecchi [1987, 1989a, 1989b, 1989c, 1990] and Barbagli et al. [1987] have also been used.

\(^2\) The term "industrial district" is explained in Becattini [1979, 1987, 1989] who adopted the definition provided by Marshall [1927]. The term "urban industrial subsystem" is explained in Capecchi [1990]. There is a discussion of industrial districts in Regini & Sabel [1989] and in Pyke et al. [1990].
zation of the region. For this purpose, three methods have been singled out that should facilitate comparative analyses with other European regions:

(a) First, the role of labour standards has been compared with the role played by three other types of standards: political standards, entrepreneurial standards and social and educational standards. All these categories of standards have been analysed while taking account of the tripartite analysis advanced by Sengenberger (standards of participation, protection and security, and promotion). A historical analysis of these diverse types of standards shows that they do not often progress hand in hand. During some periods, economic development goes together with social, political and cultural development; at other times economic growth (assisted by high entrepreneurial standards) advances more rapidly than social and cultural development.

(b) Secondly, emphasis has been laid on the national dimension within which these four kinds of regional standards are situated. Acute imbalances do at times occur given the fact that situations arise in which the central government may impose high standards that regional or local authorities then fail to enforce. Conversely, as in the case of Emilia-Romagna, the region studied here, regional and local governments may find themselves obliged to implement far-reaching strategies in the face of a national government that is slow to introduce reforms.

(c) Lastly, the same periodization has been applied to the analysis of the Emilia-Romagna region as was used in Capechi [1990]. During the initial period from 1900 to 1945, the first positive stirrings of industrialization may be registered, although the region retained its prevalently agricultural character, with many of its inhabitants still unable to read or write, and strong peaks and troughs in emigration, etc. The second phase runs from 1945 to 1970, a period of all-out industrialization during which the specific flexible specialization character of the regional process assumed clear shape. Attention turns lastly to the period from 1970 to the present during which, with the region already industrialized, the various political and social power groups have had to come to terms with changing circumstances in technology, politics and the labour market which in their turn have transformed the national and international environment.

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1 For a description of the various different "Italys", see Bagnasco [1977].
II. Labour standards and the beginnings of industrialization in Emilia-Romagna

Throughout this period, the majority of the working population in Emilia-Romagna was employed in some form of agriculture (65 per cent in 1901, 61 per cent in 1931, 52 per cent in 1951). Illiteracy rates were also high (in 1901, 46 per cent of the region's inhabitants over the age of six were unable to read or write, whereas the figure for Piedmont, a region further to the north, was 11 per cent). Unemployment was also high, with the result that roughly 350,000 people emigrated from the region between 1901 and 1936.

Yet these official data conceal the presence of many positive facts that point to the beginnings of industrialization.

Of those employed in agricultural work, a very high percentage (60 per cent in 1901) had some experience of small-scale enterprise: either they were workers with share-cropping contracts, or they rented the land they worked on, or they themselves owned small farms. Moreover, in many areas of Emilia-Romagna, agricultural work also comprised proto-industrial activities such as home-based spinning and weaving.

In the towns there was, of course, a fascinating range of crafts and small industries, such as the earliest mechanical industries in towns like Bologna producing the most varied of mechanical products in response to the requirements of particular customers. This was made possible by the existence of schools of technology — of great theoretical and practical significance — run by teachers with links to the University of Bologna.

It is therefore interesting to examine the role that the different kinds of standards played during a period when industrialization in Emilia-Romagna was just taking off, while considering the spread of such standards throughout both Italy as a whole and this particular region (see Tables 1 and 2).

1. The role of different categories of standards in Emilia-Romagna

A. Political standards

The period stretching from the beginning of the century until the Second World War is characterized by a succession of sharply differing national governments. In 1901, Giolitti\(^5\) became minister of internal affairs.

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\(^4\) Life in rural areas of Emilia-Romagna in the 1900-1945 period is described in Various Authors [1983]; Broccoli [1979, 1988]; and Poni [1982].

\(^5\) For an introductory description of the internal policy of Giolitti, see Piazza [1986].
### Table 1: Analysis of standards in Italy, 1900-1945

<table>
<thead>
<tr>
<th>Labour standards</th>
<th>Social, educational and entrepreneurial standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Giolitti Period 1901-1914</strong></td>
<td></td>
</tr>
<tr>
<td>The state is seen as a mediator between labour and capital</td>
<td>In Italy 22,000 Opere Pie (welfare-type help by Catholic charitable institutions)</td>
</tr>
<tr>
<td>1919: 48-hour working week</td>
<td>In Italy 6,000 Società di Mutuo Soccorso (Friendly Societies)</td>
</tr>
<tr>
<td>Sharp differences in wages between women and men and between northern and</td>
<td>The welfare state is weak and the educational system is uneven in the north and south of Italy</td>
</tr>
<tr>
<td>southern regions</td>
<td></td>
</tr>
<tr>
<td>Expulsion of women from labour market</td>
<td></td>
</tr>
</tbody>
</table>

1 ENIOS: National Association for the scientific organization of Labour; IMI: Italian Institute of Property; IRI: Institute for Industrial Reconstruction

<table>
<thead>
<tr>
<th>Labour standards</th>
<th>Social, educational and entrepreneurial standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fascist Period 1922-1945</strong></td>
<td></td>
</tr>
<tr>
<td>The state abolishes the parties and trade unions elected democratically</td>
<td>The state plays an active role in the economy through:</td>
</tr>
<tr>
<td>The state is linked to capital and there are sharp differences in wages between</td>
<td>1925: ENIOS; 1931: IMI; 1933: IRI²</td>
</tr>
<tr>
<td>women and men and between northern and southern regions</td>
<td>The welfare state is limited, with no workers' control</td>
</tr>
<tr>
<td>Expulsion of women from labour market</td>
<td>The Gentile reform of education does not apply to technical schools</td>
</tr>
</tbody>
</table>

### Table 2: Analysis of standards in Emilia-Romagna, 1900-1945

<table>
<thead>
<tr>
<th>Labour standards</th>
<th>Social, education and entrepreneurial standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Giolitti Period 1901-1914</strong></td>
<td></td>
</tr>
<tr>
<td>1913: Highest percentage of votes to socialist party</td>
<td>University of Bologna and socialist teaching centres for the working classes</td>
</tr>
<tr>
<td>1907: More members in trade unions</td>
<td>A rural area characterized by small enterprise</td>
</tr>
<tr>
<td>1904-1915: Argentina Altobelli (a woman from the Bologna area) is national leader</td>
<td>The presence of industrial and proto-industrial districts</td>
</tr>
<tr>
<td>of Federterra</td>
<td>The spread of technological knowledge by means of technical schools</td>
</tr>
<tr>
<td></td>
<td>An industrial society oriented towards flexible specialization</td>
</tr>
<tr>
<td></td>
<td>A different power relation between men and women</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Labour standards</th>
<th>Social, education and entrepreneurial standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fascist Period 1922-1945</strong></td>
<td></td>
</tr>
<tr>
<td>The fascist state is against the “red region”</td>
<td></td>
</tr>
<tr>
<td>Attempt to divide workers between skilled and unskilled and between share-croppers</td>
<td></td>
</tr>
<tr>
<td>and waged agricultural labourers</td>
<td></td>
</tr>
</tbody>
</table>
and was then Prime Minister (except for a few brief interruptions) from 1903 to 1914. Giolitti followed a reformist policy that recognized the right to strike and granted trade union freedoms. This was in marked contrast with the more repressive governments that had preceded him. The fascist regime that gained power in 1922, on the other hand, was quick to outlaw trade unions and parties by suspending basic political rights.

Political standards in Emilia-Romagna over this same period were obviously influenced by the succession of national governments, though there were also a number of important specifically regional features.

During the Giolitti years and right up until the rise of fascism, Emilia-Romagna was the "reddest" region anywhere in Italy and also the region with the highest level of participation in political and trade union affairs. It was this region that could boast the highest percentage of people on the membership list of the socialist party. In the 1913 elections (the first elections to be held since the introduction of universal male suffrage), 45 per cent of voters cast their votes for the Socialist party (the national average was 23 per cent). In 1919 this percentage rose to 60 (national average: 32 per cent).

Moreover, Emilia-Romagna also had the highest percentages of people enrolled in trade union organizations (relative to the total working population). The leading role in the trade union movement that this superiority enabled Emilia-Romagna to play was most clearly reflected in Federterra, the agricultural workers' union, which organized both landless labourers and share-cropping contractors.

The strong political involvement of women should also be underlined. Women in Emilia-Romagna have a tradition of considerable political militancy that derives, as Pesce [1989] has shown, from the power wielded by women within peasant — especially share-cropping — families.

It comes therefore as no surprise that the national general secretary of Federterra (the most important trade union association in an agricultural region like Emilia-Romagna) was a woman, Argentina Altobelli, born in Imola, a small town close to Bologna. Altobelli remained national general secretary of Federterra from 1904 until 1915.

The fascists unleashed violence on the Case del popolo and other bastions of "red" resistance (though in 1922 the fascist gangs were temporarily beaten back at Parma by Picelli's Arditi del popolo). Within a few years of the fascists' seizure of power, the most elementary of political rights had been abolished. The distinguishing characteristics of Emilia-Romagna can be seen not only in the region's resistance to fascism but also in the way that the various different components of Emilian socialism (the reformist and the anarcho-syndicalist currents) combined in the foundation and growth of the Communist party which, at the end of the
Second World War, achieved its highest rates of enrolment in the provinces of Emilia-Romagna.

B. Labour standards

In the field of labour standards, the policies of national governments from Giolitti to Mussolini varied widely. In 1901, Giolitti wrote that:

It is a mistake, sheer prejudice, to believe that low wages assist industrial progress: an ill-nourished worker is always physically and intellectually weaker; and high-wage countries are also those that are at the forefront of industrial progress... When the government intervenes to keep salaries down it commits an injustice by failing in its duty to absolute impartiality between citizens by taking sides in the struggle against one particular class. It commits an economic error by upsetting the operation of the economic law of supply and demand, which is the only legitimate regulator of wages, as of the price of any other commodity. Lastly, the government commits a grave political error by turning those classes that in actual fact comprise the majority of the country into enemies of the state. [Quotation from Giolitti in Piazza, 1986]

The Giolitti government thus explicitly acknowledged both the positive role played by labour standards in the nation's economic and social development and the state's function as "mediator" in the clash between companies and workers. At the national level, this led to the drawing-up of a number of important laws such as the reduction in working hours to eight per day, with a weekly ceiling of 48 hours, following the pact signed in 1919 by FIOM, the metalworkers' union.

The eight-hour law was passed in 1923 and, as Alisa del Re [1991] has pointed out, it provided for only one exception: salaried domestic employment. The view was taken that since such work was performed almost exclusively by women it was not so important to protect it by defining the number of hours that could be worked!

It should not be forgotten, however, that although the Giolitti governments were certainly more reform-minded than their predecessors, no headway was made in attenuating the growing imbalances between, on the one hand, the central and northern regions of Italy and, on the other, the south of the country, in matters relating to the protection of workers and the promotion of initiatives designed to encourage economic growth.

These imbalances continued into the fascist period, though against a profoundly changed background: the state abandoned its role as "mediator" and now clearly sided with the companies. It also sought to make a clear-cut distinction between an élite workforce (which generally benefited from greater protection) and more low-skilled labour. A similar distinction was made between peasant work that involved small-scale ownership or share-
cropping contractual work and, on the other hand, landless agricultural labour.

It should also be recalled that — again as Alisa del Re [1991] has pointed out — legislation was introduced during the fascist period in Italy to force women out of the labour market. In 1927 women were barred from teaching literature and philosophy in high-schools. In 1933 the civil service was empowered to hold competitions for posts as public employees that prevented women from taking part. In 1936 a list was drawn up of the jobs that women were prohibited from performing and in 1939 “women’s tasks” were defined, reserving for them all the subordinate tasks.

Furthermore, the Charter of Labour enacted in 1927 defined wage relations between women and men in such a way that made it possible to pay a woman 50 per cent of the wage paid to a man for the same job. Thus, in 1939, a skilled male worker earned 3.52 lire an hour whereas a skilled female worker earned between 1.10 and 1.40 an hour.

These national policies had important repercussions in Emilia-Romagna.

During the Giolitti years, Federterra, under the leadership of Argentina Altobelli, managed to bring about many changes that improved the relative conditions of landless labourers: wages were to be paid by the hour instead of by the day; the working day was no longer to stretch “from sun-up to sun-down” but would now be limited to a basic eight-hour stint; the abolition of piece-work in the countryside in favour of hourly pay; the recognition of job centre offices and of workers’ organizations; the commitment to take on labour in proportion to the area of land under cultivation in order to shield both male and female workers from unemployment.

In general terms, the fascist period⁶ led to a reduction in salaries in both industry and agriculture and introduced elements of division in Emilia-Romagna as elsewhere. Research into this period provides evidence of the way in which fascism above all sought the support of companies (especially the larger ones) and of élite industrial and agricultural workforces. On the other hand, it sacrificed the economic interests and rights, and the labour standards, of the majority of the industrial and agricultural workforce, unable to defend itself through its own union and political representative bodies.

⁶ There is an analysis of the fascist period in Emilia-Romagna as regards economic policy in D’Attore [1980].
C. **Entrepreneurial standards**

The policy pursued by the Italian state in relation to large-scale enterprise is very significant. Under Giolitti, the state began to provide continually enhanced guarantees and assistance to a range of industrial sectors. Through such national banking institutions as the *Banca Commerciale*, the state intervened in industries like steel production, shipbuilding, railway construction or sugar production. A de facto protectionist policy was implemented with a range of public commissions and subsidies, financial and legislative protections, etc.

As regards the south, a number of measures were put in place, for example the special law for Naples and the steel works at Bagnoli. Yet the overall effect of state intervention was to bolster northern companies. Indeed, by 1911, when the first Italian industrial census was carried out, more than 70 per cent of companies with over 500 employees were located in the north and 43 per cent of Italy’s total industrial workforce was concentrated in just two northern regions (Lombardy and Piedmont).

The major part already played by the state in the Italian economy was further expanded by the fascist regime. Especially after the 1929 crash, the effects of which were very marked in Italy, two state bodies designed to coordinate public intervention in the economy, IRI and IMI, were set up. IRI (Institute for Industrial Reconstruction) was founded in 1933 as a permanent public organization charged with the state-led management of numerous companies in branches of industry such as steel making, shipbuilding, arms manufacturing, mechanical industries, etc. IMI (Italian Institute of Property) was founded in 1931 with the task of giving private industries mortgages repayable over ten years. In this way, the Italian state became first an entrepreneur and then a banker, launching first an internal policy and then a policy of military colonial intervention. This led to the spread of the arms industry in the run-up to the Second World War.

As regards labour organization, it is worth remembering that, in 1925, ENIOS (the National Association for the Scientific Organization of Labour) was founded in Rome. This body set out to spread Taylorist methods throughout Italian enterprise. In 1927 in Rome, ENIOS held its first major international conference at which Italian industrial companies also participated.

Yet in both the Giolitti and the fascist periods, all the state measures introduced in fact had relatively minor effects on the business structure in Emilia-Romagna.

There can be no doubt that in overall terms both World Wars served to strengthen Emilia’s mechanical companies. Yet it is also true that most state interventions were targeted above all at large-scale firms, by-passing
small craft enterprises or cooperative ventures. Indeed, scientific labour methods themselves were not applicable to the type of production based on flexible specialization that was emerging in this region.

During the period from the turn of the century until the end of the Second World War, the state paid considerable attention to large companies based in northern Italy, while being unable to intervene in the south, and having little impact in a region such as Emilia-Romagna where the job of constructing a network of synergies was mainly accomplished by internal forces (business, cultural, political, trade union, etc.). After the Second World War, the said network of synergies led to a pattern of industrial growth that was strong both in terms of quantity and of production quality.

As regards standards of participation, protection and promotion, it should be borne in mind that, as the process of industrialization proceeded, a number of very important bodies throughout Emilia-Romagna acted to facilitate the process under way and helped to spread advanced technological and industrial strategies.

As for the development of new technologies in rural areas, one should not forget the role played by the Società Agraria of Bologna which, founded in 1807, brought together the major proprietors of agricultural land, university lecturers and engineers with expertise in water management and agronomy. This “agrarian society” helped to speed up the changes occurring in agriculture\(^7\) by playing a role parallel to that played by Bologna City Council which, in association with industrialists and lecturers was at that time involved in the setting-up of technical schools such as the Aldini and the Valeriani,\(^8\) with a view to streamlining technological development, above all in the mechanical industries.

So the lack of state-led initiatives to promote and support Italian industries was made up for by local initiatives based on agreements between companies and intellectuals. And, as we have seen, these agreements were often brokered by local councils and authorities.

\textbf{D. Social and educational standards}

An analysis of educational and social standards further clarifies not only the relations between the Italian state and the Emilia-Romagna region

\(^7\) A very interesting history of a rural area, Carpi, is recounted in Cappello \\& Prandi [1973]. The contribution made by an intellectual, Antonio Zanelli, whose work transformed farming techniques in pig breeding, is given in Cafasi [1979].

\(^8\) The story of Giovanni Aldini and Luigi Valeriani who pioneered the first scheme for a technical school in Bologna is related in a book by the Comune di Bologna [1980].
but also the relations between the said standards and the other types of standard examined above.

The Italian state, throughout both the Giolitti years and the fascist period, proved keener to intervene in the national economy than at the social or job-training level.

At the beginning of the twentieth century, the state tended to take very few steps to protect those who worked and lived in Italy. The only form of concrete help then available was provided either by the broad network of Catholic charitable organizations (in 1880, a survey counted 21,000 such bodies performing a disparate range of relief tasks) or by the friendly societies that had been set up on the initiative of workers (at the turn of the century there were almost 6,000 of these organizations, with a million of the three and a half million industrial workers as members).

Welfare State legislation was not introduced until after the First World War. The earliest such legislation included the 1927 law that made insurance against agricultural accidents compulsory and the 1919 law on disability and old age. Such legislation continued during the fascist period while assuming three very important characteristics that have to be borne in mind when attempting to grasp the nature of relations between the Italian state and the Emilia-Romagna region and the spread of social and welfare standards.

The first feature of Italian welfare provision during the period under consideration is that it was a very limited provision. As has already been emphasized, state intervention was concentrated primarily on the economy and, above all, on the interests of big business. Such intervention was also very much that of the special case: laws on pensions, accidents at work, sickness protection, etc. were filtered through a battery of different organizations and measures, depending on the precise category involved. There was no policy of across-the-board provision.

It is also worth bearing in mind that, unlike what happened in Great Britain and Germany, the shift from friendly societies to generalized state intervention was not brought about with the managerial involvement of workers’ representatives or of workers themselves. In stark contrast with Great Britain and Germany, the fascist Italian state took direct control of the entire management of social security and welfare relief work, but left the details of such management to the discretion of far-flung departments. The Italian version of the welfare state therefore developed on the basis of patronage: welfare provision was used, especially in the south, to secure political backing.

Educational policy displays the same basic feature. The legislation in force during the first half of the century echoed the first major law on education (the Casati law, enacted in 1849). This law left both technical
training and basic education to the discretion of local councils, thereby paving the way to sharp imbalances between north and south. Poor southern councils ended up with fewer primary and technical schools than the much richer northern councils.

Women, moreover, suffered severe discrimination. They had no access whatever to industrial technical schools and from 1928 onwards they had to pay twice as much tax as men if they wished to attend high schools or universities.

In Emilia-Romagna, basic schooling spread more gradually and slowly than in regions further to the north. Technical schools were, however, set up and these helped to bring about a transfer of high-level know-how from more industrialized nations to Emilia-Romagna.

It has to be pointed out, however, that such educational standards — relating to participation, protection and promotion — did not apply equally to men and to women. In the case of men, technical schools were set up in order to disseminate know-how relevant to the mechanical industries. These schools taught their students not only how to use machines but also how to design them. They were managed and organized by university teachers and were aimed at the male children of industrial and craft workers' families. They contributed greatly to the know-how of the region and helped lead to a phase of industrial development during the 1950-1970 period characterized by the steady spread of the engineering industry.

As for women, know-how and skills in industries such as textiles and the clothing trade were disseminated without the creation of girls' technical schools along the lines of the schools that taught mechanical skills to boys. In the girls' technical schools that did exist, as the research of Adele Pesce [1989] has shown, students were mainly taught how to operate machinery: theoretical knowledge that might have given the girls some control over the technology was not imparted. Relying on categories developed by Ulrike Prokop, Adele Pesce has demonstrated that the model of flexible industrialization now so widespread in Emilia-Romagna has been strongly influenced by the "female social character", oriented mainly towards needs. Pesce has further argued that this form of industrialization is consequently more widespread in those areas where women wield most power.

There is no doubt whatever that women have enjoyed much more power in Emilia-Romagna than in other regions, in terms both of relations within peasant families (Pesce has shown the coexistence of two distinct sources of power within the share-cropping family: a male and a female power, both very important and quite distinct) and also in terms of external public power gained from playing a full role in peasant struggles (even to the extent of having a woman at the head of Federterra).
There is therefore abundant evidence to suggest that women have enjoyed relatively greater power in Emilia-Romagna than in other Italian regions and, in particular, more than in the south. This may help, as Pesce's research has suggested, to explain the greater presence in Emilia-Romagna of a form of production oriented towards the fulfilment of needs. However, such power is not sufficient to offset the generalized remoteness of women from theoretical knowledge relating to technology.

2. The beginnings of industrialization and early standards

In short, it is fair to say that during the period under consideration, the process of industrialization got off to an interesting start (with proto-industrial activities in rural areas and early forms of specialized mechanical industry in the towns and cities). However, owing to the strong influence of fascism during these years, there were many shortcomings in national standards, in terms not only of labour, social and educational legislation but also in terms of political structure.

There is a sharp divide between the political, social and cultural forces within the region and the actions taken by the national government. During the fascist period, such actions were generally designed to benefit large-scale northern companies. As regards Emilia-Romagna, intervention was limited to reclamation work and to the war-time conversion of Emilian mechanical factories to arms production.

The region's strength has resided in its high political and trade union standards within the socialist tradition and the presence of strong women in peasant families able to make a major contribution to the spread of small family firms. The University of Bologna, another of the region's assets, supplied intellectuals able to run the technical schools that were set up to train the sons of working-class and craft-working families, while also turning out intellectuals able to promote the spread of workers' societies.

There is an important point to be made regarding the dissemination of mechanical know-how and about skills involved in the management of the agricultural sector. Such skills and know-how were handed down conscientiously by Emilian intellectuals who had gained them in more advanced European countries. In the industrial development of a region there is therefore not only the problem of how to enhance and rationalize ancient proto-industrial traditions (for example textiles, clothes-manufacturing or pottery traditions in Emilia-Romagna) but also the issue of how to carry through a series of breaks with the past, by transferring other (e.g. mechanical) skills that might help launch new types of industry.
Another aspect requiring emphasis in any comparative analysis with other European regions is the relation that develops between the country and the city and the way in which agriculture gives way to industry.

In Emilia-Romagna the countryside is a very politically, culturally and economically active area, whereas in other Italian and European regions, the country plays a secondary role to the city. Moreover, as we shall see, there is a seamless shift\(^9\) from agricultural activities to industrial activities in Emilia-Romagna and this shift is of central importance in any attempt to understand the process of economic development and the presence of high labour and social standards.

III. Labour standards and the spread of industrialization in Emilia-Romagna, 1945-1970

As described in Capecchi [1990], this period, after the first few years of unemployment and reconstruction, saw the full development throughout Emilia-Romagna of the flexible industrialization model. In this region, whereas in 1951 only 25 per cent of the workforce was working in industry, by 1970 this figure had reached 45 per cent. Engineering played an increasingly important part in Emilian industry.

The main branches of industry in this region (engineering, clothes manufacturing, pottery, etc.) were typically working on specialized short lines, flexible enough to respond to the demands of a variety of end users. This industrial development was based on a strong presence of skilled employees. There were also a great number of small businesses and self-employed workers. By the end of the period under consideration, Emilia-Romagna had become the region with the greatest number of small businesses per head of population.

Moreover, during the 1950-1970 period, local left-wing councils (Emilia-Romagna is still known as Italy's "red region") sought to encourage economic development along with social development. People in Italy and even abroad therefore began to talk in terms of an "Emilian model", meaning thereby a form of industrial development based on small-scale enterprise and combined with social, political and cultural development.

It is therefore interesting to look closely at the role played by the various kinds of standards that have done most to influence industrial development throughout its growth phase (see Tables 3 and 4).

\(^9\) On the point about industrialization without fractures, see Fuà & Zacchia [1983].
<table>
<thead>
<tr>
<th>Labour standards</th>
<th>Social, educational and entrepreneurial standards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Centre-Right Government 1948-1962</strong></td>
<td>- 1945-1946: Agreement between CGIL and Conf. ind. on Sliding Scale, 14 wage areas with strong differences in wages between men and women. &lt;br&gt; - 1948-1949: End of unitary working system. &lt;br&gt; - 1948-1956: The contract between unions and Conf. ind. in the engineering industry is not renewed.</td>
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<td></td>
<td>- The state helps large firms in Northern regions through Marshall Plan funds.</td>
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<td></td>
<td>- 1969: The &quot;Hot Autumn&quot; of the wage dispute between women and men. &lt;br&gt; - 1970: Creation of Conf. ind. di fabbrica (Factory Councils).</td>
</tr>
</tbody>
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*Table 3: Analysis of standards in Italy, 1945-1990*
<table>
<thead>
<tr>
<th>Labour standards</th>
<th>Social, educational and entrepreneurial standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widespread industrialization period 1950-1970</td>
<td>— The qualitative strategy of urbanization — The spread of social services — The rise in income and social mobility — University and technical schools</td>
</tr>
<tr>
<td></td>
<td>— The flexible specialization model of industrialization enables workers to gain skills and to start up their own businesses — Waged employees are better defended than in other regions</td>
</tr>
<tr>
<td>The last 20 years 1970-1990</td>
<td>— Struggles on health at work issues — The “150 hours” training demand — “Production conferences” — “Co-determination” in Bologna — Equal opportunities and positive action</td>
</tr>
<tr>
<td></td>
<td>— 1971: the new regional tier of government — Regional and local strategies for offering services to firms — A flexible organization of vocational training — A strategy to create associations of small firms — Experience in Modena of organization of working hours in the city — New problems: immigrants, etc.</td>
</tr>
</tbody>
</table>
1. The role of standards in Emilia-Romagna

A. Political standards

In Italy, the first few years after the Second World War (1945-1947) were marked by a coalition government involving all the parties (Christian Democrats, Communists, Socialists, etc.) that had taken part in the struggle against fascism.

The 1948 general elections revealed a deep gulf between the Christian Democrats who won the elections and the parties of the left (Communists and Socialists) who, having fought the election together, secured only 31 per cent of the popular vote in Italy. The situation in Emilia-Romagna, however, was very different. Here, the two left-wing parties gained an overall majority (51 per cent). There was thus a clear divide between the centre-right national government and the government of the left-wing cities of Emilia-Romagna.

Nationally, the political situation remained unchanged until 1962 when their drop in electoral support obliged the Christian Democrats to form a centre-left government with the Socialist party. The Communist party thus found itself allied to the socialist party in Emilia-Romagna but in opposition to that same party at the national level.

As for political standards, things were now certainly very different from the preceding fascist period. Emilia-Romagna was the region with the greatest number of people enrolled in parties and was busy experimenting with new means of fund-raising. The Communist party had many paid-up members not only in its citizens’ branches but also in factory branches. It was these very active party branches that organized the various Festival dell’Unità (L’Unità being the daily newspaper of the Communist party), where people could eat, dance, etc. The proceeds of these “festivals”, organized for free by the party faithful, went to the Communist party.

This widespread participation in left-wing parties and the high political standards it indicated found an echo in trade union membership levels.

In Italy, after the Second World War, it was the political parties that gave rise to trade unions. As Contini [1985] has written, the Italian General Confederation of Labour (CGIL) “was a direct result of an agreement between representatives of various political parties cooperating within the framework of the resistance and the new union confederation retained its heavy dependence on these parties throughout the period of postwar reconstruction. (...) With the onset of the Cold War in 1947, however, the Italian political situation changed radically. De Gasperi, the leader of the Christian Democrats, decided to form a new government which for the first time excluded the Communists and Socialists and won a sweeping victory in the first postwar legislative elections in June 1948.
(…) These events highlighted the political tensions within the CGIL and provided the occasion for the Catholic and Social Democratic factions within the union to break away and to form their own Confederations, the CISL (Confederation of Italian Workers’ Unions) and the UIL (Union of Italian Workers).”

During the 1948-1956 period, trade unions nationally were very weak and had little support on the shop floor. The year 1956, however, represents a watershed because, for the first time since 1948, as a result of union initiative, a National Metalworkers Agreement was signed.

In Emilia-Romagna, however, not only did union organization have much stronger roots at plant level than in other Italian regions but the strongest union in the region (the CGIL) was represented at local level and was therefore able to bring unionization to small and medium-sized firms. In Emilia-Romagna the CGIL achieved strong horizontal organization, with higher membership rates than in any other Italian region.

In Emilia-Romagna, political standards were high in small firms, too. In contrast with what was happening in countries such as France, in Emilia-Romagna the most widespread small firms organization (the National Confederation of Artisans, CNA) was coordinated by members of the Communist and Socialist parties. Members of these two parties were also well represented in the main union organization for cooperative firms.

There was thus widespread participation in left-wing parties involving a wide variety of people: those in charge of local and regional government, trade union officers, representatives of small business associations and members of cooperatives. One can therefore speak of a “political community” that extended throughout the region and that acted as a counterbalance to the power of the central state while seeking to protect the interests not only of employees but also those of small firms and cooperatives, while developing very important social policies (such as those focusing on women’s needs).

B. Labour standards

At the end of the Second World War, as Vittorio Foa [1980] has written, the unitary trade union (CGIL) in 1945-1946 drew up a series of agreements with the Confederation of Italian Industry (Confindustria), opting for a policy of centralized national bargaining. These agreements turned on three main points:

10 For a history of the “political community” in Bologna, see Arbizzani [1961] and Various Authors [1988]. For a more general picture, see Trigilia [1986].
(a) the \textit{scala mobile} ("sliding scale" or indexation) a mechanism whereby increases in the cost of living would automatically trigger increases in industrial wages;

(b) the acceptance by the trade unions of the individual piece-rate system (\textit{sistema individuale di cottimo});

(c) the fixing of different minimum salaries according to area, category, gender and age. Fourteen salary areas were drawn up so that the same job might be paid 29 per cent less in Sicily, for example, than in northern regions such as Lombardy; also women were paid less than men.

The union accepted these conditions because of the existence of widespread unemployment: they wanted to give those who had jobs the opportunity to earn a little more through the piece-rate system and also to provide an incentive to potential investors in the south by setting up the 14 different wages areas.

In 1948, the Christian Democrats defeated the left-wing parties at the polls and trade union unity was broken in 1948-1949. Especially in the early years, the resulting three union confederations (CGIL, CISL, UIL) were very dependent on their respective parties, which also supplied the union leaders. They opted for national and centralized bargaining because of their extreme weakness on the shop floor.

In the factories, on the shop floor, the 1950s were years of fierce repression: category contracts were not renewed, pay rates in the same factory and for the same category were fragmented by the piece-work system and by gender, age and other differences, etc.

More than national and shop floor bargaining, in the 1950s, the main defence of workers consisted in nationwide legislation brought in to regulate work relationships. The unions thus became structures involved in the protection of workers above all through law enforcement.

At the beginning of the 1960s, there was a resumption of both national category-by-category bargaining and also factory-level bargaining. In 1956, the practice of "apprenticeship" assumed a legal form and unions were thereafter able to use the law to protect the rights of women and young people who were given jobs in factories as "apprentices". Moreover, in 1959, the \textit{erga omnes} law was enacted. This law ensured that national category contracts would be extended to apply to all workers in all factories, even to workers in factories where there was no union representation, even to factories that were not registered with the Confindustria.

In 1960, salary areas were reduced in number and the gap between men's and women's wages was narrowed. But the major changes,
however, were to come in 1969-1970 when salary areas, piece-work, and men-women differentials were all abolished. At the same time, new forms of union representation at factory level were set up (factory councils: consigli di fabbrica). Then, in 1970, the government enacted a Charter of Workers’ Rights (Statuto dei diritti dei lavoratori).

Given these national trends, it is worth taking a closer look at specific trade union circumstances and shop floor struggles in Emilia-Romagna.

First of all, it has to be remembered that the overwhelming majority of workers in this region joined the CGIL (far fewer joined the CISL or the UIL). The overall level of union membership was also much higher in Emilia-Romagna than in other Italian regions.

The unions in Emilia-Romagna, furthermore, had one very specific feature. Although they were very combative and had to engage in many workplace struggles to resist political repression (in Bologna, for example, between 1948 and 1956, clashes with the police led to the death of two workers, the injury of 795, the trial of 15,835, and the conviction of 8,369), the local unions were also very much engaged in concrete issues and in the development of enterprises.

In Emilia-Romagna, trade unions encouraged firms to invest, to acquire better machinery, to engage more highly-skilled workers, etc. They also played a full role at local level, organizing not only in the workplace but also district by district in such a way as to protect even those workers who were employed in small or even very small companies.

In the 1950-1970 period, industrialization based on flexible specialization promoted considerable social mobility, with many factory employees becoming self-employed small businesses. This gave rise to two situations that were not encountered in large mass-production factories:

(a) in small specialized firms (above all in the engineering industry) the owner has tended to be a former skilled worker who works side by side with other skilled workers. This close collaboration creates a different atmosphere for industrial relations (much more informal) than is the case in the large factories of northern Italy;

(b) even with medium-sized companies (over 300-500 employees) a very high proportion of the workforce is skilled. These skilled workers possess more bargaining power than the unskilled. In these circumstances, unions find it easier to win more advantageous contracts when bargaining gets under way.

Labour standards are therefore higher in Emilia-Romagna than elsewhere in Italy for two reasons:
(a) the strong presence of the union at both company and district level affords greater protection for the less skilled workers, whether they are male or female. The union is able to engage in struggles against their dismissal or against the piece-work system and to urge the bosses to comply with the legislation (regarding apprenticeship, etc.);

(b) the strong presence of skilled workers enables the union to give free rein to formal or informal types of bargaining pursued by these workers who tend to have greatest bargaining power in the most innovative companies.

C. Entrepreneurial standards

In the period immediately following the Second World War, the national centre-right government channelled most assistance to the largest companies, especially those based in the north. Of post-war Marshall Plan funds earmarked for industrial investment, 25 per cent went to industries in the Piedmont region, 28 per cent to Lombardy and only 0.75 per cent to companies in Emilia-Romagna [Melossi, 1977]. During the same years, on the initiative of the national government, factories in Emilia-Romagna that had been used for arms manufacturing were either closed down altogether or subjected to drastic lay-offs. As a result, the central government was perceived as being opposed to the development of enterprise in Emilia-Romagna.

Italian state policy has, in fact, continued to prioritize large companies. From the 1965-1966 period onwards, the Cassa Integrazione law has been used to assist companies facing crisis. The said law enables the state to pay part of the workers’ wages, thereby allowing companies to lay them off for as long as the crisis lasts. The companies benefiting from this law are always large-scale ones.

However, as Linda Weiss [1988] has written in her analysis of policies towards small-scale business in various European countries, the Italian government, if compared to that of France or Germany, is relatively well disposed towards small companies. The best illustration of this is the Artisan (small business) Charter introduced in 1956 “to clarify the boundaries of the category that was to be the subject of special benefits. Unlike the German and French systems, for example, where the artisan qualification is defined on the basis of a ‘professional’ list of activities, the Italian artisan or rather artisan enterprise is so defined in law on the basis of numbers employed. Not a professional category, then, but a legal régime, the membership of which entitles the owner to a wide variety of benefits including cheap loans, loan guarantees, lower tax and employers’
contributions, welfare benefits at reduced premiums, exemptions from keeping accounts and from bankruptcy proceedings.”

This nationwide law has been of undoubted importance but cannot fully account for the extraordinary mushrooming of small and very small companies in Emilia-Romagna. To grasp the nature of this increase one has to bear in mind the very high entrepreneurial standards in Emilia-Romagna both in terms of organization standards (CNA, the association of small businesses, is extremely active) and also in terms of standards of protection and security and standards of promotion.

These two last-mentioned types of standards have been solidly backed by local communist and socialist-led councils. These local councils in Emilia-Romagna have adopted many measures of industrial policy that have had a considerable effect on the development of small business. One example of this has been the provision at rock-bottom prices of well-equipped small business areas. Moreover, in a region where the parties of the left have enjoyed particularly high levels of popular participation, the Communist party’s official policies in favour of small business have certainly played a vital role.

For waged employees to become self-employed and to set up their own businesses came to be seen by the Communist party as an important “political” goal. One might indeed put forward the hypothesis that at the end of the Second World War when the majority of the population of Emilia-Romagna was either communist or socialist and had fought in the resistance, their “energies” that could not find political expression — because of the centre-right government then in power nationally — were channelled into enterprise.

D. Social and educational standards

In national terms, the Italian “social” state in the post-war years and in the period under discussion remained very limited, particularist and patronage-based. There was a myriad of fragmentary pension schemes but very little attention was paid to the development of any across-the-board welfare systems.

As regards education, too, the only reform during the period under consideration dealt with compulsory schooling. This set up a unified system of a five-year followed by a three-year block, with school attendance compulsory until the age of 14. But there was no reform of secondary education, i.e. of education beyond the first eight years of school attendance. Also, because professional training remained very patchy, the old imbalances in the structure and quality of welfare, social and
educational services between the centre-north regions and the south, remained as sharp as ever.

In comparison with social and educational standards in Italy as a whole, Emilia-Romagna was, throughout the period from the end of the war to the late 1960s, a region of extraordinary vitality and enterprise — in the broadest sense. People even spoke of an “Emilian model of development”.

In Emilia-Romagna during the 1960s the main planks of a “quality” approach to town planning were devised and great emphasis was placed on the spread of green areas and of services designed to reach the outskirts of the towns. There was also a firm crackdown on property speculation and very high standards of nursery and pre-school provision were attained — in both qualitative and quantitative terms. In this way women were given improved access to the labour market without the need for major career breaks when their children were small.

Such welfare measures confirmed the central role that women might play in the political, economic and cultural life of the region. It should also be remembered that these social policies (decent housing, protection of the environment, health, cultural activities, nursery provision, etc.) constituted an important “local social wage”. It was thanks to this social wage that the standard of living of Emilian families rose markedly in comparison to that of families in other Italian regions.

Educational standards in Emilia-Romagna were also much higher than elsewhere. Close attention was paid to the development of the University of Bologna, the quality of the technical institutes and the development of good primary schooling. The high social and educational standards achieved help to account for the type of industrial development based on flexible specialization that came to characterize the region.

2. The spread of industrialization and the convergence of standards

In the period under consideration, if one compares what was happening in Emilia-Romagna to other regions, one can plainly see that not only were labour, social, entrepreneurial and educational standards higher in this region than elsewhere in Italy but that there was a political convergence among these standards.

What stands out is the close collaboration between a variety of actors (local authorities, universities, the association of small businesses, unions), all of which belonged to the same “political community”. This meant that, when mediation was necessary, it could take place at a high enough level to ensure the protection of people and the environment and not only the
economic profits of the company. During the period under consideration, a valuable interweaving of economic development and social, political and cultural development was achieved.

Within this complex developmental pattern, labour standards played an important role both in protecting working conditions on the shop floor and also in promoting the kind of social mobility whereby former waged employees could take up self-employment. Labour standards were thus closely interlinked with entrepreneurial standards. There was no clash between the protection of the interests of the waged employee and the promotion and spread of companies.

So, to Sengenberger's initial question, one can reply that not only have labour standards facilitated industrial development but that it is the combination of standards (political, labour, social and educational) that has advanced entrepreneurial standards — just as entrepreneurial standards and the specific type of industrialization helped to promote a process of social and economic mobility that made possible the implementation of the other kinds of standards.

What emerges from this analysis is therefore a virtuous circle involving the interaction of all four types of standards. Clearly, it is also important to look at them together (along with the role of the various actors that exert most influence on them). This should help us to a better understanding not only of phases of rapid economic and social growth but also of moments when, as we shall see with our analysis of the subsequent period, major contradictions emerged between economic development and social development.


This third period is marked by the major changes that an industrialized region such as Emilia-Romagna has to face. These changes are of various kinds.

First and foremost, it is in this 20-year period (1970-1990) that major technological change became visible with the spread of new information and electronic technologies, giving rise by the end of the 1970s to a crisis of industrial restructuring. Parallel to the on-going technological changes, major upheavals were also taking place affecting labour organization in large factories. Such factories had, in fact, grown more flexible and better oriented to the needs of individual clients through the adoption of the types of management techniques pioneered in Japan by Toyota.
The industrial districts and subsystems that had become widespread in Emilia-Romagna and which consisted of small, medium and very small firms were therefore subject to increased competition from larger companies.

A second kind of change resulted from the very success of the process of industrialization in Emilia-Romagna. Over the previous 20 years, the region had, in fact, reached a situation of full employment but this economic achievement brought new contradictions in its wake:

(a) a declining birth-rate meant that by the end of the 1980s there was a drastic shrinkage of the 15-29 age-group and this in its turn spelled labour shortage problems;

(b) the economic and social success of the region had made it more "attractive" to labour than other Italian regions and Third World areas. There was therefore immigration from southern Italy, starting with attendance at the region's universities. In the last couple of years, there has also been considerable immigration from African, Asian and Latin American countries;

(c) the high level of industrialization and the success of tourist developments along the Adriatic coast has had a notable impact on air and water quality, creating environmental problems of pollution.

At first sight, one might expect points (a) and (b) to cancel each other out, the shortfall in labour power being compensated for by immigration. However, things are not quite so simple. The skills that firms in Emilia-Romagna tend to require are not those commonly offered by immigrants. To get over this hurdle, complex work training schemes would have to be implemented.

The third type of change that has occurred in this period has to do with political culture. In the two-year period 1969-1970, extraordinary strides had been made in the organization of trade unions and in their ability to protect workers' rights. The 1980s, by way of contrast, saw increasing disunity among the unions with conflicts arising between the CGIL and the CISL and UIL. The unions were also beset with difficulties created by the pace of technological change occurring in the large factories of the north and by the consequent heavy reliance on the Cassa Integrazione system.

The 1980-1990 decade, a time of technological upheavals and an expansion in the services industry, etc., also saw a severe reduction in the

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11 An analysis of changed electoral behaviour is provided by Galli [1968].
membership of the main union confederations and the birth of new, independent trade union organizations.\textsuperscript{12}

The course of events is no less complex if viewed in terms of political and cultural changes affecting social movements and parties. The years 1969-1970 saw the formation of student movements and the growth of feminist movements that came to exert a great influence on Italian society and institutions — as did the pacifist and ecological movements of the 1980s.

As for the parties, the Communist party was allied to the Socialist party in regions such as Emilia-Romagna but found itself in opposition to both the Christian Democrats and the Socialists nationally (except briefly during the struggle against terrorism).

The national government proved largely unable to carry through nationwide reforms. The establishment in 1971 of strong regional governments led to an ever-widening gulf between regions of the industrial triangle (Genoa-Turin-Milan), those of the so-called "Third Italy" (which in their turn could be divided into regions like the Veneto governed by the Christian Democrats and those like Emilia-Romagna governed by the Communist and Socialist parties) and the regions of the south where the Mafia retained considerable power.

Then, at the end of the 1980s, came the fall of the Berlin wall and the crisis and collapse of the communist regimes in eastern Europe. In Italy, the Communist party broke into two parts, the Party of the Democratic Left (PDS) and the Party for Communist Refoundation (PC). In Emilia-Romagna it is the PDS that has inherited almost all the votes that previously went to the PCI.

The end of the 1980s also saw the emergence of a new political force — the northern Leagues — which tend to attract protest votes in the north by promoting three main notions: that no tax or at least much less tax should be paid by their regions to the Italian state (guilty of handing over the money to the southern Mafia); that people should be barred from immigrating into their regions; that the interests of the people from their regions should be paramount. The Leagues propose a return to an Italy of regions, each of which would enjoy state-like autonomy.

These Leagues have scored remarkable successes in the north of Italy and, even if they have little impact in regions like Emilia-Romagna, they none the less represent a major political change in Italy as a whole.

\textsuperscript{12} As regards changes in Italian trade unions, see Contini [1985], Della Rocca [1987], Accornero et al. [1990]. Several general theoretical aspects of this issue are covered in Sabel [1982].
Bearing these points in mind, it is worth examining the way that the various types of standards identified have been implemented in Emilia-Romagna during this period.

1. The role of standards

A. Political standards

Especially over the last decade, political standards of organization have grown weaker right across the board. All the parties that have dominated the scene since the 1970s and which still hold sway in national and regional governments have suffered a decline in membership.

The members of the Communist Party in Emilia-Romagna were the strongest supporters of its transformation into the Party of the Democratic Left. Once again, the pragmatic and reformist features of the Emilian communist tradition were apparent. Yet, even in Emilia-Romagna, there has been a clear drop first in PCI and then in PDS membership and consequently greater difficulty in obtaining high standards of organization, maintenance and promotion in the political structures.

The trade unions have been subject to similar processes. After 1969-1970 there was a surge in enrolments and in participation in union activities but during the 1980s enrolments fell away dramatically. This can be viewed as a result of the tertiarization of the economy, the increased mobility between waged employment and self-employment, and the reduced interest in union affairs displayed by the younger generation.

Figures for trade union enrolment have declined more slowly in Emilia-Romagna than in other regions but they have none the less declined. In terms of political standards, this decline makes the situation more complex and difficult than previously.

Over the last few years there has also been the problem of how to provide political and trade union representation to people who have only recently immigrated from Africa, Asia and Latin America. The region's relatively greater ability to absorb immigration, combined with very high regional levels of employment, has meant that many people have arrived all at once, confronting politicians and trade unionists with complex problems.

It is also important to remember that regional governments were set up in Italy in 1971 and that, since that date, the various social and political protagonists mentioned above have been joined by the regional authorities (in Emilia-Romagna these were managed once again by the Communist and Socialist parties). These regional governments have assumed increasing importance.
Compared to the previous period, the collective identity of the region as a "political community" has grown weaker and the actions of the middle-ranking élites who actually manage the various schemes in the local authority, in the regional government and in the various institutions (schools, trade unions, etc.) have become less tightly bound to any general political outlook. What has gained ground instead is a more individualistic attitude along with a more bureaucratic interest in one's own job. This is in contrast with the previous period when strong general political motivations led to the emergence of a distinct "Emilian model".

B. Labour standards

Shop-floor struggles were so widespread and intense in 1969 that in Italy one now refers to the "hot Autumn of 1969". It was in the same year that the consigli di fabbrica (shop stewards' committees) were set up — consisting of workers' representatives selected in free elections. It was in 1969 also that salary areas were abolished and equal pay for women was finally won.

These victories on wage levels were accompanied by a very important new law designed to protect workers' rights. The Charter of Workers' Rights would cover all industrial workers in factories with more than 15 employees. This Charter banned sackings without just cause, protected union representatives from workplace discrimination, defended rights to education and set up new rules for office workers.

The Charter of Workers' Rights, combined with the strength of the Italian unions, secured greater protection for workers in terms of safety and workplace health hazards. The unions won the right to bring their own trusted experts into the workplace to check the hazards to which workers were exposed.

In 1973, another important union battle was won — the so-called 150 hours — which afforded workers greater access to education and training. This breakthrough gave workers (especially those who had not completed compulsory schooling) a chance to attend school courses run by the union and lasting a total of 150 hours (from their work time) — on the condition that they "matched" this commitment with a further 150 study hours from their own leisure time. The "150 hours" were used not only to catch up on basic schooling but also to run courses at the university on economics, the labour market, workplace health, women's issues, etc.

In 1973, the union brought a new tier into its organization — the region. The union's organizational structure now included national, regional, provincial, area and factory tiers. It was henceforth possible to
reach regional agreements with regional authorities, with regional small business associations, etc.

It was during this period that trade unions became increasingly aware of the women’s movement and many initiatives were launched based on the analysis of the condition of women in the workplace. Women’s committees were set up within the unions and these pursued important measures that in the 1980s were to influence the national and regional commissions on equal opportunities.

At the beginning of the 1980s, the trade union confederations that, throughout the 1970s had remained united, now faced difficulties created by the reorganization of large-scale factories reliant on the Cassa Integrazione system. The political situation had also been made yet more complex by the assassination of the Christian Democrats’ leader Aldo Moro at the hands of the Red Brigades. The (mainly Communist) CGIL found itself in conflict with the (mainly Christian) CISL and the (mainly Socialist) UIL. In the 1980s, unions tended to go for national bargaining rather than shop-floor, provincial or regional bargaining.

Tertiaryization and the influx into the workplace of younger generations has led to a decline in union membership. In some sectors, such as education, transport and public authorities, independent unions have emerged. These so-called cobas are symptomatic of the difficulties currently besetting the confederal unions just as the Leagues are symptomatic of the difficulties facing the traditional parties.

Now, at the beginning of the 1990s, the confederal unions seem to be proceeding towards a greater unity and more emphasis seems to be placed on bargaining at regional, provincial and shop-floor levels — without, however, abandoning national bargaining or the pressure for legislation to protect workers’ rights. In 1990, a Charter of Workers’ Rights for companies with fewer than 15 employees was drawn up, a law offering some protection to immigrant workers was enacted and an Equal Opportunity Act for women was also passed.

Bearing in mind this brief summary of the main phases of union activity nationally and the labour standards attained, it is now worth considering events in Emilia-Romagna.

The first point to make is that all gains achieved nationally have been applied in a much more rigorous way in Emilia-Romagna than in most other Italian regions. Union interventions during the 1970s to safeguard workers’ health and in favour of the “150 hours” have shown that the unions in Emilia-Romagna are very dynamic and quite capable of securing support for their initiatives from university intellectuals.

In 1974, the first office for trade union studies was founded in Emilia-Romagna, under the direction of a university lecturer. At first this office
focused on metalworkers' unions in the province of Bologna, though it later turned into a region-wide office for union studies. Throughout the 1970s this office organized so-called "production conferences": when a company found itself in difficulties, the unions would intervene with their own plans drawn up by experts in cooperation with blue- and white-collar workers from the company in question.

The proactive role that unions in Emilia-Romagna played in industrial development at provincial and regional levels (especially in the metalworkers' union) slackened off in the 1980s when trade union unity was broken.

At the end of the 1980s and in the early 1990s there was, however, a revival in trade union research and intervention, above all relating to the technological changes facing companies. Trade unions in Emilia-Romagna launched a new policy of "co-determination", inspired by Swedish experiences in industrial relations during the 1980s. This new line was quite distinct from the "rights to information" which had in fact been won by the national collective contracts of 1975.

In 1975, by securing rights to information about company investment programmes, the unions had sought to influence the consequences of technological innovation on working conditions, mobility and employment levels. The new policy of "co-determination" set its sights higher: to discuss company decisions liable to influence workers' conditions before the said decisions were taken. Trade unions and companies, each side perfectly entitled to propose and accept specific rules and procedures, should work together to "co-determine" management policies and company organization plans affecting working conditions and work organization.

The goal of "total quality" that companies now proclaim places greater value on "human capital", opening, if not quite smoothing the way, for "co-determination" strategies. The point is that the approach developed by the trade unions in Emilia-Romagna has been taken up by the CGIL at national level and incorporated into its programmes. The pragmatic and reformist character of Emilian trade unionism seems therefore to be rubbing off on the more ideological and political approach of the national unions, tied as they are to nationwide rather than to local or shop-floor interventions.

The specific characteristics of the Emilian trade unions may be noted in three other areas:

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13 Vittorio Capecchi was in charge of the initially province-based and later regional Studies Office of the metalworkers' trade union from 1974 until the collapse of trade union unity.
(a) the attention they pay to the development of on-site job training through three-cornered province-wide agreements (unions, small business associations, local authorities) designed to promote job training in small and very small firms;

(b) the attention they devote to the integration into the labour market of immigrants through three-cornered province-wide agreements designed to tackle problems of housing and education (both basic and vocational) facing immigrants of both sexes;

(c) greater emphasis than in other regions on conditions of women in employment.

The remarks made by Adele Pesce [1989] in her report to the Regional Commission for Equal Opportunities for Men and Women have highlighted two lines of action that have both been expressed by women in the trade unions.

The first of these two lines (which leads to only partial measures) looks at the conditions facing women in the workplace. Groups of women in the union have identified companies in which women stand less chance of gaining advancement in their careers than men, less access to higher managerial positions, less opportunity to benefit from job training schemes, etc. Situations have also been identified in which women are paid less because they do work that is considered more “feminine” than other work of equal complexity that is traditionally considered “masculine”. For example, in the textiles industry (which employs mainly women workers), there are certain jobs that are paid less than others of equal complexity in the engineering industry (which employs mainly men workers).

The second line of action does not stop at seeking equality between men and women. This approach, based on a theory that attaches value to gender difference, criticizes the entire way that work is currently organized, considering it to be the outcome of an exclusively male mindset. In this view, work is no longer narrowly defined as what takes place on the shop floor or in offices but is instead redefined to include those traditionally unpaid tasks performed by women. Account should therefore be taken of the time spent and the pay received for every kind of work whether it be in the field of production or in that of reproduction. The women’s section of the Party of the Democratic Left (PDS) is now trying to bring before the Italian parliament an interesting bill that proposes to reorganize working hours differently both in the workplace and in towns and cities generally.
C. Entrepreneurial standards

Throughout the period under consideration, the assistance provided by the Italian state to large companies has continued both with the Cassa Integrazione mechanism and through other specific measures. Small business organizations have, none the less, become much stronger and are now able to lobby government more effectively. Although some of the powerful small business associations in regions like Emilia-Romagna are in fact run by members of the Communist and Socialist parties there are associations of small firms in areas like the Veneto where the management is in the hands of members of the Christian Democratic party.

The parties of government cannot therefore ignore small business. The last piece of legislation directly concerning small business was enacted in 1991 and dealt with measures to assist small business innovation and development.

In Emilia-Romagna, entrepreneurial standards affecting small and medium business are the focus of a whole range of measures taken by local and regional authorities.

At regional level, the Emilia-Romagna Development Association (ERVET) is setting up a number of very important centres for the development of specific sectors of small-scale business. A combination of public and private capital is deployed to set up these centres which are located in areas where the particular branch of industry in question is concentrated. The development centre for the clothing industry, to take one example, is located in Carpi where this particular industry is most fully developed.

Regional government strategies are linked to the idea of tailoring flexible services to a variety of particular needs. The kind of flexible response appropriate to the consumers is left up to the centres themselves — adopting the approach to industrialization that is most widespread in Emilia-Romagna.

In Emilia-Romagna, therefore, there are not only the ERVET-backed centres offering services to firms or those coordinated by the small business associations themselves. In each town, there is also a whole range of initiatives designed to develop and promote enterprise in both the traditional and the more innovative branches of industry.

Emilia-Romagna, moreover, has also enacted laws to reward innovation in small business and to boost the enterprise culture among youth.

It should also be remembered that, during the 1980s, a regional labour market "observatory" was set up to coordinate information, research and experimentation in labour policy in an attempt to provide the best possible documentation on ways of organizing work training and the workplace
itself. This observatory has been coordinated by eight university lecturers from various disciplines and is providing an important benchmark for documentation on the interfacing of school, job training and the labour market.

It should not be forgotten that work training in Italy is run on a regional basis and is an important tool of industrial policy. Emilia-Romagna makes more use of the European Social Fund than any other region in Italy.

Overall, it is fair to state that the industrial system in Emilia-Romagna has met the challenge of international competition successfully, having opted for broad-based flexibility of production and a collaboration between labour and entrepreneurial standards.

At the outset of the 1990s there is, however, some cause for concern about the future. The urban industrial districts and sub-systems have scored undoubted successes but what is called for is change and innovation not only in the way things are produced but also in the products themselves. The most up-to-date research stresses that the industries in Emilia-Romagna tend to invest very little in research and development.

Another worrying fact is that not only are there fewer young people now coming into these firms (because of the demographic decline in the 15-29 age group) but the educational levels of those recruited are lower than in other European regions.

From the point of view of employment levels, the situation is therefore very good but there are new problems to be faced in terms of medium- and long-term policy. Yet, throughout history, Emilia-Romagna has achieved economic success precisely because of the medium and long-term policy, adopted at the beginning of the nineteenth century, which embraced new technologies. This has resulted in the creation of new industries oriented towards the manufacturing of new products.

D. Social and educational standards

In the last 20 years, the Italian state has continued to implement limited welfare-type measures and has sought to exert a positive influence on school and professional training. Laws to reform university education have been enacted in the last few years but at the time of writing — late 1991 — secondary education is still awaiting reform. The minimum school-leaving age in Italy remains at 14, while in every other European country it is 16.

The inability of national governments to carry out reforms in the social and educational field has meant that social and educational standards vary enormously from region to region. In Emilia-Romagna, social and
educational standards are doubtless higher than most other regions, with the result that southerners often travel to Emilia-Romagna for hospital treatment, and students from other regions flock to Emilia-Romagna’s institutes of higher education.

Emilia-Romagna’s relative superiority over other Italian regions in the field of social and educational standards should not, however, conceal the new challenge facing the region in the early 1990s.

As regards social development, there are many unresolved problems relating to the fight against air and water pollution caused by industry and seaside tourism. The regional and local authorities have designed a number of programmes to address these issues but clearly there are no easy solutions.

Moreover, as regards educational standards, the regional authorities have launched a range of highly efficient job training schemes. However, as the latest report from the “Regional Labour Market Observatory” has suggested, many young people (especially men) are now coming into the job market without any educational qualifications, given that firms are expressing a strong demand for skilled workers. It is not a problem of unemployment — Emilia-Romagna can boast a very high level of employment among both men and women — it is just that the balance between demand and supply of labour has been struck with a low percentage of educationally qualified people. Only 47 per cent of the younger generation gains a diploma and this percentage is lower than in many other European regions.

All this serves to confirm worries about the efficiency of the firms referred to in the foregoing. Lastly, problems relating to immigration may be expected to increase considerably if there is a steep rise in immigration from Eastern Europe or from African, Asian and Latin American countries. There has already been a certain amount of tension between people from Emilia-Romagna and immigrants and it is not hard to foresee conflicts of a type previously unknown to this region.

2. **Changes in industrialization and internal contradictions relating to standards**

Over the last few years, a number of complications have crept into the more straightforward picture that could be painted of the previous period. Changes in national and international affairs have had as much of an impact on this region as its successful pattern of industrial development. Political and social forces now find themselves faced with both the positive and negative aspects of the changes under way.

It is worth emphasizing the following positive features:
(a) the industrial system has responded effectively to technological change and to tougher international competition. The flexible services offered to small firms have enabled the various industrial districts and subsystems to retain a good degree of competitive efficiency;

(b) by the end of the 1980s and the beginning of the 1990s, the region was enjoying a situation of full male and female employment;

(c) the policy followed by trade unions in Emilia-Romagna — and accepted by the national trade union movement — is that of "co-determination", involving an effort to achieve improved labour standards;

(d) there is a mushrooming in Emilia-Romagna of triangular agreements bringing together trade unions, regional and local authorities, and business associations on issues such as work training, the needs of immigrants, etc;

(e) Emilia-Romagna is still the Italian region with the highest labour, social and educational standards.

There are also numerous negative features that political and social forces in Emilia-Romagna will have to face in the coming years:

(a) there are greater tensions now between the parties governing the individual towns and cities and the region as a whole. Such tensions at times make it hard to pay equal and balanced attention to economic development and social development, and concrete measures are tending to emphasize the former at the expense of the latter;

(b) there has been a drop in membership of political parties and trade unions, as compared to the 1945-1970 period, and reduced overall participation in political life;

(c) the intermediate elites running the various schemes are tending to offer a rather bureaucratic service rather than a service motivated by strong personal commitment to a general political project. One can no longer speak so readily of a "political community" in which the various components share an overall political plan for economic and social change;

(d) there are a number of new and tricky problems regarding both economic development (limits on investment in research and development and in company work training, a slow-down in exports and in the design of new products, etc.) and social development
(problems relating to pollution caused by industrial development and tourism, problems linked to recent immigration, etc.).

Medium- to long-term forecasts for economic and social development in Emilia-Romagna are therefore dogged with uncertainty. Much will depend on policies pursued by national government and on the international situation. But much will also depend on whether those in the region who possess most influence over political, labour, entrepreneurial, social and educational standards are able to find adequate means of collaborating to combine economic growth with social, political and cultural development.

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been largely directed by the political and industrial leaders of the labour movement. Rather than seeking labour market flexibility through the emasculation of the trade union movement as in the United Kingdom, or more recently in New Zealand, in Australia a middle-of-the-road social democratic government has worked closely with the trade union movement since 1983. The power and responsibility conveyed upon the unions by this approach has produced a radical change in the movement from a strong but narrowly focused interest group devoted to the redistribution of income and the preservation of existing jobs into a more pragmatic economic force concerned with efficiency, productivity and the generation of wealth.

This revolution in union thinking has been a strategic response to unavoidable structural change and shrinking unionization levels as well as the opportunities for constructive collaboration with a sympathetic Labor Government. In fact, since the mid-1980s the labour movement has focused attention on a range of fundamental flaws in the previous protectionist policies and the structure of industry; the industrial relations system; economic infrastructure; the financial and tax systems; education and training; and the size and quality of services provided by the public sector. Many of the reforms subsequently implemented are broadly consistent with the hypothesis developed by Sengenberger in Chapter 1 since they are designed to make product, labour and financial markets more competitive and dynamic, but not at the expense of cooperation and industrial relations harmony. Increased space has been provided for constructive competition while decisive steps have been taken to deter destructive labour market competition.

This does not mean, however, that all sections of society concur with government policy. In fact, a cross-section of society, including many employers, consider the scope and speed of micro-economic reform introduced over the last decade to be inadequate, and they strongly object to the close relationship between the Labor Government and the trade union movement. Moreover, with unemployment at an unacceptably high level, labour market and industrial relations reform were critical issues in the national election that took place in March 1993. The Liberal-National Parties, which constitute the conservative opposition in federal politics, had foreshadowed that if there was a change of government they would attempt to completely disband the collective bargaining system and force the bulk of the workforce to adopt individual work contracts negotiated directly between management and staff — unrestricted by the standards and union structures built up over many decades. Existing entitlements, such as restrictions on working hours, redundancy arrangements, penalty payments for working overtime or shift work, holiday bonus payments and private pension payments would have been abolished. According to the Govern-
ment, the Opposition's policy was intended to deprive trade unions of much of their industrial relations and political power. The President of the Australian Council of Trade Unions had predicted that Australia would return to a "ragbag world of industrial relations" if there was a change of government. The debate in Australia over the last years, therefore, was not merely about the pace of change but potentially about fundamental ILO principles. The Opposition's self-titled "big bang" industrial relations reform would have removed much of the labour market regulation and standards that Sengenberger argues are necessary ingredients to ensure that competition remains constructive and not destructive. In the final analysis however, the Australian people rejected this approach and gave the Labor Party its fifth consecutive electoral victory.

This chapter briefly examines some of the factors contributing to the long-term economic decline of Australia, before focusing on the measures implemented by the national Government and the trade union movement in the last decade to tackle these issues. Labour market problems and reforms are the focus of the chapter; however, wider micro-economic issues are also briefly discussed. It will be argued that significant progress has been achieved in giving the economy a more international orientation and in developing a more productive culture, albeit at a steady pace. Moreover, because the reforms of the last decade have advanced efficiency and equity considerations simultaneously, steady progress has also meant politically sustainable progress. These achievements can be contrasted with the decades of neglect that the same issues received prior to the 1980s because the government could not secure the political support to implement reforms which entailed significant short-term costs.

II. Long-term economic and structural deficiencies

Many of the desirable features of the Australian milieu mentioned above, such as its relatively small population and geographical isolation from overseas markets, and the huge distances that divide domestic markets (16.5 million people in a country fourth-fifths the size of the USA) have not only brought the inefficiencies of small scale, lack of competition and high transport costs, but were important factors in the protectionism which typified industrial development in Australia. The rich resource endowment has also had a profound impact on development and engendered problems of macro-economic management. The extractive sector — mining and agriculture — dominates exports, with a share of over 70 per cent. In fact, the export base is very narrow with seven commodities accounting for nearly 50 per cent of all exports. These are
commodities with large short-term fluctuations in demand and prices, while agriculture, of course, is subject to supply-side fluctuations as well. The pervasive impact of such fluctuations can be appreciated from the fact that, although Australia was able to roughly retain its share of world trade in volume terms between the 1950s and 1980s, in value terms the country slipped from the eighth largest exporting country to twenty-third over this period; in fact, the country's share of the world export market shrunk by more than half in value terms because of the deteriorating world prices for Australian exports.

In the first 80 years of this century, Australia reacted to the variability of its major exports by trying to steer the economy away from where its natural comparative advantage lay. Protection encouraged the development of a domestically-oriented manufacturing sector less subject to the buffeting of international trade. Major historical events such as the Second World War, which emphasized the isolation and vulnerability of Australia, helped to entrench this trend. The short-term pressures of war forced the country to become more inward-looking; however, the establishment of Fortress Australia proved a poor foundation for economic development. For decades thereafter, Australian producers remained blind to the opportunities for trade with the rapidly expanding economies of Asia.

Labour market considerations were a further factor behind the protectionist push. The mining and agriculture sectors, by their nature, employ very little labour, so another aim of protection was to provide employment for a growing population. Australian unions, motivated by concerns about job prospects (and union membership) and the maintenance of fair wages and employment conditions — both of which were threatened by the importation of cheap manufactured goods, especially from low-wage countries — have a long history of support for tariffs and other forms of protection. In fact, there has historically been a close link between wages policy and trade protection in Australia. Just after Australia federated at the turn of the twentieth century, minimum wage levels were set to enable a family of four to live in reasonable comfort. This decision engendered the idea of "New Protection" which was based on the principle that tariffs should be fixed high enough to enable these "fair" wages to be paid.

In Chapter 1, Sengenberger argues that labour standards, high wages and reasonable employment conditions generate economic advantages because they induce employers to compete with each other — through, for example, the introduction of best technology, management practices and innovative products — thereby increasing productivity and efficiency. However, in Australia between the 1950s and 1980s, these forces were inhibited by both the small size of the domestic market and protection from international competition. Tariffs afforded manufacturers the luxury of
making the consumer pay for wage and other labour cost increases. The latter included overmanning and restrictive working practices. In addition, protection did nothing to encourage Australian employers to introduce the best technology or production methods, or to chase overseas markets. Inadequate international competition in the past has also hindered product innovation and has been a major cause of low levels of research and development.

Exogenous shocks to the Australian economy, which have usually been transmitted through terms-of-trade fluctuations, have often been augmented by inflationary wage pressures. For example, the first “oil shock” of the 1970s had a significant positive impact on prices for Australia’s energy-related minerals (coal, iron ore, etc.) and, given a tightening of the labour market and some evidence of skill shortages, resulted in a “wage explosion” in which nominal wages rose by about 30 per cent in 1974-1975 and inflation peaked at almost 24 per cent. This was accompanied by the highest incidence of strikes since the Second World War. Australia subsequently suffered a period of slow economic growth and deteriorating labour market performance, during which time the real wage gains of 1974-1975 were eroded. A similar pattern emerged when the second oil shock hit in the early 1980s. The conservative Government of the time promoted expectations of a domestic mining boom, and the trade union movement again had little difficulty in securing a package that involved wage increases and cuts in working hours that increased labour costs by about 25 per cent in the period 1981-1982. This breakthrough was initially secured by the metal industry unions but quickly spread through the workforce. However, the boom was short-lived; mineral prices collapsed, and the rural economy was struck by a severe drought. As a result, in the early 1980s, the economy underwent a dramatic recession.

Throughout this boom-bust period between the mid-1970s and early 1980s, inflation remained a major problem, averaging over 10 per cent, which was significantly higher than the OECD average. Consequently, inflationary expectations became entrenched. Over the same period, unemployment trended upwards with sharp upward jumps in both 1975 and 1982, when it hit double digits. The so-called natural rate of unemployment — that is the level of unemployment required to keep inflation from accelerating — also increased significantly over this period. In response, the Conservative Government shunned its own market principles and in 1982 supported the introduction of a wage freeze in an effort to contain inflationary pressures.

The periodic wage explosions in the 1970s and 1980s were not matched by improved productivity performance and consequently real unit labour costs increased significantly, profits diminished and investment was
hindered. In fact, Australia has recorded a significant long-run deterioration in actual and relative productivity levels. Trend labour productivity fell from 3.1 per cent per annum in the 1960s to 2.1 per cent in the 1970s and to 1.2 per cent in the 1980s. The OECD has recently noted that, while productivity levels in the Australian agricultural and mining sectors are substantially above the OECD average, those in other sectors are well below the OECD average [OECD, 1992]. In particular, productivity levels in Government Business Enterprises would appear to be roughly one-half the OECD average. Also, according to OECD data, productivity levels have often been less than one-half those of Australia’s trading partners in its ports, railroads and electricity generation.

III. Labour market and institutional inefficiencies

One reason for the poor productivity performance and the declining international competitiveness of Australian industries in the 1970s and early 1980s could have been deficiencies in certain aspects of the skill and education levels of the workforce. To match the performance of other advanced industrial societies despite its isolation from large markets, Australia needs to produce high quality goods and services at competitive prices through the effective use of the best technology. A clever and capable workforce is therefore essential and this requires a general knowledge base on which to build vocational skills. However, prior to the 1980s, the Australian education and training systems were designed to service an economy composed of a relatively small labour force of professional and highly-skilled trade workers and a large labour force of semi-skilled and unskilled workers. Reflecting this, only 36 per cent of students completed high school in 1982 and this was already a dramatic improvement from the 1960s when the comparable figure was only about 20 per cent. There is also evidence to suggest that incentives for employers to provide (and for employees to undertake) vocational training have been inadequate. It would appear that, until relatively recently, firms have been disinclined to invest in widening employees’ skills because of demarcation rules that have traditionally prevented multiskilling and because of high labour turnover rates as employers “poach” workers from each other once they are trained. For workers there has traditionally been little incentive to upgrade qualifications because of limited scope for upward labour mobility in most firms.

Certain features of the political and industrial relations institutional arrangements and ethos have also detracted from the development of a dynamic and competitive culture, while contributing to the boom-bust
economic cycle and inflationary bias. For a start, the principal political parties in Australia have traditionally made industrial relations and wage policies major planks of their political platforms. There have also usually been major tensions between the federal Government and the trade union movement. In the post Second World War period, federal politics was dominated by the conservative Liberal and National Parties — which held government for 30 of the 38 years prior to 1983. These administrations expressed a strong faith in free enterprise, private initiative and a belief in the sacred character of the farming industry. While conservative governments occasionally sought to consult with representatives of the union movement, and did form implicit alliances about protection, there was also considerable sabre-rattling rhetoric, particularly around election times, about the excessive power of unions and their links to the Labor Party. Overall, government policy was unsympathetic towards union demands for a fiscal and social policy that would help to redistribute income. As a result, the electorate has traditionally been sharply divided on industrial relations issues and the emergence of a broad apolitical perspective able to weld together the different interest groups to improve labour market efficiency and productivity has been hindered. For several decades prior to the early 1980s, national politics was the scene of many debates about labour market and industrial relations problems and the need for reforms to boost productivity, but most governments failed to muster, let alone sustain, the political stamina to tackle these problems. Jawboning was prevalent but policy was replaced by paralytic passivity.

Given the domination of federal politics by the conservative parties prior to the early 1980s, the influence of the union movement or, more precisely, the Australian Council of Trade Unions (ACTU), on national economic or social policy was weak and confined to a narrow range of issues. The issues over which the ACTU had greatest impact were therefore "industrial" issues like wages and other employment standards. It has been argued that in pursuing these issues prior to 1983, the ACTU's objective was almost exclusively to gain wage increases which redistributed income towards workers rather than to influence the manner in which that income was created [Bray, 1992]. Consequently, the hierarchy of the union movement accepted little responsibility for macro-economic outcomes or for the inefficiencies engendered by the demarcation and restrictive practices that unions introduced at the workplace level. This attitude reflected the unions' perceptions of what was achievable given the domination of federal politics by a hostile conservative Government.

In pursuing wage increases as the principal means of redistributing income, the labour movement traditionally relied on a few large, powerful and strategically placed unions whose membership spans the country as
well as the spectrum of industry. For example, the metal industry union covers not only enterprises in the metal industry but dozens of disparate industries and a multitude of enterprises, thereby giving rise to multiple bargaining units. However, instead of negotiating wages and conditions for each bargaining unit in light of supply and demand factors in that sector, virtually all members of the union plus thousands of non-union members in the same or similar occupations used to enjoy the same minimum wages and employment conditions. Moreover, the union movement has traditionally exploited coercive wage comparisons — or what the Australians call “comparative wage justice” — to extend wage increases achieved in a key sector like the metal industry to all other industries. As noted above, because of protection, employers were often prepared to easily accommodate such wage demands and thereby avoid strikes in the knowledge that the labour costs involved could be passed on to consumers in the form of price increases. Consequently, the real value of large nominal wage increases was quickly eroded and the ensuing inflation had a deleterious impact on the poor, who depend on small fixed incomes, while the uncertainty created by inflation damaged both domestic and international business confidence. This process was utilized to engender the wage explosions of the mid-1970s and early 1980s.

There are a number of other aspects of the industrial relations system in Australia which make it qualitatively different from systems in most other industrialized countries. The complexity of the system has often been identified as a significant barrier to structural change and more rapid productivity growth. The difficulties originate with the Constitution which conferred only limited powers on the federal Government; all others were retained by the six state governments. The Federal Government has no direct responsibility for wages policy in the private sector. As regards industrial relations, the federal Parliament was empowered only to establish a legislative framework for the prevention and settlement, by conciliation and arbitration, of inter-state industrial disputes. Shortly after federation at the turn of the century, the Government used this power to establish the Australian Industrial Relations Commission1 (hereafter referred to as the Commission). The Commission is an independent statutory body with judicial status. The States have similar bodies, but they have usually followed the lead of the Commission. Over 80 per cent of wage and salary earners are covered by awards of these tribunals, which are the equivalent of collective agreements in other industrial relations systems. These are legally binding documents which set out in detail employee rights and the

1 Until 1987 known as the Australian Conciliation and Arbitration Commission.
obligations on employers to meet them. The conditions enshrined in awards are either the result of negotiations between employers and unions which — provided they meet certain requirements — are ratified by the Commission, or, alternatively, they are the result of mandatory conciliation and arbitration by the Commission. As we will see below, through such awards, a complex structure of work classifications was established which probably hindered horizontal and vertical labour mobility within enterprises and impeded the adoption of flexible working conditions. It should be appreciated, however, that awards normally only establish minimum wages and conditions. The opportunity still exists for negotiation on "over-awards", thus providing scope for direct collective bargaining and the possibility of "earnings drift".

It has been argued by many commentators that the existence of an independent arbitrator in the form of the Commission induces unions and employers to exaggerate demands during collective bargaining and to adopt adversarial positions rather than seek a compromise. According to this view, since wage settlements resulting from decisions of these tribunals are seen as measures determined by an independent third party, the commitment of the parties to them is reduced. Accordingly, greater commitment might be attained if the settlements depended more on direct negotiations between unions and management, in which claims and counterclaims are made and eventually both sides are forced to make concessions. Also, with so much of industrial relations determined in remote quasi-judicial proceedings rather than through bargaining at the enterprise itself, labour-management relations at the plant level are not well-developed and insufficient importance was attached to human capital development. For example, it has been argued that the establishment of sophisticated systems for recruitment, induction and in-house training have been retarded.

On the positive side, the Commission has over the years shown considerable flexibility and sensitivity to what is likely to work best in the interests of the economy and industrial harmony. The Commission evolved into a body with the potential to formulate and administer a national wages policy. This was done mainly through "national wage cases". These cases, which directly or indirectly have resulted in wage increases for nearly all workers in the country, have provided a forum for debate between the social partners and governments about the relevance of wage outcomes to general economic conditions and prospects. It was in this forum in the 1960s, as advocate for the trade union movement, that Bob Hawke (Australian Prime Minister between 1983 and 1992) secured important victories for Australian workers while gaining wide publicity for himself and the Australian Council of Trade Unions (ACTU).
During the Hawke era, and subsequently as well, there have usually been conflicting views about the economic repercussions of wage adjustments and the Commission has frequently been called upon to arbitrate on important wage policy issues. The Commission is required to weigh factors such as the merits of claim, the relative bargaining strength of the parties and the industrial consequences of its decisions. It also has the capacity and duty to consider the public interest, including the needs of the unemployed, as well as wider macro-economic implications. Broad acceptance of the size of pay adjustments, and the principles and procedures to be applied, is an essential element in the viability of the system. A former Deputy President of the Commission has argued that its role has essentially been that of a facilitator in the formulation of a national wages policy to which employers, unions, and governments have shown a commitment, however grudgingly:

... whatever its formal statutory and adversarial appearance may suggest, in practice, a notable feature of the system has been its substantially consensus-directed mode of operation, based on the active participation of the parties. In determining principles and procedures, a quasi-legislative role, it has achieved a workable compromise between industrial harmony and economic requirements [Isaac, forthcoming].

As we will see below, these attributes enabled the Commission to make a major contribution to the successful implementation of the Government’s incomes policy over the last decade.

The structure and internal wrangling within the trade union movement has been another important long-term hindrance to the development of a more efficient labour market and competitive culture in Australia. For most of the 80 years prior to 1983, the Australian trade union movement was perceived as a powerful force in the country’s economic, political and social affairs. Union membership as a proportion of the working population was the highest in the world until the 1920s, and until the 1980s it remained at internationally respectable levels of around 50 per cent. But by the end of the last decade, it had fallen to 42 per cent. Despite this strength of membership and the significant institutional support that unions received from the Commission, some commentators have argued that the real strength of organized labour was restricted to a narrow range of industrial issues [Bray, 1992]. One factor which had traditionally limited the scope of unions to exercise a more influential impact over the wider economic and social issues was the structure of unions in Australia. Until recently, there were more than 300 different unions (many of which were organized on craft rather than industry lines) for a total membership of 3.2 million. This union structure was originally copied from the British system
but was reinforced by the registration requirements which allowed a union to represent all workers who could "conveniently belong" to that union, giving it a monopoly to cover workers in a particular trade or occupation. However, it has been the sheer number of unions more so than their structure which has given rise to inefficiencies. There was a large number of very small unions until 1990; 60 per cent of unions had fewer than 1,000 members each and together covered barely 2 per cent of the total membership. This had led to considerable competition among unions for membership and the right to do particular types of work.

Another problem was that in medium and large enterprises, introducing new technology or work patterns would require reaching an agreement with a number of unions, increasing the complexity of change and making employers more hesitant about making innovations. A survey of larger enterprises provided the following picture of the bargaining environment. The "average firm" in the sample was covered by four different awards and had to negotiate with five different unions. Eighty per cent of surveyed workplaces had to deal with more than one union, 50 per cent with more than four unions, 29 per cent between six and ten unions and about 6 per cent over ten unions [Commonwealth Department of Industrial Relations, 1991].

Given the large number of small and consequently weakly resourced unions, plus the existence of the Commission and the emphasis on centralized wages policy, workplace union representatives have usually assumed few responsibilities. Precisely because of their lack of authority on major issues like wage negotiations, union activity at the enterprise level was traditionally preoccupied with the protection of jobs or other sectional interests through defensive tactics like restrictive work practices, the policing of strict demarcation lines and opposition to the introduction of technological change and incentive payment systems. According to Bray "thus, the traditional attitudes and actions of unions at the workplace has been defensive and reactive, demonstrating a preoccupation with reducing the harmful effects of restructuring decisions on workers rather than any attempt to participate in the process" [Bray, 1992].

However, it would be incorrect to infer that all the traditional shortcomings with industrial relations and productivity performances can be traced to the structure of unions and the institutional arrangements. In fact, the survey of industrial relations practices referred to above strongly supported the view that the informal system of relationships between union representatives at the firm and line managers were at least as important in explaining poor productivity performance as in the formal industrial relations system [Commonwealth Department of Industrial Relations, 1991]. The survey of managers revealed that nearly half considered the
major barrier to greater efficiency to be the lack of resources devoted to industrial relations and internal management policy. By comparison, only 7 per cent of managers considered the formal industrial relations machinery to be the main inhibition to reform.

In the past, the high degree of trade protection and rigid work practices tended to shelter outdated management practices and limited the diffusion of innovation in manufacturing. In many cases, managers agreed to numerous work practices which are now reducing productivity and flexibility. Since they could be inserted into multi-enterprise awards, at least the same conditions would be faced by all competitors. Within employer circles, industrial relations activity has traditionally been viewed as the responsibility of specialists in the field and corporate management has remained aloof from this field of activity. This provided corporate management with a convenient “scapegoat” when explaining poor productivity and efficiency. On the other hand, the “specialist” handling industrial relations for the enterprise was not accepted or treated as part of core management [Niland & Spoone, 1989]. Under these circumstances, line managers were obviously not going to consider themselves accountable for the economic performance of the enterprise, and therefore had no incentive to build the strong bonds between individual employees and their enterprise which are necessary to facilitate the use of modern production control techniques such as total quality control and just-in-time production. The limited horizons and lack of dynamism among Australian management has also been reflected in the emphasis placed on research and development (R&D). In 1988, R&D expenditure accounted for 1.23 per cent of GDP, less than half the level of the United States and Japan, and of this total only about 40 per cent was financed by industry.

In summary, labour relations in Australia prior to 1983 had long been marked by acrimony, mistrust and confrontation. During collective bargaining, the social partners had traditionally adopted polarized positions. The pattern of industrial disputes had been marked by numerous strikes but involving only a small number of employees for a short duration; however, this caused uncertainty for producers and created distrust among overseas trading partners. The economy was in equally poor shape: despite a pronounced “boom-bust” cycle, the relative economic prosperity of the nation had endured a consistent downward trend for several decades; “wage explosions” and double-digit inflation had become the norm; labour productivity and enterprise efficiency were below par by international standards; unemployment had reached a post-war peak and the so-called “natural rate” of unemployment had at least tripled over the previous 30 years.
These industrial relations and economic ills could be traced to a number of political, institutional and economic policy shortcomings. However, the situation had been exacerbated by the attitudes and practices of the social partners. On the employer's side, a combination of apathy and ignorance about personnel policy and human capital development as demonstrated by top management, and authoritarian line managers in their use of rigid supervision styles contributed to many of these problems. Meanwhile on the trade union side, isolation from real political power and the economic decision-making process meant that little responsibility was taken for the consequences of exercising the considerable industrial relations muscle that the movement possessed. Thus, efforts were directed at achieving inflationary wage improvements and preserving restrictive and inefficient work practices regardless of their impact on labour productivity, international competitiveness or the employment opportunities for those entering the job market.

**IV. The Government and unions in accord**

It was against this economic and industrial relations background that the Australia Labor Party (ALP) was elected to Government in March 1983. The full ramifications of this litany of problems were probably not appreciated at the time, and certainly in the first few years there was no concerted effort to tackle the extensive range of problems. Instead, efforts were directed at the most obvious target: the simultaneous reduction of inflation and unemployment. To achieve this objective, an incomes policy was utilized. In fact, over the course of a few years, prior to forming government, the ALP had negotiated a comprehensive incomes policy, known domestically as the Prices and Incomes Accord with the ACTU. In the initial Accord, the trade union movement, in return for various policy changes aimed at improving living standards, agreed to restrain wage pressures. This gave the Government room to undertake expansionary economic policies without setting off a wage/price spiral.

The detailed principles or rules which governed the wage-fixing system were the subject of a series of hearings conducted by the Commission. Subject to "exceptional or compelling" circumstances, the new centralized system allowed for wage adjustments in line with price movements (CPI) and improvements in real wages and/or conditions of employment over time. However, only very limited avenues for achieving wage increases beyond this were provided for, and in fact each union was required to give a commitment to seek "no extra claims". The members of any union that did not make this commitment or failed to comply with
it would be denied national wage adjustments. This approach proved successful and helped to restrain wage drift. However, it also meant that little scope was allowed for relative wage flexibility. This reflected the concern that attempts to encourage greater flexibility at the local level might jeopardize the collective commitment to aggregate wage restraint.

The Accord achieved to a remarkable extent its major initial objectives of wage restraint and fast economic growth. The disengagement from the wages freeze in 1983 did not result in catch-up claims, as may have been expected. Moreover, the introduction of a highly centralized wage system based on indexation enabled the Government both to implement policy changes that had a negative impact on the CPI (thereby setting in motion a downward price/wage spiral), and to secure ACTU acceptance of social security improvements or tax reductions in lieu of wage increases. As a result of these measures, the growth of real wages and real unit labour costs declined consistently throughout the remainder of the 1980s and profits rose markedly, returning to the levels of the 1960s. The drop in labour costs and the rapid increase in profitability were initially accompanied by a substantial fiscal expansion which led to an acceleration of economic growth. Following a decline of 1.2 per cent in 1982-1983 (financial year), GDP grew at an average annual rate of over 4 per cent between 1983-1984 and 1988-1989. This was reflected in a more buoyant labour market: employment increased at 3.5 per cent per annum over the same period compared to 0.8 per cent over the 10 years ending 1983-1984 and unemployment dropped to around 6 per cent in 1988-1989. Despite the rapid economic growth and higher profits, the trade union movement adhered to the "no extra claims" provision and the level of strikes declined significantly.

However, on the negative side, by the end of 1985, a number of adverse external economic factors were becoming apparent. Because of the faster growth of the Australian economy relative to that of the rest of the world, imports were inadequately balanced by exports, which led to a substantial depreciation of the Australian dollar (its trade-weight value declined by almost 40 per cent). The Current Account deficit, which had averaged 1.8 per cent of GDP in the 1970s, rose to a peak of 6.3 per cent in 1985-1986 settling at between 4.5 per cent and 5.5 per cent in the rest of the decade. At the same time, the gross external debt went up fourfold between June 1983 and June 1989.

Australia's terms of trade had been deteriorating since the early 1970s but by the mid-1980s the situation had become so serious that it was evident that, unless fundamental structural changes were made, the prosperity of the past would never be recaptured. Long-term economic considerations forced the Government to inform the electorate bluntly of
the extent of the economic downturn and the sacrifices which the nation would have to make. By and large, the ACTU leadership endorsed, implicitly at least, the Government's assessment of the economic situation. In previous recessions, government pleas for income restraint and improved productivity had often met with a cynical response, so one might have expected stiffer trade union resistance to further cuts in living standards. However, the emphasis placed on consultations and information-sharing led to a convergence of union/government perceptions of macro-economic problems and appropriate policy responses.

V. Micro-economic reforms

From the outset in 1983, the Accord had been sold to trade unionists and the general public as an equitable and comprehensive policy package. Accordingly, objectives and mechanisms were outlined for continuing negotiation on price policy, non-wage incomes, taxation, government expenditure, industrial policy, and labour issues such as pension funds, occupational health and safety, industrial democracy, and industrial relations legislation. The acceptance by the trade union movement that income distribution problems could be solved by changes in these policies represented a fundamental break with past trade union philosophy and facilitated the adoption of a wage policy that took account of broader economic circumstances. The original assumption that the prices and incomes policy should be designed to bring about an equitable redistribution of income also underwent a change of emphasis as the full extent of the balance of payments problems emerged. By the mid-1980s, the union movement was prepared to publicly support government initiatives to enhance the importance placed on private sector growth and investment. In several statements, the ACTU leadership underlined the fundamental importance of creating wealth and income, while noting that this did not diminish the importance of equitable distribution. In previous decades, the emphasis would have been the reverse.

During the mid- to late 1980s, there were further significant changes in priorities and policies for the labour movement. It had been assumed under the original Accord that there would be a need for an interventionist approach by the Government. However, from the mid-1980s, this intention was overshadowed by a determination to internationalize the economy and encourage a more outward looking orientation. This involved, inter alia: (i) the deregulation of the financial system; (ii) reduced tariff protection; (iii) reorientation of fiscal policy; (iv) reform of the transport and communication systems; and (v) public sector reforms.
Given that the thrust of this paper concerns the labour market, this is not the place to discuss each of these major reforms in detail. However, the main highlights included the following:

(a) The Australian dollar was floated and controls on interest rates were abolished. Control of banks by direction was abandoned and 15 additional banks were permitted to operate.

(b) Tax reforms were introduced to encourage investment and economic growth. Reductions in the tax burden were achieved by a large number of measures including:
   — reducing the company tax rate from 46 to 39 per cent;
   — reducing the top personal tax rate from 60 to 47 per cent;
   — abolishing the double tax on dividends through the introduction of full dividend imputation;
   — removing the additional tax on the retained earnings of private companies.

(c) In terms of broad budgetary aggregates, government expenditures were reduced as a share of GDP from 28.8 per cent in 1982-1983 to 25.3 per cent in 1990-1991. As a result, the budget was in surplus for four successive years to 1990-1991, enabling the Commonwealth to reduce budget sector debt from 21.6 per cent of GDP in June 1983 to 12.8 per cent of GDP by June 1991.

(d) Competition in product markets was enhanced by removing laws and regulations which prohibited or restricted entry into a market or which allowed anti-competitive behaviour to flourish unchecked. Areas in which this has occurred include domestic aviation, electricity supply, shipping, railways and telecommunications.

(e) After 1988, the Government implemented a series of measures, including a reduction in government controls, the setting of agreed financial targets, and corporatization and privatization to improve the efficiency and performance of its government business enterprises. The general government sector was also subject to substantial reform in order to improve its performance.

Perhaps the most significant reforms occurred in the area of trade protection. Due to the decisions taken to reduce tariffs and other forms of protection which are being phased in over time, the effective rate of assistance to manufacturing will be reduced to 5 per cent by the end of this century. This compares with a level of protection in excess of 35 per cent in the late 1960s, and 25 per cent in the early 1980s.
It is important to note that the union movement has accepted a need to reduce tariff protection and restructure industry in order to encourage greater efficiency and export production. The leading advocates of this new approach were the metalworkers' unions, whose membership had been very badly affected by both long-term declines in manufacturing and the short-term impact of the 1982-1983 recession. The approach of the unions in the 1980s and 1990s has been to emphasize positive efforts to revitalize manufacturing industries and to create a "production consciousness" through selective, targeted and conditional protection rather than the blank cheque, across-the-board protection of the past. The government was persuaded to establish a range of tripartite committees and councils to advise it on industry policy and union representatives hold important positions on these committees. Moreover, innovative and quite effective "industry plans" were introduced in the mid-1980s to restructure the vehicle, steel, textile, clothing and footwear, and heavy engineering industries.

The development, implementation, and general acceptance of this rationalist economic approach reflects the strength of the Accord concept which showed a capacity to evolve new approaches and principles in the face of a changing economic environment. In the words of a former President of the ACTU:

The Accord is not a rigid document, it is about processes, about relationships, most of all about determining priorities and developing strategies to implement those priorities. Thus, the hallmark of the Accord as it has evolved is its consultative character and the opportunity it has provided for the ACTU to be consulted closely by the Government on national economic and social policies. Participation in this way has given the ACTU, and through it, the unions, generally greater power but also greater awareness of the imperatives of economic and social policies, and the restraints which need to be imposed on their claims and their industrial behaviour.²

VI. Labour market reform and restructuring in the late 1980s

As regards wages and industrial relations, there was a growing realization by the mid-1980s that wage restraint was a necessary but insufficient condition for enabling Australia to trade its way out of the difficulties. A significant improvement in productivity and efficiency at the enterprise level was also essential and this in turn required a more skilled

² Crean, S., speech to the 1989 ACTU Congress.
and flexible workforce. On this issue there emerged firm tripartite consensus. In a surprising display of unanimity, following a conference called by the Government, The Confederation of Australia Industry (CAI), the Business Council of Australia (BCA) and the ACTU issued a statement in September 1986 which acknowledged that "in the current economic climate there is an additional obligation to examine restrictive work and management practices in both the public and private sectors and to develop means to overcome them". It was also acknowledged that there was need for "ongoing attention from management, employers and their union representatives, and government to address other issues which would achieve high levels of efficiency".

In the changed economic circumstances, attention turned from the pursuit of "macro" wage restraint to the need for "micro" flexibility. The ACTU and the Government chose to use the wage system to promote more efficient practices at the workplace. After prolonged private negotiations between the social partners and the Government, followed by hearings before the Commission, agreement was reached on the introduction of a two-tier wage system. These changes, while retaining a large degree of centralism and uniformity, broke new ground in seeking to promote flexibility via productivity bargaining within established limits. In early 1987 and early 1988 all wage and salary earners received two flat-rate wage increases under the first tier which retained in part the equity character of earlier adjustments. The second tier provided for adjustments on a case-by-case basis, up to a ceiling determined by the industrial tribunal and subject to certain conditions. The amount of any second-tier wage increase depended on progress made at the industry or enterprise level in introducing more efficient management and work practices.

This "restructuring and efficiency principle", as it was called, facilitated increased labour market flexibility in a number of ways — in the functions that would be performed by individual workers and in the number that could be employed on particular tasks, as well as in workers' time and in wages. For example, in the metal and engineering industry, the trade-offs included a larger span of hours over which the normal working day could be spread; provision for part-time employment of males (previously only female employees could be employed part-time); and increased flexibility for management in determining when employees could take rostered leave. In addition to these various changes, which applied throughout the industry, union-employer committees were established at the plant level to negotiate trade-offs relating specifically to their enterprise.

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3 Joint statement between the CAI, BCA and ACTU, 24 September 1986, p. 2.
While there were numerous cases of successful outcomes in the two-tier regime, the processes that were actually followed varied considerably. Differences between the parties in negotiating experience, the effectiveness of management and variations in shop-floor relations were some of the factors causing variable experiences under the second tier. This helps explain why some employers achieved real cost offsets while others either did not or were at least unable to implement them. To a certain extent, the second tier rewarded the previously inefficient and industrially powerful. Those workplaces where restrictive practices proliferated found it much easier to identify trade-offs than those lacking in such obvious inefficiencies. Thus, while a link had been established between wage increase and productivity, the effectiveness of this initiative was limited and, even in the most successful cases, wage increases were largely based on one-off cost reductions.

As a consequence, further changes to the wage system were introduced in August 1988. As noted above, one factor that had inhibited flexibility and the acquisition and upgrading of skills within the enterprise was the structure of awards. The large number of job classifications in many awards resulted in a narrow categorization of skills and potential demarcation disputes. For example, there were over 700 job classifications in the three awards that covered the textiles, clothing and footwear industries. Similarly, the metal industry award had 348 job classifications, many of which were obsolete. In addition, many awards contained provisions that restricted career development by, for instance, specifying an age limit by which an apprenticeship must be completed or restricting the ratio of apprentices to tradesmen.

Following further prolonged negotiations between the Government and the ACTU and another national wage case, the Commission made provision for two wage increases in 1988-1989 with a ceiling of 3 per cent and a flat rate of A$10, respectively. However, both adjustments were made conditional on unions giving a formal commitment to cooperate in an extensive revision of award structures. This involved removing obsolete job classifications; broad-banding a range of occupations; establishing clear specifications for the type of skills required at each pay level; creating links between training, skills and wages to promote mobility; and ensuring that appropriate wage relativities existed between job classifications and the competitive requirements of industry. The whole process amounted to a national job evaluation scheme and created a wage structure that was more stable. As the President of the ACTU told a meeting of employers from the metal industry in late 1991:
Award restructuring... is about rewriting every award in this country with a broadly defined skilled base... The goals are simply a highly skilled, adaptive workforce and productive, efficient and competitive industries. Yes, the ACTU supports that objective as much as you [Furgerson, 1991].

It should be noted that the decentralized industry/enterprise-based approach during that period operated under the umbrella of a centralized system which imposed a ceiling on award adjustments. Any exceptions to this rule were subject to special scrutiny and approval by the Commission to ensure that the exceptions were contained and the rule remained viable. The concern, based on the experience of the 1960s, early 1970s and 1980s, that unregulated decentralized pay deals made in collective bargaining outside the system could lead to a wage/price spiral, instilled a sense of caution on the part of the Commission, the Government, the ACTU and many employer groups in favour of retaining the centralized umbrella.

**VII. Further wage reforms in the 1990s**

Encouraged by the positive achievements of these reforms, the Government and ACTU agreed to further decentralize and deregulate the wage-fixing system by making provision for enterprise bargaining. This represented a shift in the focus of reform from the industry and award level to the individual workplace. Moreover, unlike the original two-tier wage system, the emphasis was changed from simplistic cost-cutting measures that have a once-and-for-all impact on productivity to the implementation of management and organizational systems that are thought to represent the best practices in other advanced industrialized countries. This has included: team-based work; human resource policies that promote continuous learning and flexibility; and less hierarchical and compartmentalized organizational structures. In addition, measures have been introduced to improve product and service quality; to remove causes of absenteeism and labour turnover; to reduce wasteful uses of energy and other non-labour inputs; to develop closer links to customers and suppliers; and to make the most effective use of technology.

Despite some initial reluctance, the Commission decided in October 1991 to support this further decentralization of the wage system. Provision was made for wage increases to be negotiated directly between unions and employers in return for productivity changes at the workplace level, and the safeguard which had previously been provided by the centrally determined wage ceilings was removed. The Commission now has only a facilitating role in the new system, conciliating with the parties on disputed
matters. The Commission will not arbitrate and the primary responsibility for achieving successful workplace bargaining outcomes rests with the employers and unions directly involved. Nevertheless, the Commission has outlined various requirements to be met before it will ratify a workplace agreement. Some of these requirements are designed to restrict “wage flow-on” and include: workplace level implementation; that the agreement must have been negotiated through a single bargaining unit which must be either an enterprise or a discrete section of an enterprise; that the agreement must provide that there will be no further wage rises during the life of the agreement, except those coming from a National Wage Case; and that the agreement must be for a fixed term and must lapse after expiration, unless it is renewed.

One of the first and most publicized agreements was negotiated by Concrete Constructions (one of Australia's largest construction companies). It provided for improved communications with unions; devolving responsibilities to teams; greater levels of autonomy in expanding processes of job redesign and work reorganization; and a drive to determine international best practice in key areas and set benchmarks accordingly. Production bonuses are paid if jobs are finished ahead of schedule and below budget. Another good example is the agreement reached at Rheem Australia, a major producer of water heaters, where management claims to have reduced man-hours per unit produced from 2.8 to 2.1 and is now attempting to reduce it further. Some of the work practices that have been changed to facilitate this objective include: simplifying the organizational structure and removing supervisory layers which had impeded communication; and the introduction of flexible job functions with cellular structures.

On the negative side, however, after about 18 months’ experience with this approach, there is some concern with both the number and quality of enterprise agreements. To date, there are only about 1,100 agreements in total and they cover only about 20 per cent of all employees. One factor hindering the implementation of agreements is the absence of unions in a vast number of small to medium-sized enterprises. Another problem is — in some industries at least — that agreements are being produced with almost exactly the same wording. This would suggest that these parties are not genuinely examining ways to enhance productivity on a firm by firm basis but are reverting to a standard formula in order to justify a pre-determined wage adjustment. At the time of writing, the Government and ACTU are considering further reforms to overcome these weaknesses.
VIII. Measures taken to support labour-market restructuring

The speed and orderliness of the move to industry-enterprise-based settlements depend on a number of factors. These include the competence and desire of management and union officials at the local level to handle workplace reform; training facilities to enhance skill and promotion opportunities; consultative and participative processes at the workplace; and the existence of a competitive market environment to press upon union and employers the need for workplace reform. On several of these factors there have been active tripartite actions, mostly at the national level, to facilitate workplace reform. Workplace reform and best practice demonstration programmes were initiated by the Government which include a national network of resource centres under tripartite management to assist employers to implement award restructuring agreements; grants to fund research, pilot projects and specialist advisers in peak industry bodies; and special courses for management and union officials involved in restructuring. The employer and union peak councils, each in its own way, has provided guidance and training to their constituents.

Another important factor impeding progress towards enterprise bargaining has been the archaic union structure which, as mentioned above, is predominantly organized along occupational or craft lines. The Government has attempted to facilitate the rationalization of unions' legislative changes. In 1988, the minimum size in order for a union to be registered was raised from 100 members to 1,000 members, and this was raised again to 10,000 members in 1991. Over the last few years, the union movement itself has been aware of the inefficiency of existing union size and organization. The steady decline of union membership in recent years bears witness to the need for major modifications in union attitudes and behaviour. Part of this decrease reflects the fact that new employees see little interest in joining unions which are highly segmented, fraught with internal disputes and more concerned with protecting acquired rights and work practices than addressing emerging needs of their members. Unionists' aspirations are likely to be best served by relatively few large unions with solid support services. As a result, the ACTU has initiated and made substantial progress in amalgamating existing unions and is gradually moving towards 20 or so larger industry-based unions. These would provide the infrastructure for union "locals" in individual firms and the number of unions in any one industry would be sharply reduced. There is acceptance within the trade union movement of the need for a reduced number of bargaining units in each enterprise and the ACTU has been
encouraging rationalization of union coverage through exchange and/or transfer of membership between unions.

**IX. Summary and conclusions**

After several decades of slowly but consistently slipping down the world economic order, over the last 10 years Australian policy-makers have been attempting to catch up with the most advanced and efficient practices of other industrialized countries through a wide range of structural and micro-economic reforms. Of course, the rest of the world has not been standing still while this has occurred. In fact, the pace of global structural change continued to accelerate as the Australians were entering the race. Moreover, the world economic recession and delays to reforms of international trading arrangements have not provided a conducive climate for a small, isolated and relatively open trading nation that is attempting to regain the prosperity of the past.

To regain a competitive edge, Australian industry requires improvements in technology and infrastructure. From the mid-1980s it was also apparent that a fundamental change in attitudes and commitment was required from people on the factory floor, in the board room and within the bureaucracy. A change from the myopic and lackadaisical attitudes engendered by belief in the "lucky country" fantasy, to a realization that these days national economic prosperity must be earned in intensely competitive international markets. To be successful in this milieu requires a genuine and broadly-based commitment to continuous change: change that is designed to enhance the quality and relative cost of products and services that are traded. Other countries have faced similar challenges and have responded by forcing through labour markets reforms and attempting to emasculate the union movement. In contrast, under the Accord in Australia, the Government and trade union movement have jointly taken steps to help employers improve the cost structure and productivity of industry.

Attempts to evaluate the impact of the Accord against these twin objectives are difficult. On the positive side, real unit labour costs have declined to an unprecedented extent, profitability has reverted to the levels of the late 1960s and early 1970s, and inflation is virtually negligible. Moreover, despite the sacrifices that workers have already made over the last decade, the union movement is standing by its commitment to ensure that wage growth will remain sufficiently restrained to ensure that Australia's inflation rate remains below that of its major trading partners in the future. On the other side of the coin, assessment of productivity
improvement is notoriously difficult and different measures show different rates of growth. Thus, although conventional measures indicate that overall productivity growth has not shown any dramatic improvement, the economic effect of workplace reform will take some time before it is reflected in the data. In fact, a conclusive evaluation of these reforms simply by examining aggregate economic statistics is inadequate. What can be said with confidence is that the developments in the labour market are a move in the right direction for dealing with the country’s economic problems. Whether the changes have gone far or fast enough is more of a moot point.

Successful structural change in any part of the world is not only dependent on the policies themselves but also on how the measures are packaged and sold to the people. In many countries, radical reforms have been implemented rapidly only to be overturned shortly thereafter in the face of protest. Abrupt policy reversals of this nature serve no useful purpose. Most countries have learnt over the last decade or so that structural change is a long-haul task. The strength of the Accord process is that it has provided a framework through which the macro-economic shortcomings and structural problems facing Australia have been honestly explained to the electorate and debate has been promoted on necessary reforms. While this process may be time-consuming, it has also helped over-ride entrenched sectional interests that are damaged by economic reforms and establish a broad appreciation of the long-term benefits that can be expected from short to medium term sacrifices. As a result, there is wide political support for structural change and there will be no abrupt reversals.

It should be understood that the Accord has been anything but static. The formal agreement has been renegotiated and dramatically revised seven times over the last decade. In fact, the real importance of the Accord has never been the written agreement itself, but rather the willingness of both Government and unions to discuss in depth the broadest possible range of economic and social issues — through formal and, more importantly, informal channels — and to adapt policy in the face of changing economic circumstances. There have been differences of opinion both within the Government and at times between the Government and the ACTU over issues like industry policy, the magnitude of wage restraint and the scope for fiscal stimulus. While such differences may at times have pushed the Accord to the brink of collapse, the common interests and pragmatic perspectives of the key personalities involved have ensured that acceptable and sensible compromises have emerged.

The traditional association of the trade union movement with the Australian Labor Party has, of course, been an important factor in the birth
and development of the Accord. It is widely accepted that the similar personalities, common backgrounds and previous associations of the ALP and the ACTU representatives were key factors in establishing the mutual trust and respect that are needed for consensus-style economic management. The Prime Minister from 1983 to early 1992 was Bob Hawke, who had formerly been President of the ACTU. Within the Government, responsibility for introducing most of the industrial relations reforms over the last few years has rested with Senator Peter Cook, who previously led the trade union movement in Western Australia. On the union side, both the current President and the Secretary of the ACTU have close professional and personal links with the new Prime Minister, Mr. Paul Keating, and other senior ministers.

Due to such links, ACTU leaders have become closely involved in policy discussions on topics ranging from wage and fiscal policy to industrial trade, and monetary policy, which in turn has forced the trade union movement to adopt a broader and more sophisticated approach to economic issues. As the president of the ACTU stated two years ago:

The union movement of 1991 is a far more mature union movement than in 1951, 1971 or whatever. Because we finally faced up to the fact that we cannot just negotiate improvements in wages and conditions of employment without also being concerned about the needs of the workplace, the needs of the industry or the needs of the country at large [Purgerson, 1991].

Of course, the various employers’ organizations could not have been expected, nor did they wish, to have as close a relationship with the Government as that which exists between the political and industrial wings of the labour movement. Nevertheless, the very fact of increased ACTU power has been a source of disquiet among employers’ groups despite the admission by some that significant economic improvements have taken place. An alternative perspective is that the Accord’s real effect has been to raise the unions to a level of importance in economic policy-making equivalent to that of business. As Isaac noted: “rather than fight union power by legal and economic force, what the Australian government has done through the Accord is to try to harness union power by drawing it into consultation and increasing awareness of the needs of the economy and the economic implications of uncooperative union actions. Business leaders have participated in policy-making, in a variety of ways, formally and informally, for many years, and this has not diminished under the present Government. Indeed, the extent and speed of deregulation of the financial market and other areas, and the philosophy of privatization being pursued by the government show the extent to which it has embraced orthodox business philosophy” [Isaac, forthcoming].
An amazing feature of the Accord and an important contributing factor to the longevity of the current Government has been the ability of the labour movement to occupy the political middle ground and convince the electorate that they are competent and pragmatic economic managers. This is no mean feat when the country is in the middle of a deep recession, unemployment is at record levels and real incomes have declined significantly.

The re-election of the Labor Party in 1993 was therefore somewhat unexpected given the length of time they had been in power and the state of the economy. They have gone from what must have seemed like the permanent party of opposition for most of the post-war period to now being considered, by some at least, as the natural party of Government. The labour movement now has the opportunity to “fine tune” its labour market reforms and speed up the pace of structural change in other areas.

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11 Restructuring at the European Community level: European integration, market forces and social policy in creative tension

David Foden

1. Introduction

Recent years have seen a remarkable revitalization of the European Community. The process of integration, led as always by economic integration, advanced rapidly from the mid-1980s on, and particularly in the debates over the Maastricht Treaty, succeeded in touching the popular consciousness, albeit not perhaps in the manner envisaged by the Community’s founding fathers.

This chapter describes one of the most controversial aspects of the process, the attempt to create EC-wide labour standards through Community legislation and the so-called social dialogue. It places this in the context of the EC’s approach to economic integration (both the largely achieved, internal market and the prospective economic and monetary union), and argues that the tension between these two elements of Community policy is resolved, at least in part, by a range of other accompanying policies, in particular the structural policies aiming to promote economic and social cohesion.

The chapter is written from a perspective which holds that labour standards play a dual role in restructuring: limiting or cutting off the policy options based on a cheap and abundant supply of labour which lead to “social dumping” or “pollution”; and fostering true development where competition is based on technological advance and the upgrading of skills. Far from representing “rigidity” as neo-liberal theory insists, a network of labour institutions and an element of trust among economic and social

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1 Treaty on European Union, Office for Official Publications of the European Communities, Luxembourg.
actors provide the stable framework for investment, growth and equitable distribution of costs and benefits of restructuring.

To perform these roles to the maximum, labour institutions must develop to a point where consensus is achievable; the universal applicability of standards must be recognized; different types of standards (of "organization and participation", "protection and security" and "promotion") must reinforce each other; and standards must be dynamic, like the context in which they operate.

II. The EC role in social policy

What instruments, then, does the EC possess (legislation, exhortation, consultation and dialogue) in the industrial relations sphere, what is its record in creating such standards and how far have labour institutions developed at European level in parallel to the economic integration achieved since the Treaty of Rome was signed?

In the first period, up to the ratification of the Single European Act\(^2\) in the mid-1980s, legislative progress was meagre.\(^3\) The most important directives and recommendations\(^4\) in the field of labour law and social security law from this period, many of them deriving from the 1974 Social Action Programme, were the following:

(a) the Directive of 1975 on collective redundancies, which acknowledges certain rights to worker information and consultation when a company is contemplating making part of its workforce redundant;

(b) the Directive of 1977 on safeguarding employees' rights in cases of mergers or transfers, which provides for transfer to the new employer of existing rights and obligations between the workforce and the old employer, makes provision for consultation, and protects workers against dismissal as a direct consequence of a merger or transfer;

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\(^3\) For a fuller description see ETUI Info 26, *The social dimension of the internal market, second part: Workers' rights in European companies*.

\(^4\) According to Article 189 of the Treaty of Rome: "A regulation shall have general application. It shall be binding in its entirety and directly applicable in all Member States. A directive shall be binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods. A decision shall be binding in its entirety upon those to whom it is addressed. Recommendations and opinions shall have no binding force".
(c) the Directive of 1980 on the protection of employees in the event of their employer’s insolvency provides for the creation of guarantee funds to cover the employers’ financial obligations towards the workforce in the event of insolvency;

(d) the various Directives on the rights of migrant workers;

(e) the Directives covering equal treatment of men and women with regard to pay (1975), access to employment, vocational training, promotion and working conditions (1976) and social security (1978 for the basic Directive and 1986 for the occupational social security systems); and

(f) a series of Directives relating to the protection of worker health and safety.

In addition, the Community issued a Recommendation (non-binding) on the introduction of the 40-hour week and four weeks of paid annual leave (1975) and a Recommendation (1982) on the principle of a Community policy with regard to retirement age. However, by the mid-1980s, a number of draft directives dealing with labour standards were blocked by the opposition of one or more Governments. This applied to legislation on parental leave, on the rights of part-time workers and on temporary work. Furthermore, attempts to create rights with a cross-border reach, such as the ill-fated Vredeling directive on information and consultation rights in multinational companies, led to nothing. Similarly, company or commercial law proposals which would have included rights to information, consultation, representation or negotiation at European level (e.g. Fifth Directive and the European Company Statute) remained (and remain) blocked.

A central reason for the slow progress was that the Community could only legislate by a procedure culminating in unanimous approval in the Council of Ministers. Thus, each member State could veto legislation of which it disapproved. Complete consensus was elusive, hence little legislation came into effect.

Some progress was recorded, however, on the establishment of “labour institutions”. The creation of the European Trade Union Confederation (ETUC) in 1973 and its gradual recognition of “industry committees” (sectoral or occupational groupings of unions at European level) clarified the structure on the union side. There is also a long-standing network of “joint-committees” or “working-groups” at sectoral or sub-sectoral level bringing together unions and employers for consultations on Community policy. They can be seen as embryonic labour institutions and the forerunners of the social dialogue. However, many of the employers’ organizations were reluctant to take on an “industrial
relations” as opposed to “economic representation” role. Furthermore, relations between the two sides, especially at confederal level, were far from harmonious.

By the mid-1980s, the Community had become bogged down in seemingly endless disputes over the budget and the details of the Common Agricultural Policy. This climate reinforced the problems facing social policy initiatives. The Commission, which took office in 1985 under the Presidency of Jacques Delors, secured consensus for the relaunching of the Community through the project to complete the internal market, to be achieved by almost 300 separate pieces of Community legislation over two terms of office of four years for the Commission, ending in December 1992.

III. Changing the rules: The Single European Act

It was recognized that the project would not be achievable on the basis of the existing Treaty, which required unanimity among the member States to create legislation. Thus, there began a process of reforming the Treaty (through an Inter-Governmental Conference) which led to the Single European Act (SEA). Among the changes the SEA brought about was a change in the legislative procedure for proposals necessary to create the internal market. Instead of unanimity being required in the Council of Ministers, decisions would be taken by qualified (or weighted) majority voting. This procedure also increased the influence (cooperation procedure) on such legislation of the European Parliament (which was merely consulted under the previous arrangements). This was intended to increase European-level democratic influence in order to replace that lost by national Parliaments now that a member State could be out-voted in the Council.

The intention of this reform was to assist the passage of legislation to which only a small minority of member States objected. Importantly, however, it did not apply, “to fiscal provisions, to those relating to the free movement of persons nor to those relating to the rights and interests of employed persons”. Thus, legislation to establish labour standards would remain subject to the unanimous agreement of Governments. The exception to this rule was for policies, “encouraging improvements, especially in the working environment, as regards health and safety of workers” (Article 118(a)) where the objective was set of harmonizing conditions while maintaining the improvements made. For such measures qualified majority voting in the Council and the cooperation procedure with the Parliament applied.
The other novelty in the “industrial relations” sphere of the SEA was the following provision. “The Commission shall endeavour to develop the dialogue between management and labour at European level which could, if the two sides consider it desirable, lead to relations based on agreement” (Article 118(b)). This modest-seeming sentence formally recognized the role of the social partners and legitimized their relations as a potential instrument of Community policy.

The development of Community competences and goals in such fields as economic and monetary policy, economic and social cohesion, research and technological development, and the environment was also of considerable importance in the SEA.

As a result of these various changes, and perhaps above all as a result of the new political context in which advancing economic integration required, it could be argued, a social dimension, the effort to establish European level labour standards was pursued in a different setting from the mid-1980s onwards. In particular, real progress was facilitated on health and safety directives, which could be based on Article 118(a) leading to qualified majority voting.

The SEA also promoted a new instrument for establishing labour standards, the social dialogue. It is not intended here to assess the social dialogue (though a summary of what it has produced in the period up to the early 1990s follows). Any such assessment would need to take account, however, of the differing perceptions of the participants as to the role of the social dialogue.

For the unions (ETUC), the social dialogue was a complement to legislation and represented the beginnings of European negotiations. For the employers, the social dialogue was an alternative to legislation, and while it could result in joint opinions, these could not be made legally binding. As a result of these differing attitudes, a great deal depended on the willingness of the Commission to promote the social dialogue both in the formal sense of inviting the two sides to take part, assisting in agenda setting and in seeking consensus and in the more real sense of being prepared to put draft legislation on the table. The unions considered that a joint opinion which could not be enforced was (on substantive questions of labour standards, at least) second best to legislation. However, refusal to discuss a subject in the framework of the social dialogue was perceived to put at risk the possibility of legislation. The employers considered that

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5 Two employers' organizations participated in the "inter-confederal" Social Dialogue: UNICE representing the private sector and CEEP (Centre européenne de l'Entreprise publique) representing public enterprise. The attitudes described here are more those of UNICE than of CEEP.
10 Restructuring at the national level: Labour-led restructuring and reform in Australia

Robert Kylah

I. Introduction

Australia has often been described as the “lucky country”: blessed with abundant natural resources, ample space, isolation from the world’s potential trouble spots and political stability plus a climatic, cultural and egalitarian ethos — despite income and wealth disparities — that is conducive to a relaxed and enjoyable life style. Over the last few decades, however, the so-called “lucky country” has learnt that in an increasingly lean and mean world economy many of these same factors have contributed to an economic and labour market structure that could not sustain the relative prosperity which generations of Australians had taken as a birthright. In fact, the writing has been on the wall for some considerable time: the country which had the highest per capita income in the world 100 years ago, and which 30-odd years ago was still the third most prosperous country, has been on the slippery slide ever since. It now finds itself in the bottom third of the OECD league. Moreover, by mid-1993, the economy, like that of most other industrialized nations, is slowly emerging from a severe recession, and unemployment has soared from 6 per cent in 1989 to an all-time record of 11 per cent. The labour pains currently being endured result from a complex combination of short- to medium-term factors including the international economic downturn. The recent labour market “shake-out” also reflects micro-economic reforms implemented over the last few years to correct more fundamental structural problems which engendered the long-term decline down the world economic league table.

Many of these reforms are far from revolutionary from an international perspective; in fact, they are mainly about catching up with existing standards in competitor countries. But from a comparative point of view, the Australian experience is particularly interesting because it has
a joint opinion was second best to doing nothing, but to do nothing was perceived to invite legislation, which was the worst option of all.

1. Using the Single European Act

What, then, was achieved in terms of establishing European labour standards in the second period, from the mid-1980s to the early 1990s? To take first the questions of legislation, the main focus of activity during this period was initially the campaign for the Social Charter and, subsequently, the implementation of the social action programme to give effect to the Charter.

2. Legislative progress under the SEA

This is not the place to relate how (on the union side) hopes were raised and dispelled that the Social Charter itself would be a binding instrument, defining and guaranteeing the basic rights of workers at European level. In the event, the Charter, signed in December 1989 by 11 of the 12 members of the European Council is a non-binding text of declaratory value only, though its importance as a statement of political will should not be neglected. More significant was the social action programme published in late 1989 and including 47 new proposals for Community action in the various fields covered by the Charter. Not all the proposals were for legislative action, but nevertheless the action programme represented a substantial agenda for the Community in the field of labour standards, particularly in view of the slow progress that had been achieved up to then. Of the 47 new initiatives promised, some 17 were to be in the form of directives. The remaining proposals were for publications, programmes of activity or for non-binding instruments such as recommendations and opinions. Over half of the proposed directives were in the field of health and safety. In the following summary of progress on the action programme, the focus is on proposals for directives. This is not to say that the other measures are unimportant, but on the whole they have proved less controversial and have either been implemented or are well on the way to implementation.

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6 Community Charter of the Fundamental Social Rights of Workers, Office for Official Publications of the European Communities.

7 The Prime Minister of the United Kingdom, Mrs. Margaret Thatcher, refused to sign.

8 Communication from the Commission concerning its Action Programme relating to the implementation of the Community Charter of Basic Social Rights for Workers. COM(89)568 final, November 1989.
So far as the proposals for directives are concerned, progress has been fairly smooth in the field of health and safety. This is not surprising in view of the fact that such legislation can unambiguously be based on Article 118(a) of the Treaty, leading to qualified majority voting. This raises the interesting question of why health and safety as a sphere of industrial relations should be subject to a different rule-making procedure from other spheres, and why this should be so clearly identified in the Treaty. The answer may lie in the exceptional (lowest common denominator?) status of health and safety standards as the one form of labour standards which it is generally agreed should be excluded from economic competition. Common procedural rules are often seen to offend against the cultural diversity of Europe’s industrial relations systems and the needs of subsidiarity. And, in addition to this, most substantive forms of labour standard (pay, hours of work) must confront the argument that a worker has a right to sell his/her labour for whatever price he/she can get. This argument is not generally perceived to apply to health and safety where it is accepted that workers so desperate as to be tempted to undercut the prevailing standards should be protected “from themselves”. This differentiation may not be logical in terms of either the economic (to cut off cheap labour options and provide a level playing field for competition) or the social (to protect workers from exploitation) roles which labour standards play. However, if it is true that health and safety is seen as a somehow more fundamental question where inviolable rights are concerned, this could explain why a consensus was achieved to put it on a different rule-making basis.

Proposed directives in fields other than health and safety have a more varied history: some have been adopted, though in certain cases the content has been watered down; others have been delayed, and weakened in terms of content by arguments over the legal base or the content or both; and yet others seem definitively blocked. Finally, a small number of initiatives in the action programme (potentially including directives) have not been tabled by the Commission.

Among the directives which have completed their passage through the Community legislative process are the following:

(a) The directive on proof of an employment contract was adopted by the Council of Ministers in June 1991 and must be implemented by member States by June 1993. The directive will require employers to provide employees with documents notifying them of the “essential” aspects of their contract or employment relationship within two months of the commencement of employment. It will be possible to exclude temporary employment relationships of a month or less,
employees with a working week of eight hours or less and "casual and/or specific employment relationships where this is justified by objective considerations".

(b) The directive amending the 1975 directive on collective dismissals was adopted in June 1992 and must be implemented by member States by December 1993. Essentially, the revision clarifies that the rights provided by the original directive also apply in cases where the decision is made by management in another country.

(c) The directive on the protection of pregnant women was adopted in October 1992 and must be implemented by member States by 1994. Intensive negotiations were required to find a compromise on the level of maternity payments and the length of maternity leave. The main provisions are the right to a minimum of 14 weeks' maternity leave irrespective of service with a right to payment at a level not less than statutory sick pay entitlement. (A member State may apply a service qualification of no more than 12 months, but may not reduce its existing level of provision). All contractual rights (affecting terms such as length of holidays, annual holidays, pensions) will be maintained during maternity leave. There is protection against dismissal for reasons connected with pregnancy. There is also a range of health and safety measures.

The remaining key draft directives arising from the Social Charter have all encountered controversy and, at the time of writing, only one has been ratified. The prospects for ratification of the others would seem to vary from moderate to very slim.

(d) The directive which has been adopted concerns the health and safety of "atypical" workers (or, more accurately, workers other than full-time permanent workers). It was published in June 1990 as part of a package of three draft directives covering "non-standard" workers and was based on Article 118(a) leading to qualified majority voting in the Council. The other two parts of the package concerned the working conditions of non-standard workers and the distortion of competition (arising particularly from differing social security coverage for such workers). These two draft directives were based, respectively, on Articles 100 (leading to unanimous voting in the Council and concerned with the approximation of laws in order to create the common market) and 100(a) (leading to qualified majority voting and concerned with the creation of the internal market).
The European Parliament, a majority of whose members support the intentions behind all these directives and wish to see them implemented, rejected the legal base of the "working conditions" directive in December 1990 and urged the Commission to bring forward the two directives together on a common legal base leading to qualified majority voting. Instead, the situation remains at a deadlock. The United Kingdom, which opposes the substance of the directives, would oppose changing the legal base and also (together with other member States) contests the use of article 100(a) for the other draft directive. No early progress is likely.

(e) A draft directive on the reorganization of working time, based on Article 118(a), was published in December 1990. It would limit overall weekly hours of work (averaged over a reference period) to 48, set minimum daily and weekly rest periods, provide a legal minimum of three weeks' annual paid leave and require information to be provided to the relevant public authorities if night work is to be performed regularly. Derogations are foreseen where legal regulation or collective agreement provide appropriate protection for workers.

The United Kingdom has contested the principle, the legal base and the content of the directive. It does not believe that the organization of working time should be dealt with at European level, or that it is a health and safety question (the justification for the use of article 118(a)) and is broadly opposed to legal regulation of working time (without being in favour of regulation by collective agreement). Although a formal decision was not taken, in June 1992, the outline of a deal appeared to have been concluded. This would permit an exceptionally long period (seven years) of transition before the directive applied in the United Kingdom, and would permit exceptions to the limits (48 hours per week, etc.) to be agreed with the individual worker rather than through collective agreement (though the individual worker would be protected from dismissal or discrimination if he/she refused). Whether the directive is eventually adopted (along the watered-down lines indicated above or otherwise) is difficult to predict at the time of writing. There appears to be little enthusiasm for the measure as it stands among member States or social partners.

(f) The directive on European Works Councils was published in January 1991. It is based on article 100 (leading to unanimity) and would require (as amended) multinational companies employing 1,000 or more workers in the EC and 100 or more in two or more member States to negotiate (on request) the establishment of a European Works Council with their workers' representatives. The European Works Council would have rights to information and consultation. The details
(size of the Works Council, composition, frequency of meetings, nature of information and consultation rights, etc.) would be decided upon by agreement between management and workers' representatives. If agreement were to be reached on some other mechanism for information and consultation rights it would not be obligatory to create a European Works Council, provided certain minimum standards were respected. Finally, if the two sides fail to agree, certain minimum standards are laid down.

Under the present Treaty, this directive will remain blocked as a result of the firm opposition of the United Kingdom.

Three further proposed directives which are not expected to make rapid progress concern the temporary posting of workers to another EC member State, the protection of young people at work and, finally, improved travel conditions for disabled workers.

**IV. Social dialogue**

The legislative efforts to establish a social dimension to EC integration took place, as mentioned earlier, in parallel with the social dialogue which was launched with the assistance of the Commission in 1985. Indeed, the first "Val Duchesse" meeting in January 1985 arose from a high profile personal invitation to business and trade union leaders from the Commission President. This goal was to overcome the poor relations between the two sides (which had blocked the work of tripartite meetings and rendered fruitless meetings of the Standing Committee on Employment). The intention was to encourage a constructive contribution to the revival of European integration.

In the period 1985 to 1991, eight joint opinions emerged from the inter-sectoral social dialogue. Among the most important are those which relate to the arrangements for the introduction of new technologies (March 1987), adaptability of the labour market (January 1991) and access to vocational training (September 1991). Other joint opinions focused on various aspects of education and training and the transition from school to adult and working life and on macro-economic questions. Indeed, the first joint opinion (November 1986) concerned the cooperative growth strategy, including the social partners' contribution, and called on Governments to ensure its effective implementation. In November 1987, a joint opinion reaffirming the basic principles of the cooperative growth strategy and supporting the reform of the structural funds followed a discussion of the Commission's Annual Economic Report.
The social dialogue also made some progress at sectoral level (though a point persistently stressed by the ETUC-recognized industry committees is the need to develop this aspect of the social dialogue). Prominent examples of this progress are the agreement concerning training and qualifications in the retail trade, and the signing of the first European Framework Agreement between ETUC and the CEEP (Centre européen de l'Entreprise publique) concerning the energy and rail transport sectors.

In 1991, the social dialogue focused increasingly on the role of the social partners and their relations in the process of European integration. The Rome European Council (Summit) of December 1990 established two Inter-Governmental Conferences (IGCs) to consider reforms of the Treaty with a view, respectively, to Economic and Monetary Union (a discussion of which will follow) and Political Union. The IGC on Political Union was asked by the Rome Council to "bear in mind, inter alia, the social dimension, including the need for social dialogue".

The debate on this aspect of political union was shaped by the Commission proposals for reform of the social policy provisions of the Treaty. Tabled in March 1991, these stressed the need to extend the scope of qualified majority voting and to achieve a balance in regulation by legislation and by negotiation at Community level.

In order to examine ways of involving the social partners more closely in the Community's decision-making process, the Steering Group of the Social Dialogue had established an ad hoc working group (following a proposal from Commissioner Papandreou). This group met for the first time in February 1991 with the goal of ensuring maximum autonomy for the social partners in social matters which concern them directly and to work out the right relationship between legislation and "agreements".

The ad hoc group met a number of times and submitted an interim report in May 1991 expressing the hope that any contributions it might wish to make towards the reform of the Treaty would be taken into consideration.

In June the group wrote to the Commission setting out the approach they had adopted thus far. In particular, they:

(a) "declared their willingness to advance by strengthening and enhancing the social dialogue as regards both joint opinions and any recommendations to be addressed to their affiliates and/or the Community authorities";

(b) "called for a framework to guarantee the autonomy of the social partners and their complete freedom to determine the pace, tenor and nature of their negotiations";
"urged the Commission to consult them in advance on its proposals in the social field".

The debate in the ad hoc group was greatly influenced by the wider discussion on reform of the social policy elements of the Treaty in the IGC. Of particular importance was the fact that an extension of the subject areas to which qualified majority voting might apply was under active consideration. If the Treaty reform were to include such an extension, in line with the wishes expressed by the ETUC, then legislation would be easier to bring into effect. This possibility encouraged the Union des Industries de la Communauté Européenne (UNICE) to make a real commitment to the work of the ad hoc group on the grounds that to develop both the consultative procedures on social policy and an agreement-based (i.e. non-legislative) instrument of social policy regulation was the most promising method of neutralizing the "threat" of a whole new raft of unwelcome social legislation.

Thus, the ad hoc group was able to reach an agreement, signed on 31 October 1991, which took the form of proposed amendments to the Treaty in the social field. Because of the divergent views of unions and employers on the question of extending the scope for qualified majority voting, this issue was not included in the agreement. However, it did include three other important elements:

(a) First, it developed the Commission's role in consulting the social partners, first, "on the possible guidelines for Community action", before the Commission submits a formal proposal and, secondly, "on the content of the planned proposal". The social partners would then present the Commission with an opinion or, if appropriate, a recommendation.

(b) Second, at this stage the social partners may inform the Commission of their willingness to negotiate on the subject in accordance with a procedure which may not exceed nine months' duration, unless an extension is jointly agreed by the social partners concerned. This element of the agreement establishes the possibility of European level labour standards being negotiated, rather than legislated into effect. Two sets of arrangements are foreseen for implementing agreements. Either, "in accordance with the procedures and practices of the social partners and the member States", or "... at the joint request of the signatories, on the basis of a Council decision on a proposal from the Commission".
(c) Third, the agreement foresaw that, "a member State may entrust management and labour, at their joint request, with the implementation of the directives adopted in the social field".

V. *The Maastricht Agreement on Social Policy*

The agreement of 31 October 1991 proved enormously influential in the deliberations of the IGC. Although the refusal of the United Kingdom to accept any amendment to the social policy provisions of the Treaty prevented a new social chapter being agreed by the 12 member States, an agreement on social policy among the 11 (apart from the United Kingdom) was attached to a protocol on social policy signed by all 12. The social partners agreement of 31 October was incorporated, almost word for word, in this agreement on social policy. The other main feature was the extension (for the 11 signatories) of qualified majority voting procedures to a range of subjects including: working conditions; information and consultation of workers; equality between men and women with regard to labour market opportunities and treatment at work; and integration into the labour market of persons excluded.

Thus, when Maastricht comes into effect there will be two legal bases for action in the social policy field: the "old" system, covering all 12 member States, of the Treaty of Rome as amended by the Single European Act; and the "new" system of the social policy protocol and the agreement among 11 member States. Under the agreement reached at Maastricht, the United Kingdom Government will take no part in discussion, and will be under no obligation to enact legislation created through the operation of this second legal base. However, this does not mean that there will be no impact in the United Kingdom. If European-level negotiations take place, British unions and employers will take part and, unless it is decided to implement any agreement reached by the method of a Council decision, will share the same obligations as their Continental counterparts as a result.

Of course, it remains to be seen how far the new possibilities offered by Maastricht will lead to an acceleration in the development of social policy. At first sight both legislation (for the 11, and perhaps with a "spillover" effect on the United Kingdom) will be easier to secure, and there are new possibilities for negotiation, too. But to operate the system will require the social partners, Commission and Governments to reach a modus vivendi. That they have the necessary political will remains to be demonstrated.

Nevertheless, the potential of the social partners to influence events, even to the extent of framing the agreement of 11 member States, has been
established. Furthermore, taken together, the social dialogue and the process of social legislation (even allowing for the failures to produce legislation in many cases) have come to constitute a significant element of the process of European integration. The social dimension remains far from complete, and insufficiently “binding” or watertight for the taste of trade unions. Nevertheless, labour standards and institutions are gradually coming into existence at the European level. The pro-active role of the Commission in proposing legislation and fostering dialogue (and, indeed, in managing social fund operations and promoting various training programmes) has been vital in this. But, paradoxically, this is the same Commission which has taken as the real motor of integration the free-market vision of the internal market; and the quasi-monetarist approach to European Monetary Union (EMU) of Maastricht.

VI. The internal market: Intensified competition

To take first the project to complete the internal market, the nature of the exercise and the economic forces behind it was analysed in depth by a study group under the chairmanship of Paolo Cecchini. The results were published by the Commission\(^9\) in March 1988. The analysis made clear that the completion of the internal market was designed to promote economic restructuring and greater efficiency by unleashing competitive pressures which had hitherto been shackled by the physical, fiscal and technical barriers partitioning the European market. And, of course, we should not forget that those barriers also sheltered the economic structures providing employment and income security to many trade unionists and other workers.

Concern about this is at the origin of the debates on social dumping — the intensification of competitive pressure from “low standard” countries leading (most dramatically) to relocations of production and (more pervasively) to greater pressure to reduce or hold back labour or social standards. Although some of the fears have been exaggerated by failing to recognize the importance of differences in productivity, there is still a concern that the process of integration could be distorted by the pursuit of competitive advantage, market share and employment through holding social standards below what productivity levels could justify. Such

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\(^9\) European Economy, No. 35, March 1988, The economics of 1992. In addition a book addressed to the general reader was published under the responsibility of Mr. Cecchini.
an approach would damage the prospects for development in both “high” and “low” standard countries.

The EC’s social policy has attempted to respond to this by defining some minimum standards to be applicable throughout the area of economic competition. Although this has been criticized as undue interference with matters best left to each country, the criticism has been blunted to the extent that the standards aim to restore the effectiveness of rights (e.g. information and consultation) which have become ineffective in a European setting (multinational companies) because they stop at national boundaries. Furthermore, to the extent that EC social policy actions have concerned procedural norms rather than, for example, a common absolute minimum wage standard, the criticism that an impossible burden is being imposed on the less productive economies is also deflected. This is especially so as actions to raise productivity and promote cohesion have been pursued in parallel.

VII. Economic and monetary union: An unbalanced approach

To turn to the next posited stage of European economic integration, the drive towards economic and monetary union (EMU), one of the clearest rationales behind the project presents it as the logical counterpart of the internal market. Why create a level playing field for economic actors by legislating away the barriers to economic integration only to allow exchange rate changes to distort competition? Furthermore, where can an example be found of a true internal market which is not also a monetary union?

Among the benefits of EMU is the removal of the transaction costs and uncertainty associated with exchange rate movements. This, in turn, removes a further barrier to cross-border economic activity and can be expected to reinforce the micro-economic gains in allocative efficiency encouraged by the internal market. To this extent, the creation of an EMU would reinforce the competitive pressures released by completing the internal market.

More controversially, however, the version of EMU agreed at Maastricht enshrines a view of economic management which reflects the prejudices of bankers about the priorities of economic policy and the appropriate means of pursuing them. A single currency will mean a single monetary policy, the definition and implementation of which will be the responsibility of the European System of Central Banks (ESCB).
According to Article 105 of the draft Treaty, “The primary objective of the ESCB shall be to maintain price stability.” Similarly, Article 3a, referring to the definition and content of a single monetary policy and exchange rate policy, states, “the objective of both of which shall be to maintain price stability...”. Only subject to this priority (as the draft Treaty puts it, “without prejudice to this objective”) may the ESCB use monetary policy “to support the general economic policies in the Community”. Furthermore, the draft Treaty (and the statute of the ESCB) establish the independence of the ESCB from the Governments of member States or other Community institutions, and indeed, require that the Central Banks of participating countries be also independent of Government.

These elements of the draft Treaty give every appearance of being drafted by people who believe that policies to promote economic growth and employment must be subordinate to the pursuit of price stability, irrespective of the rate of inflation or the state of the real economy; that monetary policy is useful only for the pursuit of price stability and price stability can be secured by monetary policy alone; and that it is essential to allocate the task of defining and implementing policy to an institution insulated, as far as possible, from the heretical influence of democratically elected politicians.

Of course, this is something of a caricature, but it is disturbing that even propositions as modest as the following, “it is possible to use fiscal and monetary policy to stimulate an economy operating below capacity and with low inflation”, or “inflation may be engendered by social and institutional forces as well as monetary ones” find no echo. It is not necessary to believe that pump-priming is the answer to every economic difficulty to find the approach laid down at Maastricht too rigid.

1. The need for a social dimension

The clear inspiration for ESCB is the Bundesbank, and no doubt the intention is to “capture” the success of that prestigious institution in combating inflation without destroying growth. But this is to ignore the contribution to German economic success made by other actors, and in particular by those in the labour market. Strong trade unions and a bargaining structure within which it is possible for them to engage in a global trade-off encompassing pay and conditions, and employment and investment, combine with institutions of worker participation to produce a particular industrial relations framework. That this framework has operated within a policy of monetary discipline to produce low inflation and economic growth does not mean that tight money will produce the same results in other industrial relations frameworks.
The difficulty is compounded by the clearest references to fiscal policy in the draft Treaty being those found in the Protocol on the Excessive Deficit Procedure. The Protocol sets reference values, referred to in the body of the Treaty (Article 104.c), of 3 per cent for the ratio of the planned or actual government deficit to gross domestic product at market prices; and 60 per cent for the ratio of government debt to gross domestic product at market prices. The reference values are intended to serve two purposes. First, as a key element in on-going multilateral surveillance of member States' economic policy, budgetary discipline will be assessed. The reference values will be among the criteria used in the assessment. If the Council decides that an excessive deficit exists, a disciplinary procedure is defined.

Secondly, whether or not a member State is the subject of a decision that an excessive deficit exists is one of the convergence criteria (also set out in a Protocol attached to the Treaty) guiding the Community in taking the decisions on the passage to stage three of EMU. In other words, this is one of the tests of fitness to join the EMU.

Thus, the form of EMU envisaged by Maastricht requires not only that the powerful new institution, the ESCB, should control monetary policy with the objective of securing stable prices, but that the other main macro-economic policy instrument, fiscal policy, should be constrained to support this objective by ensuing budgetary discipline. The fear is that this leaves no instruments available to pursue the policy goals of economic growth and employment creation, and that a deflationary bias to the system will be created. To believe this it is not necessary to regard control of inflation as unimportant, it is sufficient to doubt that growth and employment will arise spontaneously from the "credible" pursuit of financial discipline. And, of course, should such fears be realized in practice, the context for the pursuit of social policy objectives in general and the establishment of labour standards in particular would be an extremely difficult one.

In fact, there are reasons to hope that the reality will be less rigid than the foregoing paragraphs suggest. The procedure for defining an excessive deficit requires a report to be written if a member State fails one or both of the public finance criteria. But the report "shall also take into account whether the Government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the member State" (Article 104.6.3.). Furthermore, the Council is required to exercise judgement in assessing whether an excessive deficit exists.

It is also foreseen that more detailed rules and definitions for the application of the protocol on the excessive deficit procedure will be laid
down by the Council by January 1994. In short, there is considerable scope for political judgement to be brought to bear on the question of whether or not member States are complying with budgetary discipline. There is no automatic or mechanical procedure which can replace this judgement, even if the reference values will be influential. And it would be quite unreasonable, of course, to suppose that an EMU could be established without any rules to prevent the fiscal profligacy of a member State undermining the stability objectives of the Union as a whole.

Similar considerations apply to the convergence criteria in general (apart from public finance, these concern price stability, exchange rate stability within the Exchange Rate Mechanism and convergence of long-term interest rates) which represent fairly uncontroversial tests of whether an economy can comfortably join others in EMU. And it is also foreseen that more detailed convergence rules will amplify the criteria at a later stage.

Finally, and in a more general sense, it is also true that for those who believe a coordinated approach to European economic policy-making is a prerequisite to securing sustained growth and employment creation, the framework of cooperation and multilateral surveillance set out in the draft Treaty is highly promising. It is a perfectly rational political judgement to conclude that the ratification of the Treaty represents the best chance for a coordinated approach, particularly as the most serious flaws with the draft Treaty’s approach to EMU are not what it says so much as what it doesn’t. These omissions are of two sorts. First the fact that no convergence criteria for the real economy are established, such as growth, employment, investment and living standards. Secondly, that insufficient attention is paid to the “economic” part of EMU, in particular to the public finance elements.

So far as the first question is concerned, the orthodox response is to say that convergence of the nominal criteria concerned with monetary stability is a technical requirement for EMU, while the pursuit of real convergence is merely desirable. However, this presupposes an unrealistic division between the different aspects of economic integration, their impact upon the psychology of economic actors and their socio-political aspirations. To put it crudely, the populations of the countries involved in economic integration may come to believe that the process is good for their prospects of economic and social progress, and act accordingly. The aspirations of those in the poorer parts of the Community to catch up with their neighbours in economic and social terms seem certain to be reinforced by the move to a single currency. The increased ease of cross-border comparisons will lead to both sides in collective bargaining making greater use of examples from other countries: the unions to press for a
levelling-up of pay and conditions, and employers to press for the best standards of quality and productivity. If policy-makers wish to avoid such reactions, they would do well not to create a single economy, which is what the internal market and EMU would amount to it. To put it more positively, such aspirations will make a vital contribution to the dynamics of integration by underpinning the links between economic and social progress and the pressures for cohesion inside EMU.

2. Economic cohesion

So far as the second question is concerned, attention has already been drawn to the focusing on the monetary part of EMU in the draft Treaty. Procedures for economic policy coordination are also set out, but without the clear centralization of decision-making which applies to monetary policy. In particular, the EMU envisaged in the draft Treaty does not include the sort of integrated system of public finance which national economies possess.

The role played by such a public finance system was examined in a report entitled The role of public finance in European integration (sometimes known as the MacDougall Report after the Chairman of the Study group which produced it) published by the European Commission in 1977.

The MacDougall report was clear about the difficulties involved in economic and monetary union. “Economic and monetary integration leads to the progressive loss by states of their ability to control trade, exchange rates and monetary and fiscal policy although… the loss of control over fiscal policy is only partial in federal systems”, it stated, and, “The difficulty for a country which joins others in a common market and common monetary system without a developed central system of public finance… is that, like a region or federal state within a developed economy, it cannot use trade barriers or currency devaluation to help it adjust to, for instance, a fall in demand for its exports or a rise in the price of its imports; nor does the built-in stabilization produced by its public finance system carry with it a built-in financing of the import surpluses which stabilization of income may cause”.

Although the information for the EC is outdated in that there is now both a bigger budget than in the mid-1970s and that budget (thanks particularly to increases in the structural funds) has a bigger effect in reducing regional inequalities per unit of expenditure, the lessons of the analysis in the MacDougall report remain important. The importance of the public finance system in promoting economic and social cohesion, and the relative weakness of the mechanisms at EC level together provide a warning of the dangers of locking large parts of the EC into on-going
depression in EMU. Indeed, this concern has recently been raised again by MacDougall, who supports calls for a thorough examination of possible mechanisms for more substantial inter-regional redistribution (as explored in the original MacDougall report), “because I fear that an attempt to introduce monetary union without a much larger Community budget than at present would run the risk of setting back, rather than promoting, progress towards closer integration in Europe”.

VIII. The EC’s structural funds

These fears are responded to in part (though only in part) by both the existing structural funds and the proposed Cohesion Fund foreseen in the draft Treaty. Although the amount of money available for economic and social cohesion has been whittled down in the haggling over the EC budget (the so-called Delors II package), further increases in resources will be forthcoming, and this follows the doubling of the structural funds from the late 1980s.

The continuing drive to foster economic and social cohesion is a key element in the range of policies to accompany and shape economic integration and which are contributing to a model of “organized” or “managerial” capitalism far removed from the neo-liberal vision. Among these accompanying policies (and foreseen in the Single European Act) are policies for research and technology, and policies to protect the environment, as well as the social policies discussed earlier. The philosophy of integration which the Community has adopted acknowledges the competitive challenges facing Europe. To meet them, the efficiency improvements which will follow from the internal market programme and the associated restructuring will be necessary. The accompanying policies are to be seen as supplementing the market and assisting the drive for a competitive edge rather than hampering it. By supporting efforts to trade up, and attempting to limit the scope for moving down market, the Community is seeking economic and social development rather than mere commercial success.

Within such a framework the prospects for creating a social dimension are, of course, infinitely greater than in a pure neo-liberal setting where social institutions and regulation are seen as “rigidities” to be removed. This does not mean that no tensions exist between the pursuit of competitiveness and social policy objectives. It does mean that there are

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policies to help alleviate and overcome such tensions. It also means that the
tensions can in themselves contribute to the dynamics of integration by
provoking debate, dialogue and participation in the search for solutions. In
some cases at least compromise solutions and trade-offs can be found.

The role of the structural funds has been of particular importance in
this respect. The three funds are the European Social Fund, the European
Regional Development Fund, and the European Agricultural Guidance and
Guarantee Fund. The European Social Fund has traditionally focused on
training, retraining and other measures to assist workers in adapting to
structural change. Thus, large sums have been disbursed for income
support and re-training in the context of the run-down of traditional
industries and the effort to create new job opportunities. The European
Regional Development Fund aims to redress regional imbalances and
supports both development and structural adjustment in lagging regions and
the conversion of declining industrial regions. Transport and other infra-
structure investments typically receive support from this Fund. Finally, the
European Agricultural Guidance and Guarantee Fund contributes to
speeding up structural adjustment in agriculture and the promotion of rural
development more generally.

Since the reform of the funds, a conscious effort has been made to
group their resources through Community Support Frameworks, agreed
between member States and the Commission, which focus on the five
priority objectives below.

Objective 1: Promoting the development and adjustment of the regions
whose development is lagging behind (i.e. where per capita GDP is less
than, or close to, 75 per cent of the Community average).

Objective 2: Converting regions and sub-regions seriously affected by
industrial decline (according to the criteria of general and industrial
unemployment above the Community average and decline in industrial
employment).

Objective 3: Combating long-term unemployment (criteria of above the age
of 25, unemployed for over 12 months).

Objective 4: Facilitating the occupational integration of young people (job-
seekers below the age of 25).

Objective 5: With a view to reform of the Common Agricultural Policy:
5(a): adapting production, processing and marketing structures in agri-
culture and forestry; and 5(b): promoting the development of rural areas.
The Community Support Frameworks are implemented through operational programmes (frequently financed by contributions from more than one of the funds) aimed at one or other of these priority objectives. The operational programmes have been planned to replace the financing of piecemeal projects with integrated programmes. The aim is synergy between the operations of the different structural funds and other instruments such as the European Investment Bank which can support structural fund operations with soft loans.

Although trade unions have stressed the need for more social partner involvement and, with others, found the complexities of the structural funds problematic, there can be little doubt that the Community’s structural policies have played a real part in economic and social development. The Commission’s Third Annual Report on the Reform of the Structural Funds\textsuperscript{11} gives numerous examples of the activities supported by the Funds. Although it does not provide results in terms of overall economic impact, the Report notes that early assessments, “have confirmed the substantial positive effects the reform is having on assisted regions” and that analysis of the potential macro impact suggest reduced growth and employment disparities in the Objective 1 regions.

1. \textit{Increased resources and the cohesion fund}

It can therefore be argued that, since the reform (and doubling in real terms) of the structural funds introduced in 1988, the Community has played a role of genuine importance in fostering economic and social cohesion. The further efforts to which the Community is committed in the 1990s are a measure of the severity of the challenge. The aim of the Community’s policy in the run-up to EMU is to establish a virtuous cycle where efforts to promote growth, cohesion and the nominal convergence criteria set for EMU are mutually reinforcing. Certainly, the experience of the late 1980s shows that growth and cohesion go together, and equally major imbalances relating to monetary conditions and public finance must be tackled for medium-term growth to be sustained. However, the danger of pursuing the nominal convergence criteria \textit{at the expense} of cohesion, growth and real convergence is very real, and the Community’s structural actions are intended to help overcome it. Thus, as the Commission’s communication, \textit{Community structural policies assessment and outlook}\textsuperscript{12} puts


it, "It is the Community's task to seek out the necessary synergy between its measures and those of the member States and to incorporate into its assistance the flexibility required for cohesion, convergence and growth in the Community to develop hand in hand. More specifically, it must ensure that the reduction in the budget deficit is not achieved at the expense of growth, even in the short term, and that progress towards cohesion continues".

Although this may seem optimistic in the climate of gathering recession, the Community is planning to devote resources throughout the decade to achieve it. The Cohesion Fund foreseen in the Maastricht Treaty was allocated over 15 billion ECU (1992 prices) for the period 1993 to 1999 in the decisions taken by the Edinburgh European Council of December 1992. The fund, for which member States with a per capita GNP of less than 90 per cent of the Community average (Greece, Spain, Ireland, Portugal) are eligible, may provide support for environmental and transport infrastructure projects in particular. The Community co-financing rate for the Fund should be between 80 per cent and 85 per cent (much higher than the existing structural funds).

The Edinburgh Council also took decisions over resources for the structural funds and other structural operations. Altogether (and including the Cohesion Fund), some 176 billion ECU (1992 prices) should be committed to structural actions from 1993 to 1999. On average this represents 25 billion ECU per year compared to 13 billion ECU per year from 1988 to 1992. The resources are to be concentrated on the least prosperous member States, outermost regions and rural areas of the Community. For the four Cohesion Fund recipients this will permit a doubling of commitments under Objective 1 and the Cohesion Fund between 1992 and 1999 after allowing for the East German Länder and East Berlin full Objective 1 treatment.

The mechanisms to aid cohesion are thus securely in place. What remains to be defined is the sort of cooperative action on growth and employment which will permit efforts to foster economic and social cohesion, and indeed the social dimension in general, to run with the grain of macro-economic policy. The lesson of 1992 is that a narrow interpretation of the Maastricht convergence criteria, taking no account of the immediate economic outlook, is self-defeating and highly damaging to the process of integration. Does this make it perverse for trade unions to back the Maastricht Treaty? Far from it. There is no alternative project to manage Europe's integration and to build in a social dimension. What is clear, however, is the size of the challenge involved in achieving the goals the Community set itself at Maastricht. The goals are most unlikely to be achieved in a climate of recession, and policy-makers must act urgently to
prevent understandable concern about the convergence criteria descending into beggar-my-neighbour policies. In the medium term, the hazards identified by MacDougall can be ignored only at the risk of dangerous instability. Indeed, perhaps this is the best hope for a happy ending. For the Community has shown an encouraging (and for its critics frustrating) habit of rising to challenges which threaten its coherence. It would take a brave gambler to bet against the Community emerging from the present difficulties with integration continuing, and the social dimension built in.
12 Restructuring at the global level: The role of international labour standards

Werner Sengenberger

I. Introduction

Markets and production systems are increasingly transcending national borders, creating greater economic interdependence among countries. The increasing importance of multinational enterprises, transnational strategic alliances, transnational subcontracting and sourcing of production and services, and cross-national regional economic integration signal the trend towards an internationalized economy.

In contrast, labour institutions and labour market regulation remain largely constituted on the national scale and below. It is at the level of the nation state, or sub-nation state, that pay, employment rules, working conditions, occupational health and safety, and social security are legislated and executed.

The growing incongruity between the economic space and the social space of organization creates a major challenge to economic, political and social stability. As companies and capital move ever more freely to where they expect the best returns, and large enterprises grow ever bigger and more powerful — with the sales of some of the giant corporations well exceeding the GNP of small nations — national governments and national labour organizations tend to be deprived of the sovereignty to govern economic behaviour within their borders. They will lose part of their autonomy of action and decision-making. Such a situation is likely to throw national social “models”, and national systems of labour institutions, into the arena of intensified international competition. It could, in the worst case, provoke international economic warfare, followed by harsh and destructive social conflict, and a new upsurge of nationalism. But it could, if properly handled, also lead to new accords on the international plane, a better structured world economy, better resource utilization, the resolution of such pressing global problems as poverty and environmental pollution,
and, in general, enhanced mutual understanding in a more cosmopolitan world.

The adjustment of labour institutions is crucial to meet this challenge constructively. In order to be effective, labour organizations and labour market regulation have to be coextensive with the size of the market. Otherwise, labour organizations can be whipsawed, labour standards undercut, and free riders encouraged. Fears of a downsizing of labour standards, or "social dumping", as the trade unions call it, are being voiced in the European Community, which has just entered a Single European market. While trade union organization and collective bargaining are still largely national, and progress towards the European Social Charter of Community-wide social standards is slow and hesitant, economic integration moves much faster. Political decisions are driven by the market more than the other way around. Nevertheless, it happens that the discrepancy in Europe looks minor in comparison with other regions which are taking initiatives towards regional economic integration. In every one of these regions, labour market organization is far from matching, even in a remote sense, the degree of internationalization of production and trade relations.

This chapter will address the gap in the territorial organization of business and labour. After giving a brief historical account of the advancement of international economic integration up to the present day, it will analyse the institutional responses, actual and potential, to reconcile labour policy, and labour standards in particular, with the expansion of markets and production, and the changing nature of competition.

II. The internationalization of the economy

While there has been trade over shorter and longer distances in various parts of the world since time immemorial, it has nevertheless been the case in the past two centuries that the internationalization of the economy has progressed at a rapid pace. Yet, when we say that, we immediately need to recall that national boundaries are of fairly recent historical origin as well. The "nation state" in any version recognizable to us today is, as Eric Hobsbawn showed, no older than the American Constitution and the French Revolution, both dating from 1789. In a number of Western countries, the nation state was rising to significance as a unit of political, economic, and social organization in the nineteenth century when national economic activity was used by Hamilton in America, Bismarck in Germany, Japanese rulers in charge of the Meiji restoration, Garibaldi in Italy, and others, to put muscle behind their political ambitions
[Hobsbawn, 1990]. In many other quarters of the world, the nation state is much younger still: more than half the existing states are less than 40 years old. Only with the existence of the national economy can we logically speak of internationalization.

1. Growth of trade and foreign investment

The upsurge in economic activities across national borders is reflected in the growth of foreign trade and investment. The value of exchange between the major trading nations increased from 1.5 billion dollars in 1800 to about 4 billion in 1850, to 20 billion in 1900 and 40 billion in 1913, showing a clear trend of acceleration in the second half of the nineteenth century [Levy, 1931]. Whilst the rate of growth was again more moderate between the World Wars, a new big push came after the Second World War. In 1990, worldwide trade in goods and services amounted to some $4 trillion, a 13-fold increase in real terms from 1950. The interpenetration of markets is indicated by the fact that the export rate rose faster than the volume of production. World production in the period 1950 to 1984 increased roughly by factor 5, whereas total exports rose about ninefold, and exports of manufactured goods even fifteenfold [GATT, 1987, p. 14]. Market integration is further signalled in the increased trade reliance of national economies. Between 1967 and 1986, the share of trade in GNP doubled in a number of important countries, and reached levels of almost 60 per cent in the Netherlands, 41 per cent in the United Kingdom and 32 per cent in the Federal Republic of Germany (Table 1).

Table 1: Share of exports in GNP for selected countries and selected years (in %)

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<tr>
<td>The Netherlands</td>
<td>39.5</td>
<td>48.4</td>
<td>59.8</td>
<td>58.9</td>
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<tr>
<td>United Kingdom</td>
<td>22.2</td>
<td>31.7</td>
<td>38.9</td>
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<tr>
<td>Germany</td>
<td>21.3</td>
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<tr>
<td>France</td>
<td>14.7</td>
<td>20.2</td>
<td>27.1</td>
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<td>Italy</td>
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<td>Mexico</td>
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<td>Brazil</td>
<td>6.8</td>
<td>10.4</td>
<td>12.5</td>
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<td>Japan</td>
<td>10.3</td>
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<td>United States</td>
<td>5.7</td>
<td>8.0</td>
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Source: de Granrut [1990, p. 9].

The opening of the economies is also apparent from international investment. Since the 1970s, the growth of world trade has been significantly outpaced by growth of foreign direct investment (FDI). In the 1980s, global foreign direct investment grew at a rate 1.5 times faster than
that of international trade [Dunning, 1992]. There are many ways in which
capital can move across borders, including: foreign direct investment,
which is linked to multinational companies setting up subsidiaries abroad;
indirect (portfolio) investment, where shares are bought in an undertaking
abroad; borrowing of foreign capital; non-equity forms of investment, such
as licensing and franchising; and official development assistance (ODA).
All affect in one way or the other, in both the source and the recipient
country, the transfer of technology and productivity, and future employment
opportunities.

The stock of estimated foreign direct investment increased worldwide
from 14 billion dollars in 1914 to 66.7 billion in 1960, and 380 billion
dollars in 1978 [de Granrut, 1990], and nearly 2 trillion in 1992
UNCTAD, 1993]. FDI flows have accelerated in the past two decades. In
the last three years of the 1980s, FDI flows measured in 1980 dollars were
more than 100 billion a year, ten times as much as they had been in the
first three years of the 1970s (again in 1980 dollars) [The Economist, 22
December 1990]. Table 2 demonstrates that, between 1987 and 1992,
levels of outflow of FDI climbed enormously in the five largest
industrialized countries which, in 1991, accounted for about two-thirds of
total foreign investment. The annual flow of FDI from Japan had increased
tenfold at the end of the 1980s in relation to the beginning of the decade.
In France, the equivalent number was seven-fold. In the 1980s, the United
States became the major host country for investments, while at the same
time the United States increased its investments in Europe at an
accelerating rate [Campbell, 1991].

2. The rise of the multinational enterprise (MNE)

The pivotal driving force behind the internationalization of the
economy is the MNE. With regional integration, the threshold to multi-
nationalization becomes much lower than before. Overseas investment by
multinationals has become a bigger force in the world economy than world
trade. In 1992, sales generated by multinationals outside their country of
origin totalled $5.5 trillion, compared with total world exports of $4
trillion. MNEs control one-third of the world's private sector assets. The
world total of non-financial MNEs has increased from 7,000 two decades
ago to 37,000 in 1992, with more than 170,000 foreign affiliates. Almost
60 per cent of all parent companies are in manufacturing [UNCTAD,
1993].
Table 2: Stock of foreign direct investment, by country and region, 1987-1992 (billions of dollars)

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<td>Germany (Fed.Rep)</td>
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<td>United Kingdom</td>
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<td>United States</td>
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<td>Developed countries</td>
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<td>Western Europe</td>
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<td>North America</td>
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<td>Other developed</td>
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Source: UNCTAD [1993, p. 14].

MNEs are major employers. Over 70 million workers, accounting for about 20 per cent of paid employment in non-agricultural activities in OECD countries, are employed world-wide by MNEs. They belong to the core workforce in modern, technologically advanced, capital- and marketing-intensive industries [Parisotto, 1993].

In the last two decades, there has been a change in the competitive strategy of the multinationals. Particularly in the 1970s, the multination- alization of manufacturing proceeded through international subcontracting and the relocation of parts of production in developing countries with lower labour cost levels. This contributed to the growth of intra-industry trade, and created an international division of labour, as well as new investment and technology links, between countries of the North and the South, implying for the latter a kind of export-oriented industrialization.

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1 For a comprehensive overview, see Campbell [1994].
For instance, the initial phase of growth of the “four dragons” — the Republic of Korea, Taiwan, Hong Kong and Singapore — was largely built on the use of cheap, unskilled labour for the manufacturing of parts and components by subsidiaries of foreign-owned MNEs. This phenomenon sparked a theory on the “new international division of labour” (NIDL), according to which massive outmigration of capital would generate structural unemployment in the OECD world, and exploit workers in the Third World. Therefore, in order to make it work, the existence of global labour and capital markets and a global labour reserve army would be imperative [see, e.g., Froebel et al., 1977].

In the 1980s, various events induced enterprises to alter their strategy. Variable-cost competition was superseded by fixed-cost competition. Growth came to be driven by the spread of cost-reducing and quality-enhancing advancements in the electronics-based industries (semiconductors, telecommunications, computers, consumer and industrial electronics) which swept increasingly into production processes of other manufacturing industries, such as the automobile industry, and into the service sector. Together with the reduction in the cost of air travel and shipping — partly due to deregulation — information could now be carried by electronic impulses in less than seconds around the globe, enabling and accelerating globalization on a higher level. Moreover, the new technologies generated a new wave of automation and this put pressure on producers to cut fixed costs by boosting sales and broadening markets. Some of the more labour-intensive manufacturing operations, especially in the garments and electronics sector, have been farmed out to a second tier of newly industrializing countries (NICs), such as Thailand, Malaysia, Indonesia and other ASEAN countries, and lately to a third tier of countries, such as Vietnam, Cambodia and Bangladesh, that offer even lower labour costs.

At the same time, the shortening of product cycles, and the concomitant acceleration of product innovation, led MNEs to enter into strategic alliances with their competitors, often from another region, to share sharply rising R&D costs, pool resources, and gain better access to different technologies and markets. The linkages and inter-firm networks created by such inter-firm alliances and collaborative agreements primarily spanned the United States, Europe, and Japan.

The relationship between product turnover and outlays for R&D is apparent in Figure 1. Product cycles are short and the share of R&D in sales is high in exactly those industrial sectors which are most often associated with globalization, like electronics, aerospace, pharmaceuticals, automobiles, and the electrical goods industry.
Next to altered and extended links between multinationals, their internal structures tend to be adapted by vertical disintegration in the course of contracting out production and services to other firms, often of smaller size. The big firms tend to externalize functions considered to be of less strategic importance, retaining those viewed to be essential for keeping strategic control, and to adapt their structures, including decision-making, accordingly.

3. Are we heading towards globalization?

The rapid expansion of international investment and offshore markets, along with the assertive role played in this by corporate strategies of the MNEs, have led observers to speak of the “globalization” of the economy. This term has different meanings for different people. To Petrella [1991], globalization marks the third phase of cross-national economic integration. It leaves behind it a first phase based on international exchange of goods and services, which Petrella calls “internationalization”, and a second phase linked to foreign direct investment, which he terms “multinationalization”. In contrast, “globalization” affects all phases and activities upstream and downstream from producing goods and services, including conception, development, manufacturing, distribution and consumption. In
addition, it puts an end to national institutions, such as the nation state, national currency, national economy, national bank, national postal services, national education, national culture, etc., and replaces these by international institutions.

Other writers are less ambitious when defining globalization. Next to the interpenetration of markets and the more generic nature of the new information technologies, reference is often made to an accelerated homogenization of consumer tastes, product standards and production methods on a global scale, to mergers and acquisitions bound to affect global restructuring, and to the trend of large corporations to be less dependent on any one nation's economy. These phenomena are said to have weakened the ability of the State to control the behaviour of other major economic actors theoretically under its jurisdiction, and have pushed the boundaries of policy-making into the sphere of the global rather than the national economy. In fact, certain writers seem to suggest that for true and sustainable globalization something like global government would be indispensable.

But, even short of the political dimension of globalization, one may ask whether and how far globalization on a purely economic level has really been a worldwide phenomenon. Two major reservations may be made on that account. Firstly, one may argue that the economic world has tended to become multipolar, or regional, rather than global. Some speak of a "triadization", meaning that the three economic superpowers of Japan, the United States and Europe and their satellites, form the essential perimeter of the global economy, to the exclusion of the LDCs of the South. This becomes clear from the regional distribution of FDI outflows (Figure 2). In fact, while many developing countries enjoyed more rapid economic growth than industrialized countries for some time, their share of total production increased only from 12.2 per cent to 13.9 per cent in the period 1966-1984, during which they should have been the main beneficiaries of the global shift of production, if one believes in the NIDL theory. In the same period, the newly industrializing economies (NIEs) increased their share of manufactured goods from 5.7 per cent to 8.5 per cent, which is a comparatively minor gain. The total stock of outward FDI from developing countries (including the Asian NIEs) is now estimated at 8-10 per cent of the world total. By the early 1990s, their share of inward FDI came down to 24 per cent, from 27 per cent in the mid-1980s [UNCTAD, 1993, p. 14]. Even worse, in the 1980s, Latin America and sub-Saharan Africa faced a serious loss in world trade and entered a state of crisis which was not just an economic crisis. So one would be hard put to speak of restructuring in favour of the South. Rather, growth in the developing countries was concentrated in a few countries such as the East
Asian NIEs. The over-riding event in the international economy in the past three decades has not been the rise of the developing world but the steadily increasing share of Japan in world production.

Figure 2: Sources of foreign direct investment outflows: Annual averages (%)

1975-1980

- W. Europe - 45.7%
- USA - 41.5%
- Japan - 5.5%
- Other Industrialized - 6%
- Developing countries - 1.3%

1981-1985

- W. Europe - 58%
- USA - 17%
- Japan - 11%
- Other Industrialized - 12%
- Developing countries - 2%


A second reservation to be raised against the thesis of globalization concerns economic “regionalism”. In place of an increasingly borderless worldwide economy we may well see a freer circulation of capital, goods and labour within some regional groupings of countries, such as the Single European Market, the zone of the North American Free Trade Agreement, MERCOSUR in the Southern American cone, and the emergence of APEC in the Pacific region; regional integration could easily retard internationalization to the extent that it is accompanied by defensive import protectionism at its external borders, evident in Japan, or in the term “fortress Europe”.

In concluding this brief sketch of trends of international economic integration, it may be said that there is doubtless an enormous advancement in international market penetration since the beginning of industrialization, indicated by the growth of trade flows and foreign investment. The fruits of this integration, however, are unevenly distributed in regional terms. Above all, they come to benefit the industrialized world, which is the home of the multinational companies. More than 90 per cent of the MNEs have
their headquarters in the developed world [UNCTAD, 1993]. Much of international integration consists of regional grouping which suggests that there is a multipolar rather than a global economy.

III. Labour standards as an instrument of regulating international competition

The internationalization of the economy brings a new, important dimension to competition. How important it is, in fact, will depend, inter alia, on the nature and magnitude of cross-national disparities in the treatment and remuneration of labour. The more wages, hours, and other terms of employment differ, and also the more labour productivity varies, the more tempting it will become for firms to exploit such gaps in seeking to attain competitive advantages. This, then, could generate the risk of a general downslide of pay and working conditions. The problem of exporting products and services that owe their competitiveness to low labour standards was recognized early in the course of economic integration, and repeatedly considered at international conferences. In the Covenant of the League of Nations of 1919, for example, the member States agreed to endeavour to secure fair and humane conditions of labour, both at home and “in all countries to which their commercial and industrial relations extend” (see: Treaty of Versailles, Part I, Art. 23(a)).

In principle, the social problem of exploiting differing labour conditions, variably termed “social dumping” or “unfair competition”, can either be tackled by setting and enforcing international labour standards, i.e. creating common benchmarks and rules for the treatment of labour by all competitors in all countries or, alternatively, by restricting trade in one way or the other. At different points in time, declarations were adopted that emphasize the link between trade and labour conditions. Without fair competition in the labour market, it was argued, liberalization in trade would be unsustainable.

1. International labour standards and the ILO

Labour standards are set at various organizational levels, such as the establishment, enterprise, industry, region, nation and international economy. The need for providing standards at the international level was increasingly felt as the opportunity of competing through wages and working conditions expanded with increasing cross-border competition in Europe in the late nineteenth and early twentieth centuries. In the international debate which culminated in the foundation of the International
Labour Organization (ILO) under Article 19 of the Treaty of Versailles in 1919, labour standards at the international level were opposed by some countries on the grounds that they would handicap them on the international market by increasing their costs relative to other countries not covered by the common rule. For example, the ratification of the Hours of Work Convention, which was the first Convention adopted by the ILO in 1919, was slowed down by this consideration. Others, on the contrary, argued that international agreements to set standards would ensure that competition was not at the workers’ expense and would in fact amount to a code of fair competition between employers and between countries. This argument was in fact embodied in the Preamble of the Constitution of the ILO which states that “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries” [ILO, 1986].

It was perhaps not by accident that the ILO was created as an autonomous body at the end of the First World War, when nations had just passed through a period of political and social disaster. At this time there existed — as was the case later after the Second World War — the “community of suffering” which can give rise to sufficient consensus capable of generating international order. There was agreement in the industrialized countries in 1919 to seek to create an organization apt to set international labour standards in order to relieve the social effects of international economic competition, and, more generally, advance justice in relation to the social conditions aggravated by the ravages of industrialization and the appalling working environment caused by it. The principles that “universal and lasting peace can be established only if it is based on social justice” and “labour is not a commodity” form cornerstones of ILO philosophy.

The following more specific objectives of the ILO are stated in its Constitution:

(a) regulation of working hours, including the establishment of a maximum working day and week;

(b) regulation of the labour supply;

(c) prevention of unemployment;

(d) provision of an adequate living wage;

(e) protection of the worker against sickness, disease and injury arising out of employment;

(f) protection of children, young persons, and women;

(g) provision for old age and injury;
(h) protection of the interests of those working in countries other than their own;
(i) equal remuneration for work of equal value;
(j) recognition of the freedom of association;
(k) organization of vocational and technical education.

From the beginning, the ILO was heavily involved in normative work and the setting of international labour standards has been its core activity. The ILO, which at present has 156 member States, has a unique tripartite structure which enables national governments and workers' and employers' organizations to share power in its decision-making bodies, of which the Governing Body is the executive organ, and the International Labour Conference elaborates and adopts international labour standards. Once standards are adopted by the Conference, member States must submit them within a year to their parliaments or other legislative authorities for the enactment of national legislation or action. These authorities remain free to decide whether or not they put them into effect, but they are in any case obliged to inform the Director-General of the ILO of the action taken.

Today's International Labour Code consists of 174 Conventions and 181 Recommendations, the two forms that ILO standards can take. Conventions have a legal status similar to international treaties. Once ratified by the competent national authority, they involve binding international commitments. Appropriate documentation has to be supplied by the country's government about how the Convention will function. The ILO Constitution also requires non-ratifying member countries to report periodically on the extent to which their laws and practices implement the provisions of unratified Conventions. They must indicate what is preventing or delaying the ratification. Recommendations do not create any international obligation but are designed to provide guidance to governments in formulating their social policies. They have been found most suitable or appropriate whenever a subject is not yet ripe for the adoption of a Convention, or to supplement a Convention, or where it seems desirable to leave a wide latitude to states as to which action should be taken.

The application of ratified Conventions is closely monitored through ILO's reporting and review machinery, involving the International Labour Office as the secretariat of the ILO, as well as tripartite committees of the Conference, and independent experts. Reports are scrutinized with a view to helping governments to overcome difficulties which they may have in making standards effective. As concerns compliance, any member has the right to file a formal complaint with the International Labour Office if it
is not satisfied that any other member is securing the effective observance of a Convention which both have ratified. The matter is then made subject to inquiry, and eventually recommendations are made as to the necessary steps to be taken to meet the complaint. The governments in question then have to either accept the recommendations or refer the complaint to the International Court of Justice, whose decision is final.

About 6,000 ratifications of Conventions have been made so far by member States, which averages more than 30 per member. Among the Conventions most commonly ratified are the Convention of 1930 on Forced Labour (No. 29), the Convention of 1957 on the Abolition of Forced Labour (No. 105), the Convention of 1948 on Freedom of Association and Protection of the Right to Organize (No. 87), the Convention of 1949 on the Right to Organize and Collective Bargaining (No. 98), the Convention of 1951 on Equal Remuneration (No. 100), the Convention of 1958 on Discrimination in Employment and Occupation (No. 111), and the Convention of 1964 on Employment Policy (No. 122). These key Conventions, each of which has been ratified by more than 100 member States, are seen as fundamental human rights, which are of particular concern to the ILO.

It is recognized as a problem that the record of ratification varies vastly across countries. With some notable exceptions, most ratifications are made by the industrialized or near-industrialized countries, while the developing countries have ratified far fewer Conventions. It has been debated at great length, both inside and outside the ILO, whether the developing countries can even afford to apply the minimum standards laid down in the International Labour Code. The ILO itself has responded to this question by providing some flexibility in introducing standards to take account of the widely varying economic and social conditions and legal and political systems. In view of such variety, two extremes are to be avoided. One is to set standards which can be accepted at once by the greatest possible number of countries, with the risk that the common denominator is apt to result in a standard too low to produce any significant progress. The other would be to aim at too high a standard which would not be immediately practicable in most countries. Many standards are formulated in fairly general language, thus giving governments latitude either in the scope of setting the standard or in the methods of application.

It is generally held that the standards promulgating fundamental human rights mentioned above should apply independently of the state of a country's development. For example, no matter how rich or poor a country is, it cannot be accepted that trade union leaders be harassed, jailed, disappear, or be murdered. Substantive standards, on the other hand, usually contain flexible formulas of one kind or another. For
example, with regard to minimum wages, Convention No. 131 (1970) specifies that a country should have a system of minimum wages in one form or another, but it does not stipulate the minimum wage required. It would be unrealistic to set a substantive rule, given the enormous wage differentials across member States. (In the United States, for example, the average wage per hour is about the same as that for a full working day in adjacent Mexico. In Finland, a carpenter’s wage on one day is nowadays equivalent to a worker’s wage for one month in neighbouring Russia.) Even so, it is the ambition of the ILO to adhere to the principle of universality in setting and enforcing standards, and not admit regional standards for groupings of countries of different degrees of development. Regional standards would accentuate rather than reduce differences in development, and would mean that in certain regions there would be “substandards” for “sub-human people” [Valticos, 1969].

The other way in which the ILO, together with other specialized United Nations agencies, has attempted to deal with the wide differential in national labour conditions, has been through technical cooperation. This includes education, consultation and technical assistance, and is given primarily to the countries of the South to assist them in their development process, e.g. through public works projects, setting up vocational training and rehabilitation centres, promoting full employment, forming rural cooperatives, building safety and health systems, and establishing systems of social security. The setting and application of labour standards and technical cooperation are seen to complement and strengthen each other. Technical cooperation is to be designed with the aim of achieving progress towards the ratification of and compliance with international labour standards.

2. Labour standards and multinational enterprises

In 1977, the Governing Body of the ILO adopted a Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. To date, this constitutes the only universally applicable code of conduct for MNEs. The OECD guidelines for the conduct of multinationals is a limited regional instrument, and negotiations going on since 1976 for a UN Code of Conduct on Transnational Corporations have never reached agreement.

The ILO Declaration originated in concerns in the 1960s about increasingly powerful companies that operated across national boundaries and were subject to differential labour laws. Many governments and trade unions demanded that international rules be drawn up to govern the activities of MNEs and define the terms of their relations with host
countries. The Tripartite Declaration was the ILO's response to calls for guidelines which could help to mitigate the social and labour problems of MNE activities, and encourage the positive contributions that they could make to economic and social progress. The Declaration is a voluntary instrument. There has not been consensus for a legally binding ILO Convention on that matter.

The Declaration consists of a preamble and five major sections dealing with general policies, employment, training, conditions of work and life, and industrial relations. In the section on general policies, governments are called upon to ratify a number of key Conventions, or comply with them, if they have not done so. All parties involved are to make these standards the guiding principles of their social policy, especially in countries where this has not been the case. The MNEs are specifically requested to offer in the host countries of their subsidiaries wages, benefits and working conditions no less favourable than those provided by domestic employers. Moreover, they are asked to maintain the highest standards of safety and health, in conformity with national requirements, bearing in mind their relevant experience within the enterprise as a whole, including any knowledge of special hazards. Furthermore, MNEs are called upon to observe the ILO Conventions on collective organization, collective bargaining and other standards of industrial relations, endeavour to increase employment and training opportunities and standards, provide employment stability and social security, extend equality of opportunity and treatment in employment, and adapt technologies to the needs and characteristics of the host countries.

In triennial surveys, the International Labour Office collects information on the extent to which governments, employers' and workers' organizations respect the principles and recommendations contained in the Tripartite Declaration. There is also a procedure for the examination of disputes over the meaning and interpretation of the Declaration. Complaints against MNEs were filed, for instance, in relation to cases of workforce reduction in which the enterprises failed to inform the representatives of the workers. Union avoidance is one of the main problems of MNE conduct in foreign countries. Under the Tripartite Declaration, multinationals must not relocate operations from a country or site to evade unions or collective bargaining. In this regard, it is important to know that the ILO introduced a special procedure to deal with cases involving Conventions Nos. 87 (1948) and 98 (1949) concerning freedom of association and the right to organize and bargain collectively. While in general complaints of violation of ILO standards can only be filed against a member country that has ratified the Convention in question, complaints
in relation to Conventions 87 and 98 can also be lodged even against states that have not ratified these Conventions.

The ILO Code of Conduct for MNEs has been found relevant for the actual behaviour of multinationals. In a meeting held by the ILO in 1990 on the overseas activities of Japanese enterprises, the Japanese Ministries of International Trade and Industry, and Labour, as well as Nikkeiren and Rengo stressed the importance of the Tripartite Declaration for guiding behaviour abroad [ILO, 1991]. It was recognized that the sharp rise of FDI of companies of Japanese origin, particularly after the revaluation of the yen in 1985, has given rise to bad relations and conflicts between affiliates of Japanese MNEs and the local communities in the United States, Europe and Asia. This included labour-management problems such as difficulties of communication, imposition of Japanese-style management without respecting local practices, discrimination between Japanese and local staff as regards promotion, working conditions and other related matters. The controversial practices were attributed mainly to a lack of experience as well as lack of awareness or misunderstanding of the socio-cultural environment and laws of host countries in which they operated. (The same could be said, presumably, for the MNEs of other nations.) It appears that information and guidance is especially relevant in host countries where the practice of union avoidance is prevalent, where countries have not ratified key ILO Conventions, (e.g. Conventions 87 and 98), and where there is a high density of “free enterprise zones” or “export processing zones” (EPZs), such as in South-East Asia, Mexico, and the Caribbean Basin [on this subject, see ILO and UNCTC, 1988]. These zones were created by certain developing countries to attract capital from Europe and North America by offering especially favourable social, tax and other conditions.

3. Linking labour standards and trade

The International Labour Code and the ILO machinery to monitor it have doubtlessly advanced the international regulation of the labour market by taking labour out of competition, and contributed to levelling labour conditions within and between countries. Yet, major deficiencies remain when it comes to protecting labour from destructive competition. These become more visible with the advancement of internationalization of the economy. The following shortcomings may be mentioned:

(a) Although the process of ratification of ILO standards has reached impressive levels, progress has slowed down in the past decade. Major areas of labour competition remain uncovered by standards, leaving countries with a well-developed labour code exposed and vulnerable. Think, for example, of the competitive pressure exerted
on other countries by the use of Sunday work in industry, or the use of child labour (the ILO estimates that there are 120 million children engaged in gainful commercial work).

(b) The power entrusted to the ILO for sanctioning the failure of countries to set and enforce standards is limited. The ILO has little executive power to police its standards. It acts by making cases of non-compliance public. By invoking disapproval of the world community, it brings moral suasion and moral pressure to bear. As a former Director-General said, the ILO is not a worldwide Ministry of Labour. It can set guidelines for national action, and stimulate such action, and assist in its implementation when requested. But it cannot substitute itself for governments, or for trade unions, or for employers’ organizations [Morse, 1969]. The ILO can only be as strong and effective as its constituent groups and its member States want it to be.

(c) Given the enormously varying, and obviously exacerbating differences, in the level of development between industrialized countries, NIEs, and LDCs, it is impractical to issue strictly defined norms on conditions of work and levels of remuneration that could exert a forceful levelling effect.

To bring the relevance of ILO standards back into prominence in a changed world, a broader approach has recently been suggested by the Director-General of the ILO [ILO, 1994]. It includes their adaptation to real needs, new prospects for the promotion and supervision of basic social rights, and the strengthening of the international effectiveness of standard-setting action to cope with the globalization of the economy and greater international competition.

One of the initiatives has been to link labour standards directly to trade. The basic idea of trade-linked standards is to inhibit the trading of goods that are produced under employment and working conditions which violate ILO standards. The International Confederation of Free Trade Unions (ICFTU), and notably one of its members, the International Metalworkers’ Federation (IMF), which represents 165 engineering and metalworking trade unions in 70 countries worldwide, have spearheaded a campaign to link trade preference agreements to the maintenance of labour standards [ICFTU, 1986; IMF, 1988]. The IMF argues that this could be done through national and international legislation, but also and perhaps best through the insertion of a “social clause” on workers’ rights in the rules of the General Agreement on Tariffs and Trade (GATT). GATT can intervene in trade relations if it believes that governments are
unfairly distorting world trade through preferential subsidies, discriminatory tariffs, or dumping. The IMF would like to see cases of clear breach of labour rights laid down in ILO standards and international jurisprudence — such as the infringement of the freedom of trade union action, dangerous working conditions, excessive number of working hours, pay below value, the use of forced labour and child labour — brought under GATT sanctioning procedures in order to generate greater leverage. The IMF considers the abuses of workers' rights an unfair subsidy to firms or countries that are unable or unwilling to comply with labour standards, and an obstacle to the development of both industrialized and developing countries.

Attempts to link trade agreements to the maintenance of labour standards are not a new phenomenon. Jacques Necker, Minister of Finance under Louis XVI, already understood that Sunday work cannot successfully be abolished unless done on a broad basis. Concrete steps have been taken since the beginning of the present century. In 1906, an international labour conference in Bern adopted a treaty, later ratified by 12 European countries, which prohibited the manufacture and trade of matches containing white phosphorus, a compound that caused particularly distressing diseases amongst the workers who produced it. In 1948, the United Nations Conference on Trade and Development (UNCTAD) was to write a Charter of the International Trade Organization (which later became GATT, with more limited ambitions). The initiative then failed, due to the refusal of the United States Government to ratify the Constitution of the Organization because of the explicit link between trade and labour standards in Article 7 of its founding charter. More recently, however, the United States has shifted its position and has begun to take account of the labour standards operating in the countries with which it has trading agreements. For example, in 1983, it was stipulated that before a Central American or Caribbean country could take advantage of provisions for duty-free admission to United States markets, it should be examined whether "workers in such countries are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively". Other similar pieces of United States legislation followed. Recently, a panel of the Economic Policy Council of the UN Association of the USA viewed it necessary to make GATT the venue for imposing economic penalties on countries and industries not in compliance with labour standards and other international norms of trading conduct [Economic Policy Council of UNA/USA, 1991]. The European Parliament also advocated trade-linked standards when, in 1983, it called for a new GATT article requiring members to respect ILO Conventions, and a social clause is being debated in connection with the completion of the Single European Market.
Some critics, among them governments of developing countries, contend that trade-linked labour standards are a disguised form of protectionism on the part of the industrialized countries [Servais, 1989; van Lier, 1989]. They feel that linking labour standards to trade will in fact work against the very people it seeks to help by removing one of their few competitive advantages, such as low wages and low labour costs. If developing countries were forced, it is argued, to raise labour standards in order to secure trade agreements, they would erode their own competitiveness, lose the attraction for MNEs, and thus kill the goose which lays the golden eggs. The IMF has responded to this criticism by showing that its affiliate trade union organizations in developing countries, such as in South and East Asia, do not cling to such arguments and were generally in favour of trade-linked labour standards.

As yet, the inclusion of a social clause has been limited to the agreement conclusively by the United States, and a few international commodity agreements, such as those on rubber, sugar, and tin [for a full account, see Servais, 1989, and van Lier, 1989]. To date, there is no majority in international forums in favour of action that would use GATT as a lever for making labour standards more effective. Attempts by the IMF to raise the inclusion of a social clause in GATT based on ILO standards, first in the Tokyo Round, then in the Uruguay Round of negotiations, have failed. The proposal to include a social clause in the Lomé Convention (between the EC and the countries of Africa) also fell through. But it could well be that pressure is mounting in the 1990s to a level which leads to trade-linked standards on a multilateral basis, be it in a coercive manner through trade sanctions or restrictions of capital flows, or in a more conciliatory manner by using international mediation.

**IV. Labour standards as a contested terrain**

Despite being enshrined in international agreements at the highest level, such as the ILO Labour Code, UN international agreements on economic, social and cultural rights, and the European Council’s Convention for the Protection of Human Rights of 1950, labour standards have remained a battleground of controversial viewpoints and diverging interests. From a historical point of view, we observe a conjuncture for labour policy. Periods of broadly favourable public opinion and support alternate with periods in which labour standards have been the subject of significant controversy. It seems that big leaps forward in advancing standards were achieved in the years following the two World Wars when, under the fresh impression of political and social catastrophe, governments
were willing to undertake greater responsibility and commitment in the area of social policy, and employers' and workers' organizations were also prepared to cooperate. Another common denominator at these points in time was the fear of communist revolutions or take-overs. The "new frontier" spirit is reflected in important enactments, both at national and international level, in labour policy in the decades following the two World Wars. The period 1919-1921 was one of intense standard-setting at the ILO, dealing with the long-standing demands by workers for the eight-hour day and the 48-hour week, and Conventions dealing with unemployment, night work by women and young persons, the minimum age for industrial employment, and the employment of women before and after confinement. Conventions 87 and 98 on the freedom of association and the right to organize and bargain collectively, perhaps the most important Conventions of all, were adopted in the aftermath of the Second World War in 1948 and 1949, respectively.

In contrast, the 1980s turned out to be a decade of limited advancement and stagnation in labour policy. Although the ILO had more member States than ever before, the rate of ratification in this period was slow, and a number of countries even denounced standards. It was a period of exacerbated international competition and increasingly global interdependence in which labour conditions and labour standards became the subject of competition as well. The sentiment was to liberalize the economies and deregulate the labour market, rather than coming up with farther-reaching international accords in labour policy that could have taken labour out of competition. At the turn of the 1990s, the demise of the COMECON world was interpreted by many as testifying to the failure of state intervention in the economy, with its accompanying regulation, and demonstrating the superiority of capitalist market-type systems. All this created hard times for progress on labour standards.

Sometimes the economic miracles in East and South-East Asia were held up as evidence that labour standards and economic dynamism are in conflict with each other. It was contended that these countries successfully withstood the adverse economic shocks of the last two decades due to the lack of normative regulation in their labour markets. In contrast, Western industrialized countries suffered from insufficient adjustment and economic sclerosis due to an over-extension of labour and social policy. While it is true that the Asian NIEs have a comparatively poor record of ratification of international labour standards and deplorable working conditions, such as long hours of work, prevail, it may also be true, as the International Metalworkers' Federation asserted, that in these countries potential investors are not encumbered with any extra production costs from social policies [IMF, 1988, p. 15]. Nevertheless, it would be too simplistic to
follow the popular stereotype and attribute the economic performance of
the Asian NIEs exclusively to brutal labour exploitation, and it would be
equally wrong to explain their success by reference to unfettered market
forces. Studies available on the Republic of Korea [Amsden, 1989], and
on Singapore [Lim, 1990] present a more differentiated picture based on
substantial state intervention, and the increasing role of welfare policy,
partly induced by worker militancy, and partly by government policy.
Downward real wage flexibility was not a major contributory factor to the
success of the Asian NIEs. In the Republic of Korea, for example, real
wage growth in manufacturing was extremely rapid, amounting to 9.3 per
cent a year between 1965 and 1984 [Amsden, ibid.]. In the period
between 1980 and 1990, real wage earnings in Korea increased nearly 100
per cent. Real wage growth amounted to 86 per cent in Thailand between
1980 and 1986, to around two-thirds in Singapore between 1980 and 1988,
and to about 53 per cent in Hong Kong over the same period. China and
Malaysia also recorded substantial real wage gains in the 1980s. This
contrasts clearly with sub-Saharan Africa, where minimum wages fell by
about one-quarter in most countries and more than 50 per cent in some
countries, and Latin America, where real minimum wages fell by about 25
per cent in the 1980s. In this decade, progress in the incidence and
importance of collective bargaining was made in the Asian NIEs, whereas
the opposite was true for Latin America and Africa [ILO, 1990]. In
addition, the Asian countries provide examples of restructuring up-market,
moving from low wage, labour-intensive lines of production to upgraded,
more value-adding and skill-intensive technologies. Such transformation
was facilitated by the rising quality of labour supply through educational
and training policies which could explain why they continued to move so
fast in spite of labour shortages and rising real wage levels [Labour and
Society, 1989; Amjad & Mohanty, 1991].

V. Conclusions

The internationalization of the economy has progressed at an acce-
lerated rate in recent decades. This is indicated by the volume of trade, the
activities of multinational companies which are capable of escaping the
control of national regulation and national public authorities, and emergent
or incipient trading blocs that aim for supranational regional integration.
The growth of foreign direct investment outpacing the growth of inter-
national trade marks a qualitative shift in the nature of internationalization
of the economy.
It is argued in this chapter that, to be effective, social organization is required on a scale commensurate with economic organization. The outreach of labour standards has to be co-extensive with the market. Given the advancing internationalization of the economy, the question is raised as to how much the existing system of setting and enforcing labour standards can contribute to channelling international competition in constructive ways. In principle, labour standards can help to guide competition in desirable directions by setting and enforcing a minimum floor, or a maximum ceiling, to pay, terms of employment, and working conditions, and also by eliciting and promoting cooperation within and between the social parties. These two effects are likely to come about if standards of participation, protection and promotion at various organizational levels combine and reinforce each other (see Chapter 2).

ILO standards are essential instruments for channelling competition at the international (and national) level. They set guidelines for national action, stimulate such action, and assist in its implementation. Most important, they stipulate basic rights for workers and employers to organize and bargain collectively, and set a code of conduct for these actors, as well as for governments. The actual effects of international labour standards remain limited, however, as powers to legislate and execute these rules are largely reserved for national authorities. In addition, the impact of ILO standards is seriously hampered by large, and increasing, cross-national disparities in productive power, real income, and wealth. This makes it impractical to impose worldwide common substantive standards, such as a common minimum wage, or minimum age for employment, or minimum safety standards. Substantive common benchmarks would be imperative to take some of the destructive competition out of the labour and product markets. Perhaps, before such common substantive standards become feasible, progress on the enforcement of procedural norms, such as freedom for trade union action, are indispensable. Obviously, there is a problem of circular, cumulative causation of weak, or suppressed, worker representation and internationally unbalanced economic development.

In view of this quandary it is not, a priori, possible to predict the impact on labour standards of intensified competition emanating from accelerated globalization. Will it trigger, as trade unions fear, the downscaling of standards, notably in countries with a well developed labour code? Will it, on the contrary, induce pressures for international cross-fertilization, not only of the hardware component of technology, but also of those social models and standards that have proved to stimulate adjustment and efficiency? A trend that is becoming apparent, for example, by the increasing importance of human resource development in many
countries of the North and the South. Or will the present upsurge of globalization soon be followed by a backlash that would reproduce national or subnational economies, and an emphasis on autocentric, rather than internationally integrated development? Whatever the outcome, it is hardly conceivable that lasting liberalization in trade will occur without progress in attaining universal labour standards.

Bibliographical references


Part IV: Conclusion
13 Labour standards, economic efficiency and development: Lessons from experience with industrial restructuring

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In the 1980s, labour institutions in general, and labour standards in particular, again began to be regarded by influential parts of the economics community and policy-makers as inimical to competition and free markets. Solutions to the economic crisis were premised on the belief that there existed a trade-off between economic growth and labour standards, or, in labour market terms, a trade-off between employment creation and high employment standards. The implication was that labour standards might have been sustainable in a climate of growth, but they had since become sources of rigidity in the face of intensified international competition, and the resulting needs of accelerated adjustment. Specific local instances of rules and regulations which were indeed outdated and rigid were held to prove the general case.

In the 1990s, this perspective has not disappeared. The spread of market economies, particularly in Central and Eastern Europe, and continued pervasive industrial restructuring in established market economies, have posed new challenges in redesigning industries, wage systems, systems of social protection and industrial relations, and systems of workforce preparedness, education and training. Without designing new institutions, many regions face the likelihood of mass migrations which would have the potential of overwhelming established systems and further impoverishing the ones left behind. Indeed, that such migrations are already occurring underscores the urgency of institutional reform. Ironically, it is the very advancement of product market liberalization which has created the greater need for strong institutions in the labour market.

Less well understood, however, is the role of labour standards in promoting competitive efficiency and sustainable economic development. Labour standards are not “luxury goods” whose consumption becomes too
costly in periods of economic turbulence and downturn, but essential supports and enabling devices for superior economic, and not just social, outcomes. The economic opportunities provided by standards are most significant in situations of industrial decline and harsh competition. In fact, it is in such situations that labour standards can make their strongest contribution because they prevent a relapse into parochial and short-term behaviour. To enable standards to play their role in critical periods they have to be built and strengthened in "good times".

This volume highlights the economic role and effect of particular labour standards that are put into play and sometimes put at risk in instances of industrial restructuring. The case studies record how standards of participation, protection, and promotion can produce congenial outcomes of such change. Equally, the cases herein demonstrate how the absence or weakness of standards is more than just socially damaging: inadequate standards can contribute to a downward spiral of economic erosion. The cases in this volume reveal what might be termed the "economics of labour standards" and, in their illustration of how standards channel economic behaviour, demonstrate several lessons learned.

Lesson 1: The socio-economic logic of standards is to accommodate interests between employers and workforces in the present and the future

Labour standards make good economic sense, even though this sense usually does not follow the logic of neoclassical textbook economics. The economic rationality of labour standards has "social" or collective origins in three respects:

(a) Labour standards reflect accumulated learning and, as such, are a sort of inter-generational pact

The particular economic rationale of a standard originates in the circumstances in which it arose. Many standards are responses to massive and pervasive social damage from market failure or uncontrolled economic behavior which become visible in the firm itself, in the wider labour market, or at a later point in time. Standards are devised as guidelines for corrective or preventive action, that could avoid damaging outcomes; and, furthermore, as instruments of encouraging and promoting more constructive and socially acceptable practices. Of course, as historically rooted instruments, some standards in some situations can become obsolete. But this is less an argument for their dismantlement than for their renewal.
(b) Standards are meant to balance interests within firms and their workforces, and between undertakings (in an industry, region, nation, or international economy)

To give an example, regulation is needed to provide for balancing the costs and benefits of vocational training to firms toward the end of producing general, portable skills in the labour market. Such skills, which today are of critical importance for the functional flexibility of firms, are unlikely to be generated in the absence of regulation. The individual firm would be reluctant to make investments for fear that the trained workers would be poached, the sunk cost of its investment thus being lost.

(c) Labour standards provide the enabling institutional setting for social investment into the future

Taking again the previous example, the investment by firms in generic labour market skills can be seen as a collective investment into the firms’ future adjustment capacity. It opens up options for all those forms of market adaptation which require high workforce quality and facilitates the exchange of skilled labour across firms in line with individual demand schedules.

Regulation which prescribes particular safety equipment for the prevention of accidents is equally an investment into future economic viability. The firms incur costs now to save costs in the future. The costs of accidents are, unlike direct costs, frequently unpredictable in volume and intangible in kind. They include loss of output, materials, equipment, staff time, management time, etc.

In general terms, then, labour standards may be seen as investments into productive resources, or the protection of productive resources, the cost and pay-off of which are spread out over a large number of competitors. Standards are enabling devices for “collective efficiencies”, which exceed the sum total of efficiency available from the purely individual behaviour of firms. In addition, standards help to create “dynamic efficiencies” because they permit and encourage investments into a future resource base, and hence into future performance potentials, which, again, each firm alone could not provide. In the past, economists such as John M. Clark spoke of “social capital”. Today, they refer to “public goods” in the labour market.

Without general regulation or collective agreement, firms are enticed, if not forced, to adopt short-term and parochial policies. They fall victim to individual opportunism (“Why should I care for the well-being of other firms?”) or individual impotence (“I would like to do more training but I cannot because the risks are too large”). They prefer to “buy” rather than
"make" skills; but if no-one is willing to engage in skill formation, then the labour market will be undersupplied with adequate human resources. The firm is also tempted, especially in periods of slack, to draw managers off from other areas, thereby diminishing the potential for revitalization of those areas.

The opportunities for generating productive resources through joint investments are virtually unlimited in kind and scope. They range from human resources, technical resources (both improving productivity), to social stability (making returns on investment more certain and predictable) to regulated conflict resolution and social peace (attracting new investment). All these resources extend, rather than restrict, the options of firms for adjustment and good performance.

Lesson 2: Judging labour standards in purely micro-economic terms is misleading

Since there is a collective and inter-temporal logic inherent in labour standards, they naturally defy an evaluation in purely micro-economic terms. The micro perspective is too narrow to capture the effects and implications of standards. Standards are not meant to maximize the efficiency of the individual enterprise, or reward short-term behaviour. Yet many of the objections levelled against labour standards on economic grounds are based on the short-term economic logic of costs and benefits of rules and regulations for the individual firm. A frequently raised charge is that standards raise the cost of adjustment for the firm, either in terms of direct outlays, or through the cumbersome and lengthy procedures to be followed when adjustments are made.

When firms are bound to pay statutory or contractually agreed minimum wages, or are obliged to observe periods of notice and provide severance payments in case of dismissal, or provide payments to public training funds, employ a certain percentage of disabled persons at equal wages, etc. — all these normative obligations indeed add to the firm’s cost bill. The firm’s competitive position could — at least temporarily — improve if it were dispersed from such costs. But would this enhance the economy as a whole? It would do so only if an identity of interest between the firm and the economy can be assumed. Yet this identity does not really exist, except in the model of the competitive market. In this model, the firm’s ambition is to eliminate other, competing firms. Without standards that constrain competition in the labour market, there is very limited scope for cooperation from which all firms could benefit, and which would raise economic opportunities beyond the level attainable individually by firms.
There is, of course, often some room for undertakings to raise labour standards individually, without a general rule or institution in place. Industrial history provides many examples of creative entrepreneurs who raised standards and were rewarded. One of the best examples is Henry Ford’s “five-dollar day” a pay standard that was much in advance of its time. Ford understood the logic of the “efficiency wage”, i.e. the surplus of motivation and the reduced turnover obtainable from better pay. He also understood that the worker was a consumer, and was aware that a higher wage boosted demand by increasing the consumption power of workers, which is needed to absorb higher output, and the higher output would in turn augment economies of scale that would permit further wage increases, etc. But not every firm owner behaves like Henry Ford. They are either not willing or not able to choose the same route. Many competitors are “passive” or “predatory”, to use the terms of Frank Wilkinson (Chapter 3). To make them “creative” on a broad front, a general floor to wages and other terms of employment is required to press firms for improvements in labour productivity and process technology, and for accepting the role of participation for the successful implementation of new production methods.

**Lesson 3: Labour standards have a role to play in creating positive externalities**

There are yet other ways in which the cost and benefit implications of labour standards cannot be fully captured at the level of the firm. During the 1980s, when existing rules and regulations in the labour market were relaxed, it was erroneously assumed that unambiguous advantages accrue at the macro level from cost savings at the micro level, as if there were no resulting cost implications arising in the economy external to the firm.

The effect of economizing on labour standards by externalizing labour costs or risks may at first seem an appealing course of action. But the short-term benefits of such a strategy may be greatly outweighed by longer-term costs, since the firm that seeks to benefit from a low labour cost strategy may in so doing limit its future strategic options, biasing these toward servicing the lower, less profitable range of the market — short-term labour cost savings with longer-term costs in lost revenue potential.

The point has already been made that the function of standards is not primarily to maximize the efficiency of the individual enterprise. But an equally important point is that the efficiency of the individual firm — and its future potential — are not necessarily maximized in the absence of standards.
A similar logic holds for economic organization beyond the level of the firm. Craypo’s description of restructuring in an American community is a case in point (Chapter 9, case 1). Following the decline of the region’s heavy manufacturing industries, failure to forecast that a well-educated and trained labour supply is the key investment incentive for attracting precisely those firms that would contribute most to the community’s tax base, South Bend pursued a strategy of advertising its low labour costs and docile unions, attracting those firms that would contribute least to the economic revival of the region — low labour-cost seekers. As there were wide differentials in earnings between the contracting and the expanding industries, shrinking consumption power and income taxes diminished the revenue base from which the public infrastructure had to be financed. This then contributed further to the paucity of local redevelopment options other than increasing low-cost employment.

In some locations today, the externalization of costs represents a more obvious risk. For example, in the transition economies of Central and Eastern Europe, redundant labour remains the major social problem. But it would seem clear that, even without a climate of robust market demand, converting redundant workers into massive ranks of unemployed would be a solution laced with problems. This is part of the reason why, according to Bosch, “employment plans” which preserve the link to internal labour markets for redundant workers in eastern Germany, rather than shedding these into the external labour market, are gaining in everyone’s estimation — employers, trade unions, and the government alike (Chapter 7).

The decline of the Swedish shipbuilding industry resulted in the displacement, during the 1980s, of 25,000 employees. Heseler and Strath (Chapter 8) show, however, that, through planning for the decline, displaced employees were effectively retrained and redeployed in other industrial contexts, including emerging ones. Involuntary unemployment was kept to a bare minimum. This was a process that required long-range, strategic planning, an upfront investment of funds, the participation of all involved, and the motivation through employment and income security of the workers at risk. The planned restructuring was undoubtedly costly. However, it is arguable that the passive externalization of costs and resulting high unemployment would not necessarily have been the less expensive alternative.

In short, the broader labour market effects of short-term, micro-level decisions can overwhelm any benefits derived from those decisions. In this sense, the decisions by individual firms to attempt to improve their competitiveness by externalizing some of their costs can sometimes have beneficial effects but can also have the paradoxical effect of creating new cost burdens for the firm. Recognition of the latent consequences of cost
externalization has shaped the evolution of environmental policies. And the arguments ought to apply equally well to social policies. At first, the pollution of the environment was considered an output of industrial processes, the costs of which were not borne by the polluting firms. Only gradually have policies evolved that aim toward the "internalization" of environmental costs. As Sengenberger notes in Chapter 1: "Industrial restructuring poses essentially the same type of problem. It requires resources and produces waste which can be handled either by dumping, or through recycling and preventive measures. The first places the costs and risks on others — be it other economies or future generations — which may entail protracted and incalculable consequences." The latter enforces a more socially responsible attitude and encourages indigenous solutions.

**Lesson 4: The economic benefits of standards are often difficult to trace**

One reason why labour standards are seen as (too) costly can be explained by the fact that while their costs are mostly direct, easily visible, measurable, immediate, and localized, many benefits have the opposite features: they are indirect, hidden, intangible and difficult or impossible to measure, delayed, and non-local. It is only when, in the absence of standards or through violation of standards, damage is inflicted on firms, workers or the larger society, that the nature and extent of labour standards, or rather the lack of them, comes to the surface.

For example, the expenses for the employer of protecting workers from injury or disease at work, and the outlays by the government in providing inspection and expertise, can be relatively well quantified. The cost of caring for and replacing injured workers, which may be equally high or higher, are still fairly transparent and amenable to measurement. But it is more difficult to trace and price the lost productivity, purchasing power and tax income for the state that follows from insufficient occupational safety and health. In addition, the terribly costly industrial accidents of recent years — oil spills or other maritime disasters, chemical leaks and atomic power plant disasters among others — are, in the last analysis, almost all failures of human resource management procedures and standards, viz. training and safety and health standards. Saving a few dollars on proper protection in Bhopal has cost Union Carbide many million dollars in compensation and lost business [Sweepston, 1989].

Another relevant set of examples comes from the economic literature on discrimination. Evolving and implementing equal employment opportunity policies can be both costly and disruptive of entrenched but discr-
minatory occupational patterns. Against these costs, however, must be placed the economic benefits of non-discrimination. Discrimination on the basis of sex or race is, after all, a distortion for which the penalty is not just social, but also economic, as measured by the under-utilization of human resources, resulting mismatches in labour supply and demand, and the penalties of economic inefficiency and bottlenecks to economic growth. These outcomes are well established in the macro-economic literature on occupational discrimination against women and, indeed, on the economic effects of the “colour bar” under apartheid in South Africa.

To our knowledge, there are hardly any studies available that have attempted to account as fully as possible for the variety and dispersion of costs of industrial disease, or other failures of setting or implementing labour standards. More efforts in this area could get the “balance” in accounting for the costs and benefits right, and enhance their chances for adoption and implementation.

Yet, even when it is obvious that standards meet the economic test of costs and benefits, they may not have much of a chance because of insufficient political support. Lee Swepston [1989, p. 10] points to the fact that ministries of labour which are often charged with the setting and monitoring of labour standards, tend to have very low status in government hierarchies. This holds especially true, but not solely so, for developing countries, where labour inspectors are often among the first to go when public budgets are cut.

**Lesson 5: Labour standards act as rules for the spheres of competition**

The impact of labour standards cannot be meaningfully evaluated apart from their coverage of the labour market — the scope of their delivery system, so to speak. If we think of labour standards as the “rules” themselves, and of the extent of their coverage as the “boundaries” within which the rules apply, the most appropriate analogy to the role of labour standards in the economic sphere of competition is with the role of rules in an athletic contest. In any sport, there are rules shared by participants and boundaries within which such rules are applied. Significantly, player strategies and behaviours are shaped not only by the rules of the game, but the boundaries of the game as well. The conduct of the game is judged not only by whether the rules are observed, but also whether the action occurs within bounds or out of bounds.

So with economic competition, it is not just the labour standards that matter, but whether all competitors are bound by such standards. When
labour standards are understood to be the actual levels of wages and working conditions attained by a group of employees, or a particular structure and scope of employee representation, it is quite clear that there is an implicit (and non-universal) jurisdiction or boundary within which these particular labour market rules apply. Within such a jurisdiction, if wages are set at a given minimum threshold, the strategies of the competitors bound by this rule, and the source of their competitive advantage, must be other than labour-cost competition. Labour is also to a certain degree shielded from competitive risk if the rule were, say, employment security within a particular competitive jurisdiction.

The broader boundaries or jurisdictions are, the less likely it is that labour becomes the primary buffer for absorbing a decline in the market. For example, labour’s share in the cost of adjustment in the German and Swedish shipbuilding industry was less great than it could have been as, in each country, the boundary firmly established that the problem of restructuring be addressed at an industry-wide, rather than merely company-wide level. To the extent that industry-wide rules imposed penalties on certain adjustment paths, such as shedding labour into the external labour market, that might otherwise have been selected by individual companies, other behaviours are induced, such as the search for ways in which an existing labour force could be redeployed.

Although in both cases above the passive strategy of subsidized early retirement was also deployed, the main strategy was to retain and protect the displaced workers’ attachment to the labour market while promoting retraining and “reinsertion” into new companies and industries. As Heseler and Strath comment: “Adjustment and modernization of crisis-prone sectors are not to be prevented through employment plans, employment companies or development companies; rather, they are to be tackled by the companies and employees concerned themselves through expansion of alternative production, diversification and further qualification” (Chapter 8). In other words, strong labour standards applying within the boundary of a relevant labour and product market can alleviate some of the burden of adjustment from being borne by labour and direct it instead toward the product market. In a best-case scenario, product innovation and local economic revitalization can result.

The manifold problems and costs of industrial restructuring can reach critical proportions when the industry in decline is the dominant one in a region. The loss of income and jobs can have the multiplier effect of triggering a downward spiral of regional economic decline. As Méhaut and Villeval found in their study of the iron and steel industry in Lorraine: “The combination of general minimum standards that have remained more or less intact (minimum wage, social protection) and specific standards,
based on the previous ones and introduced to support the reconversion process, seem in general terms to have helped to avert a recessionary spiral that would have made the region a wasteland and its inhabitants paupers" (Chapter 9, case 3).

The approach taken in Lorraine helped to avoid the thorough collapse of regional demand, and this outcome would have arguably not prevailed had the particular set of adjustment tools not been broadly applied at the regional level. While the secular decline of an industrial monoculture poses the greatest challenge for regional economic policy, there are examples of entire economic areas being “repositioned” in international markets through an “upstream” or, in a sense, preventive or anticipatory use of labour standards as, for example, in Singapore’s efforts to induce higher value-added production in the early 1980s through a sharp increase in the minimum wage [Lim, 1990].

Lesson 6: Market expansion places an adjustment burden on labour standards

The decline in the early 1980s of the domestic rubber tyre industry in the United States is a good illustration of the break-up of “pattern bargaining”, an informal, inter-firm mechanism of labour-market regulation, within which a particular set of labour standards applied in essence shrunk to the lowest possible competitive unit, that of the plant. Individual plants within the same company found themselves competing against one another to “give back” wages and standards of work in a desperate gamble (or “prisoner’s dilemma”) to avoid complete closure [Cappelli, 1983]. In the event, most closed anyway, despite the downward adjustment in labour costs. Labour standards are most at risk when completely uninsulated from market forces. The sphere or boundary within which a given set of labour market rules apply has traditionally provided that insulation.

The American tyre industry story is a microcosm of the larger dilemma facing labour standards. For standards to fulfil their economic function of channelling competition onto product markets, all competitors within the same product market must be bound by them. This is so as standards are vulnerable to being undercut by the short-term gains of competitors that escape their constraints. As has been argued throughout this volume, such gains are indeed likely to be short-term, as the costs of such short-cuts begin to surface in the wider economy and within the firm itself. This, however, is not the point, for even knowledge of the longer-term risks of declining labour standards is not enough to stave off their decline when penalties must be paid in the short term. In an era of globa-
zation, the congruity of labour market rules and product-market boundaries is less likely than ever to occur, and the risk of a series of short-term downward adjustments affecting entire economies is particularly great.

It is not axiomatic, however, that the boundaries in which labour standards were once fixed, and which may now be shifting, result in a decline in standards. Were this so, the trend toward global economic integration must imply a decline in overall labour standards. This is not a necessary outcome, although the risks are greater in the present conjuncture of intense, cross-border competition and relatively slow global growth. What appears most sustainable is the notion that any system of labour standards (whether within the firm, the region, the nation) is in increasingly greater interaction with other systems. Or, in other words, the rules made by relationships among labour, management, and the State were once more autonomous but are now interdependent with the greater integration of economic activities across borders.

As the world economy needs to avoid the two extremes of rising protectionism or of downward competitive spirals sacrificing labour standards, two notional policy directions (which are not necessarily mutually exclusive) are conceivable. One would widen the boundary of labour standards to match the scope of international competition through, for example, the inclusion of a "social clause" in the General Agreement on Tariffs and Trade (GATT). The other deals differently with the disparity between the market and regulatory spheres, and emphasizes those policy levers still at the disposal of "local" actors in an open world economy. These, in particular, involve the role of labour standards in generating the appropriate social infrastructure in which "created" competitive assets, such as workforce quality and labour-management (as well as inter-firm) cooperation can be nurtured. For example, Capecchi's discussion of the dynamic regulatory framework of entrepreneurial growth in Emilia-Romagna offers an excellent illustration of the institutional bases of a high-performance labour-market system (Chapter 9, case 4). In the future, the search for systems that combine high quality labour-market performance with the capacity to adjust rapidly to changing product markets will be widespread.

Lesson 7: Labour standards interact and mutually reinforce each other

For the purpose of identifying and assessing the impact of labour standards on restructuring, we have distinguished three types of standards, those of protection, participation, and promotion. These are not inde-
pependent of one another but, on the contrary, are interactive. The cases in this volume showed that where one is highly developed, so are they all. Conversely, the absence of one typically implied the absence or at least dysfunction of the others. When all are present and highly developed, the solution to industrial restructuring has typically been truly tripartite in nature, involving the active roles of the state, trade unions and other organs of employee representation, and the firms or employer representatives. In such situations, the standards have been guaranteed of broad coverage in the labour market, from the lowest to the highest levels of economic organization.

Interactive links apply not only to the standards themselves but crucially depend on the system through which they are delivered. As part of the broader framework of social institutions, industrial relations systems are a primary vehicle for setting, adjusting, and implementing labour standards. The function of industrial relations systems can thus be thought of as the social regulation of competition. They determine economic behaviours by channelling the scope and content of decision-making, setting the parameters on which actions are possible and which ones are not. In so doing, they determine economic outcomes. Consider once again, for example, the transition out of shipbuilding in Sweden (Chapter 8). The standards of greatest importance in the restructuring were, in brief:

(a) income and employment security, effected by a policy of occupational retraining and redeployment;

(b) the above, “active” labour market policy measures were supported by transfer payments from the State (and, indeed, a takeover by the State of the declining firms);

(c) a high level of tripartite participation in designing the transition and accompanying product market strategies from the lowest levels of representation to the highest (i.e. national) level.

The story would remain incomplete, however, without reference to aspects of the industrial relations system through which the standards were implemented. Of particular note appear to have been:

(a) the fact that worker acceptance of and commitment to change were furthered by an extremely effective vertical articulation of participation from the shopfloor to the national level;

(b) the strong, productivity-improvement bias of Swedish unions make them “pro-change”, but this bias is clearly supported by strong employment security, backed by active labour market policy, and a broad trade union structure that pre-empts job-protection strategies;
(c) strong employment security and participation (e.g. access to information, negotiation rights over investment and product-market strategies, etc.) are guaranteed by the State through its labour laws and financial policies;

(d) the broad and centralized structure of trade unions compels bargainers to internalize the impact of wage claims on employment at both micro- and macro-levels and constitutes a built-in bias for employment over fragmented wage gains.

The structure of institutions and relationships among them shape economic outcomes. In Chapter 7, for example, Bosch observes that the industrial structure of German unions was a critical determinant in gaining worker acceptance of an overall strategy of retraining. Capecci, in Chapter 9, case 4, comments that the encompassing regional structure of Italian unions in Emilia-Romagna, and their close, cooperative relations with entrepreneurs, greatly facilitate flexibility in the inter-firm labour market. In short, successful systems are characterized not just by the content or substance of their rules, but by the structures through which the rules of substance and procedure interact dynamically.

The foregoing chapters have marshalled both argument and evidence in showing how well-functioning systems of labour standards improve the economic outcome of competitive adjustment. Unemployment in today’s world, however, is the highest it has been since before the Second World War, competition is intense and change is rapid. It would be unrealistic to assume that situations never exist in which some “standards”, in the sense of levels of wages or working conditions actually attained, could be adjusted downward for the sake of securing employment. There are two points to be made here, however. First of all, as was observed in Chapters 1 and 6, there is a distinction to be made between standards as particular levels that wages or working conditions may have attained depending upon economic circumstances, and labour standards understood as norms of behaviour or rights of employees. The former are substantive and specific, while the latter are general or universal and always relevant to the regulation of economic activity. It is the challenges to the latter that is the true theme of the present volume, and the effort has been to challenge the assumptions of neoclassical theory which tend to view such standards as “distortions” of labour market performance. As Freeman comments, and as the present volume has also repeatedly endeavoured to show, the point is not that systems of labour standards “distort” performance per se, and thus that their absence would be presumptively better: “If the Uruguayan social security retirement system is the economic disaster that is often claimed, the lesson [that the ‘distortionist’ viewpoint should draw] is not
that social security systems are bad, but rather that systems should not be
developed along Uruguayan lines" [Freeman, 1992, p. 22].

The second point relates directly to those contexts in which, for
example, it has been argued that wages have been set too high to sustain
a given level of employment. Cases in the foregoing chapters sought first
of all to illustrate that such a trade-off calculus is too narrowly framed, as
downward wage flexibility has a much more ambiguous effect on employ-
ment preservation or creation. This is so as the function of the wage is not
merely to "clear" the labour market; within the firm, "high" wages
provide a goal for more professional management and more efficient
production in the same sense that higher fuel prices induce innovation in
the design of more fuel-efficient engines, whereas, outside the firm, the
principal role of wages is to sustain demand in the local economy. That
being said, consider the firm whose business environment seems to call for
an immediate and substantial reduction in its costs, and a solution in the
short term is needed. Current income could be traded off toward the end
of preserving jobs, as was the recent outcome of negotiations at
Volkswagen in Germany. There, in view of an estimated excess workforce
of 30,000 out of a total workforce of 103,000, the company and the metal-
workers' union, IG Metall, negotiated an agreement which provided a
reduction of the regular working hours by 20 per cent to 28.8 per week,
while workers gave up about 18 per cent of their current annual income.

Recalling the distinction above in the definition of standards, this is
not an example of their erosion, but of their capability to adjust, all the
while channelling some outcomes in preference to others. Harsh economic
realities may sometimes require adjustments particularly in the substance
of wages or working conditions. In such instances, the procedural rules of
a well-functioning system of labour standards, those relating to employee
participation foremost among them, have a critical role to play. Although
wages may be traded off for the greater imperative of employment
security, there is no plausible rationale for poor economic conditions
requiring a loosening or weakening of standards of participation. Quite the
opposite — a strengthening of participation — makes better sense.

It may be noted, moreover, that the success of increasing employment
by lowering the wage level is not a certainty. Winning a competitive
advantage in this way will be doomed to failure if the competitors choose
to follow suit and lower their wages as well. Such a reaction is more
likely, the more the economy is internationally integrated. The result would
be lower labour standards everywhere without a lifting of the employment
level. In this sense, it could be argued that the Volkswagen agreement
seeks to build in a safeguard against triggering a downward wage spiral:
the decline in current income is to be attained through the curtailment of
a variety of bonus payments rather than by lowering wage rates. In this way, the flexibility of compensation would appear to be designed to play the same employment-stabilizing role that it does in large Japanese firms.

Lesson 8: Inadequate standards entail a vicious cycle of economic erosion

There can be risks attached to the downward adjustment of substantive standards, since the adjustment may result in an encroachment into other standards entailing cumulative economic aggravation in the firm, industry, or region. This eventuality follows from the observation that standards are important not just in themselves, or for their independent significance, but also for their systemic placement and function.

Cumulative economic erosion often starts with concessions made in wage levels or fringe benefits. By making temporary or permanent cuts it may be expected that this would make firms more competitive, enable them to “weather” a particularly bad business environment with greater employment stability, or allow them to amass the capital needed for rationalization and modernization. While this expectation may be fulfilled, often it fails to materialize. The reason is that lower wage levels can also have the effect of removing the incentives for management of taking initiatives for greater efficiency. As a result, wages fall farther behind, and the lack of modernization of production keeps demand in the local capital goods industry at a low level. Together with the absence of real wage improvement, this lets the local consumption power and the local tax base shrink, thereby diminishing the business of the local service sector and the potential for public investment into the local physical infrastructure. In the aggregate, these consequences make the locality a less attractive place for living and working, provoking the probability of further decline.

While the lack of labour standards can instigate vicious economic cycles, the presence of standards can set virtuous cycles in motion, build on a combination of wage improvement, consumption power and increased local demand; or improved human resources, higher productivity, a wider range of options of adjustment, higher competitiveness; or improved safety and health, less human waste, a lower bill for social security, more revenue available to be spent on productive investment rather than on remedial expenditure, and so forth.
Lesson 9: Labour standards force a rethinking of internal and external labour markets

In a worst-case scenario of industrial restructuring, firms and whole industries shed jobs into the external labour market precipitously, with little preparation for the individuals concerned, little financial or material assistance, even after the fact, by state agencies and, finally, with few opportunities for the displaced employee, whether because his qualifications do not match those sought in the local labour market or, worse still, the local labour market happens to have been dominated by the firm or industry in decline, a typical case in the steel or shipbuilding industries or in textiles. In these cases, industrial decline equates with general economic decline in the community concerned.

Simple, sole reliance on the external labour market as an adjustment buffer is, of course, an extreme example. In many countries, most notably in the "social market" economies of Europe, the social regulation of competition and associated controls on the scope of unilateral behaviour by firms are quite institutionalized. One outcome of this is to tip the balance of adjustment strategies, at least in an initial phase, toward internal labour-market solutions, (e.g. retraining, redeployment, short-time working in lieu of separation, etc.). In market economies, if society through its institutions (viz. the State, trade unions, works councils, etc.) seeks to put in place behavioural constraints on firms' decision-making, it must also be prepared to offer firms assistance in their socially defined objective of employment stability. Such assistance (through various types of promotional standards) can take many forms. In Chapter 5, for example, Reissert evaluates the different types of transfer payments and their effect on the stabilization of regional demand.

The political framework of assistance to firms in difficulty can range from promotion to protection. Such assistance, however, is to be distinguished from full-blown protectionism; in practice, it may occasionally be difficult to draw the line between the two, but, in theory, the difference is great. For example, promotional standards aim at encouraging adjustment through various forms of assistance in attenuating the costs and risks of adjustment. On the contrary, protectionism aims at (or at least results in) maintenance of the status quo beyond any likelihood of economic sustainability. The end result may not merely be to have prolonged but also, in so doing, to have exacerbated an economic crisis. As shown throughout this book, successful promotion and protection foster solutions that halt or contain downward economic spirals.

The cases in this volume bear directly or indirectly on the boundary between internal and external labour markets. In both philosophical and
policy terms, the question that arises is the extent to which the individual can and ought to be protected at that boundary. In the United States, it is fair to say that the individual (whether person or individual firm) bears a greater portion of the adjustment costs of change than in many of the European examples discussed. The difference undoubtedly has much to do with differing conceptions of the individual vis-a-vis the State, the sources and appropriate uses of regulation, etc. Although well short of a philosophical argument, the cases in this volume tend in an empirical way to show the limits of labour’s geographical mobility as an efficient market-clearing mechanism.

Geographical mobility is frequently an important adjustment path, and one sometimes desired by individuals for whom the local labour market is perceived as holding little opportunity. As part of an overall strategy for industrial restructuring, governments (or private actors) can facilitate relocation through, for example, the provision of labour market information or the subsidization of relocation costs. With the experience of mass dismissals in the 1980s and 1990s, however, the mechanism of geographical mobility has been under severe strain. In the steelmaking regions of Lorraine, for example, the 1980s saw an outflow of job seekers and typically these were the young and most skilled. Left behind was a population of older persons with an increased demand for accompanying social services that the region, as a result of depopulation, was less able to afford.

In the 1990s, there is a compelling pragmatic reason against relying on labour markets to clear through geographical mobility resulting from the sheer scale of industrial restructuring in the post-socialist countries of Central and Eastern Europe. It is a situation whose potential recalls earlier waves of migration. For example, within a matter of two or three decades in the late nineteenth century, a prolonged economic crisis in Ireland resulted in the emigration to the United States of over half the entire population.

Several of the chapters in this volume illustrate innovative strategies for bridging the transition from lost employment to re-employment. Particularly in instances of massive regional dislocation, such strategies can contribute to: (1) the prevention of long-term unemployment and the erosion of human capital; (2) the stabilization of regional demand, thereby preventing one region’s “desertification” from overburdening other regions’ economies; and (3) the fostering of innovation in the product market, be it through company-internal policies of reconversion, diversification, or upgrading of the product programme, or the firm-external provision of technical services, R&D, product design, marketing, and other producer services.
Lesson 10: Though institutions and solutions are not directly replicable, there is vast scope for mutual learning

Policies and institutions are always contextually embedded. Innovations in each, even when these can arguably said to be breakthroughs or significant departures from the past, are never free from their status as cultural and historical artifacts, distinctive of the place and point of time in which they are shaped. The shipbuilding crisis in Sweden was resolved in a distinctively Swedish fashion and, indeed, at a particular moment in time. (In fact, it is probable that the current “crisis” of the Swedish model is likely to be resolved through some sort of renewal of the corporatist institutional relations characteristic of that society.) Capecchi’s institutional analysis of Emilia-Romagna is deliberately placed within a historical context, highlighting its uniqueness. The national accord experimented in Australia would be hard to conceive of in many countries.

More than policy conclusions of a general significance might be drawn from these case studies, however, for the question of institutional transferability is implied in their accounts. For a start, the matter of institutional borrowing is one of open debate at present. In the European Community, for example, the construction of social institutions and a European Social Policy has been a chief policy concern ever since the political decision was taken to promote cross-border economic integration. The question of institutional design is of even greater breadth and urgency in the “marketizing” economies of Central and Eastern Europe, as well as in many developing countries in which experience with political democracy is still young. The scope today of deliberate institutional change is quite simply unprecedented, dwarfing past periods in which social and economic institutions were transformed, as occurred, for example, in post-war Europe and Japan.

While a marked transformation in political regimes affects many countries in the world, more embracing still are the processes of economic globalization. The dissolution of borders to trade, investment, and factor mobility necessarily alters existing institutions and outcomes with or without deliberate policy response. As in 1919 or 1945, the present scope of change is of epochal proportions: institutional renewal has become a prime policy focus everywhere, and the time may be ripe for boldness and innovation. Moreover, as the world’s economy grows more interdependent, and as competitive advantage becomes more based on the quality of assets that can be “created” — such as a well-educated, trained, motivated workforce — rather than those merely found in the natural environment, distinctive social models of competition become key ingredients of economic dynamism.
The central issue raised in the foregoing cases, but by no means resolved by them, is how working and earning under different rules in different parts of the globe will adjust to growing economic interdependence. Despite decades of experience with international labour standards, policy work relating the role of standards to sustainable growth in the international economy remains in its infancy. The International Labour Code itself, a historical accumulation of still relevant rules of substance and procedure, is too little considered in a properly systemic fashion. What could be the features of a true system of international labour standards? At the very least, the rising importance of some notion of an international system of labour standards seems to follow inexorably from the foregoing elements of an economics of labour standards. A systemic or interactive analysis of labour standards thus seems a rich target for comparative research in an era of globalization and the spread of democratic political systems.

**Bibliographical references**


