

## Full Employment and Social Policies : A European Lesson

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Finally, it is quite surprising that a study characterized by these and other methodological limitations can produce such intriguing, and indeed, credible recommendations for improving construction labour relations. It will be interesting to observe whether labour, management and the government will be able to transform these proposals into a course of action.

## **FULL EMPLOYMENT AND SOCIAL POLICIES: A EUROPEAN LESSON?**

Klaus WEIERMAIR

Most industrialized European countries have, over the past decade, shown an appreciably better performance of their labour markets than the U.S. or Canada when measured in such terms as rates of unemployment. Even at times of recession such as prevailing at the present, the unemployment rates on an annual basis rarely climb over 3-4%. At the same time, many of these countries, but notably Sweden and West-Germany, have experienced almost an explosion of social reforms and labour market interventions of one kind or another, which orthodox economists in this country would condemn as socialist, inflationary and of questionable impact to the efficient operation of labour markets.

It is difficult, if not even impossible, to exactly evaluate and compare the efficiency and efficacy of labour market policies across such countries as the U.S., Canada, Sweden or West-Germany due to the inherent differences in production and labour market conditions, different patterns of growth and international trade. Nevertheless, it is possible and certainly useful to describe and analyze basic philosophical differences of labour market policies with respect to the development and adjustment of manpower in a complex and dynamically changing economic environment.

The problem of the right philosophy or if you want the right policy for interventions in the labour market is predetermined by the way in which one perceives of and analyzes such problems. Before discussing what Europeans undertake to bring their labour markets into order, let me, therefore, postulate and explain why labour markets may not function properly in advanced economies, in the first place.

— Modern economies are dominated by large structural changes which have such an enormous repercussion on labour markets that interventions will become necessary sooner or later.

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- This is even more apparent, for instance in an environment where entrepreneurs have short-run perspectives of labour markets and lack the initiative and/or expertise to plan for their human resources within a longer range planning framework.
- The educational system adapts to the changing needs of the employment sector only very slowly and with destabilizing lags.
- Labour unions very often too, only consider short-term or momentary gains as i.e. large wage increases and ignore the various implications that this will have on present and future employment.
- The free interplay of market forces in a growing economy may work against certain types of labour such as the elderly, the inexperienced youth or the very unqualified; there may be a built-in bias against a marginal group of the labour force, which, if sustained, will lead into a vicious circle of unemployment problems for this category of workers.

Let us have a closer look at these contentions. That structural changes are with us when we observe how new products are being introduced at an ever increasing rate and when due to the rising relative costs of labour rationalization of production processes continues, needs no further elaboration. What very often is considered to a lesser degree or even ignored are the implications of such technical changes on the structure of jobs and qualifications and how this, in turn, feeds back into the supply of labour, education and training as the main sources regulating the quality of the labour supply. In the past, increased mechanization and automation have led to the formation of a large number of unskilled and semi-skilled jobs, which at best only require some very narrow and firm, specific, on-the-job training. Whether you call this phenomenon the creation of an industrial reserve army, secondary labour markets or simply the market for people with very low skills and qualifications does not really matter. What matters is the role and function of this labour market segment vis-a-vis the production system under various conditions of technical change and economic growth. Under favourable conditions and with the appropriate policies, this group can represent a very mobile labour force, which can easily be retrained for and transferred into jobs and occupations, if both the individual involved and the employing firm have the motivation to undertake such adjustments in the face of technological changes. On the other hand, it is conceivable, that the same process of technical change may make this segment a marginal labour force, which is drawn into employment under favourable conditions of growth and tight labour markets and released if opposite conditions prevail. If the latter process corroborates with lack of training and development interests by firms, other training institutions or by society at large and if the social and economic conditions of this group feed on to the next generation's motivations and attitudes, we indirectly help create an underprivileged proletariat. Quite apart from the political problems a large and growing proletariat implies a number of social and economic costs such as declining work morale and job satisfaction, lack of motivation and

initiatives for further training, development and upward mobility, and development of unstable work behaviour. If, at this point, industrialization has progressed so far without any social restraint, labour market interventions will do little to change the situation of such a hard-core, marginal labour force, unemployment, population. Most re-training, up-grading or otherwise labelled programmes for this group will produce little success. While the latter scenario comes close to the developments in the U.S., the former process could describe the development and adjustment of manpower, over the past twenty years, in such countries as Germany, Sweden or Japan. Part of this success I will argue later, was achieved by the steady development of anticipatory and more forward looking policies, which through a variety of measures have put pressure on employers, unions and governments to be more concerned with the long-term development of employment rather than to react and often over-react to short-run market situations.

That, a few exceptions aside, management is overly concerned with short-run personnel problems and that it reacts to momentary demand and supply conditions in the labour market rather than to its long-run development is not only documented by the lack of long-run manpower planning activities found in most firms, but also demonstrated by the cyclical i.e. short-run behaviour of training offerings in the private sector as well as by industry's notoriously sparse efforts to conceive of and plan for alternative work-environments and -organizations which would match the changing qualifications, expectations and attitudes of the younger generation entering the labour force.

Schools, universities and other public institutions of learning, if left by themselves, unfortunately don't seem to develop in congruity with the employment sector and its evolving educational requirements either. Observed and continuing structural imbalances between the markets for education and labour can probably be reduced to two causes. For once, just like any other bureaucracy, educational institutions develop a certain amount of autonomy and consequently follow market signals only in a muted and indirect way. Anybody in school administration who ever faced the difficulties of reducing faculty in fields where demand had vanished, would agree with this statement. Secondly, due to the long gestation period in the production of certain types of skills and the imperfect predictability of future manpower requirements, the educational system may under or overproduce. Many may remember the boom in the enrolment of engineering students in the U.S. and Canada during the early days of the space race and the employment problems that this occupation faced a decade later, when demand had been drastically curtailed. With respect to balancing the markets for highly skilled manpower, Europeans have not found, as yet, a solution either. On the other hand, they have developed some interesting reforms with respect to secondary education, particularly vocational education and training.

While labour unions differ in their social philosophies and engagement, it is probably fair to say, that the typical North-American labour union tries to maximize short-run gains for its members i.e.

wages and fringe benefits ignoring possible short-and long-run employment effects. Labour unions while paying some lip service to national economic and social objectives still behave very much like an interest group which acts within a very narrowly defined field of social responsibility. The situation is radically different in such countries as Sweden or Germany, where labour unions in the past have actively participated in the national decision-making process providing at many times, proposals, which have gone far beyond their narrow group interests. They can be considered a fully integrated political force, which is willing to share social responsibilities. The recent wage settlements of 6-7% in West-Germany in the face of a recession, while unions here are asking up to 40% and more must be viewed in the light of this observation.

Even under conditions of high and rapid growth, economies tend to produce a fringe of labour which is hard to absorb into employment. During the sixties this marginal group of hard-to-employ workers was considered as one of the prices to be paid for efficiency and growth. The philosophy then was: «Let the economy expand as best as she can; help her with stabilizing measures à la Keynes and support those who do not quite make it with unemployment and welfare payments.» As growth fell, and unemployment and inflation continued to rise, unemployment became a very expensive price indeed and some doubts about the validity of the Keynesian doctrine of creating demand and providing unemployment payments arose. Many European countries began to switch somewhat from employment to social policies, with the intention to mobilize the employment potential of this marginal labour force. This also meant a move towards more active and forward oriented social and labour market policies. The transition was further facilitated by two other factors. Watching the developments very closely in North America, Europeans calculated by the nature of economic growth they will have, in a few years, a similar technological structure and living standard which the U.S. has now. While everyone would welcome higher living standards, only very few would accept the socio-economic ills, particularly high rates of structural unemployment, which, to them seemed a by-product of this process. The paranoia of possibly stepping into the same development as the U.S., has stimulated enormous efforts to counteract such potential problems early and if necessary, with large and costly reforms. The second factor which may be considered to be more of a psychological nature, stems from the greater appreciation of planning and planning techniques which no longer are being considered as a diabolic device on the road to central planning. Industrialists and bureaucrats alike have torn down ideological barriers or prejudices in this regard and taken a more pragmatic approach. The fact that socialist governments in both Sweden and West Germany have in the past demonstrated that they can successfully manage economies without necessarily nationalizing may have undermined this process of thinking.

Let us then look at some of the distinguishing features of European social and economic policies in the field of labour in order to see in

which way they may be considered solutions towards the reduction of unemployment and labour problems in the future.

Among the larger reforms in West-Germany with both social and economic perspectives, one has to count the development of a new education system at the secondary level, which introduces perfect flexibility of movement between various streams of education and which will achieve a full integration of vocational education with all other types of general education in terms of curricula and admissions. Vocational training at the industry level, is separately regulated through minimum quality standards which recently have been raised. Industrial training is going to be financed out of a training levy which will be collected from all firms. These measures were complemented by the earlier new labour promotion laws, which, among other things specify the training and retraining of all those workers, who would like to receive vocational training in a new field and who do not receive training elsewhere. The whole package of regulations guiding the development of education and training at this level is supposed to:

- provide a larger general base of education and training for more workers, thereby facilitating job and occupational shifts and necessary retraining in the future
- raise the quantity and quality of training in industry and through the new financial scheme guarantee the provision of general-type training which otherwise might have not been undertaken since it was unprofitable for firms
- allow people to undergo training and change occupation before they actually become unemployed
- abolish discriminations of educational opportunities
- induce a gradual shift from traditional forms of unqualified assembly line work, to work organizations, which better match the newly created structure of higher qualifications and higher expectations.

All these efforts to develop an occupationally flexible and hence more elastic labour supply while raising at the same time the human capital intensity of the labour force are to be complemented by increased job and occupational counselling activities, improved labour market information systems with computerized, easily accessible vacancy recordings (i.e. on line data in shopping centers) and particularized measures to move labour and/or capital in and out of regions. The necessary information inputs will largely come from a newly created institute for occupation research, which collects such data as career patterns of workers, occupational mobility indices or figures on changing qualification structures for particular occupations. While in West-Germany many of these programmes have only been introduced recently or are in the process of implementation, Sweden had incorporated similar ones already in the late sixties. Beyond that the Swedish labour board disposes of relatively large funds collected as reserves during prosperous times, which it can use during recessions to fight unem-

ployment through anticyclical adult education or through direct employment creation. In both Sweden and West-Germany the battery of regulations, measures and institutional frameworks which had to be worked out to result in a coherent and anticipatory labour market policy were achieved with the cooperation and consensus of labour unions, employer or industry associations and the government.

Specific labour regulations at the firms level on the other hand are mainly aimed at constraining employers in such ways that they are forced to make longer-term employment decisions or at least consider all social and economic implication of long-run personnel decisions. Some of these measures are simply incentives such as subsidies for the employment, training and retraining of marginal labour, others are handed down in the form of legal statutes with no or little enforcement mechanisms. The German law that every company has to engage in long-term manpower planning would be such a case in point. The law is actually only checked when companies engage in massive lay-offs and transfers which they cannot do without providing such long-term personnel plans. Along the same lines companies have to produce information on long-term manpower plans upon the request from work councils, as specified in the worker co-determination laws. The last category are measures which are usually enforced more rigorously, such as the rationalization agreements worked out between unions and management in a number of industries. These specify rules for giving notice, which upon circumstances can be up to a full year, termination allowances, occupational and re-training procedures and financing etc. Similarly, firms are held to employ a certain number of rehabilitated persons and can only bail out against a penalty.

This brief and by no means complete description of typical social and economic measures on the industrial relation scene suffice to portray their philosophy. Employers are asked to more equally share the social and economic responsibilities in connection with long-run employment and are being induced to plan for their human resources within a longer planning horizon. Personnel planning is to be arranged as an open and rational decision making process in which unions and governments provide important inputs.

Generally speaking, in such countries as Sweden or Germany these ideas have worked quite well. Despite differences in interest the co-operation between unions and management can be considered good. For the solution of contentious issues of larger significance such as i.e. the financing of training in industry, the introduction of an educational leave or the change in working conditions numerous seminars, workshops and expert commissions lay the ground for a more rational and less antagonistic decision making process. Certainly without such an institutional framework experiments on assembly line changes such as Volvo and Scania introduced recently, in Sweden, would not have been possible. The mere fact that between 1961 and 1971 approximately 40% of the West-German labour force was displaced by productivity growth but successfully reintegrated without unemployment

difficulties can be taken as another positive indicator. The large structural changes which Europeans expect in the future due to further international specialization, policy makers hope to counter-act with the newly established reforms on education and training.

Are there any lessons to be learned? I would give an affirmative answer and suggest to consider the following themes for Canada:

- A greater concern for structural changes and concomittant manpower adjustment policies connected with the long-run development of the Canadian labour force both at the government and the firm level.
- A more pragmatic approach in the choice of policies and planning techniques to satisfy this goal.
- Cooperation between and coordination of employer, union and government interests in the utilization and development of manpower will be possible, if an adequate institutional framework is provided.
- In that sense industrial peace becomes manageable and controllable.

Steps in this direction should provide a more flexible, economically more efficient and certainly more democratic alternative to the often suggested regulation of wages and prices as the last resort to guarantee industrial peace in the long-run.

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