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## WORKING PARTY ON INDUSTRIAL RELATIONS

### Collective Bargaining and Positive Adjustment Policies

(Note by Secretariat and Consultant's Report)

1. One section of the Directorate's work on the manpower and social aspects of positive adjustment policies deals with (a) collective bargaining in relation to (i) employment security and (ii) wages, working conditions and practices, and (b) consultation between unions, employers and governments. Mr. David Marsden, of the London School of Economics, was asked to make a study of (a) and his Report follows below: (b) is discussed in the Secretariat's Introductory Note to the Report, which also indicates, for the information of the Working Party, the background to this work; gives a brief summary of Mr. Marsden's Report; and reviews some of the underlying policy issues.

2. Apart from Mr. Marsden's contribution, it is hoped that the Working Party on Industrial Relations, through its discussion of the problems discussed in the Report, and the underlying and associated policy issues, will itself make a contribution to the wider work of the Secretariat, and the Manpower and Social Affairs Committee.

3. The views expressed in Mr. Marsden's report are his own and do not engage the responsibility of the OECD or of any Member government. However, to ensure accuracy while avoiding taking up the time of the Working Party meeting with detailed discussion on minor factual matters, it is suggested that any corrections or comments by the countries referred to in the Report should be handed to the Secretariat at the meeting, or notified in advance.

4. The Working Party is invited:

(a) to CONSIDER Mr. Marsden's Report, discussing in turn:

- (i) job security - dismissals
- (ii) job security - inefficient working practices
- (iii) rigidity in wage structures

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### 1. Introduction

1. In the last fifteen years or so there has been a considerable growth in the extent to which the regulation of labour markets is subject to the joint control of workers and employers, and their respective organisations. In some countries this has come about through the extension of the range of subjects included in collective agreements; in others through the extension and codification of certain collective agreements through the legislative process, as has been the case for some of the legislation protecting workers in case of redundancies. The extension of the powers of works councils in a number of countries is another example.

2. Fears have been expressed in a number of quarters that the extension of the range of issues subject to collective bargaining and worker participation, with the accompanying reduction of the number of decisions subject to unilateral management decision-making, and the greater financial protection for workers, have led to a growing "rigidity" in the labour market, and a reduction in the ability of enterprises to respond to the economic challenges of the 1980s.

3. In a broader economic context, these fears are that policies of demand management and policies to make markets operate more efficiently are running into supply-side problems because of the development of resource constraints, the most notable being energy, and the resultant period of slower economic growth. In the 1950s and 1960s major changes in the economic structure of a number of countries were possible because of the general background of rising demand. This was especially important in the labour market because those displaced in one sector could find employment more easily in another.

4. In addition, the older industrialised countries are having to face the challenge of the newly industrialising countries and of technical change in certain markets. In a period of slower growth, the pressures to stick to the job or the skill one has are greater, and the rewards from moving into new markets less certain, and probably take longer to materialise. For this reason there has been a growing interest in policies designed to give a further stimulus to economic adjustment but which can, at the same time, avoid high levels of unemployment and social dislocation.

5. The central objective of positive adjustment policies has been defined as follows: "... in the context of the need for adjustment what matters is whether over the longer run the policies concerned facilitate the movement of labour and capital from the production of goods and services in declining demand to those where demand is increasing, from less to more efficient forms and locations of production, and from

production in which other countries are gaining a comparative advantage to new competitive lines of production (1).

6. However, it would be wrong to think of such policies purely in terms of labour mobility between firms and industries, and to overlook the great, and increasing, importance of flexibility in the deployment of labour within the firm, and in internal labour markets. Despite the "visibility" of the new technologies and the substantial social problems created by declining industries, one should not forget the importance of incremental changes within established firms and industries, and that the success of such changes very often depends upon the ability of employers and unions to agree on changes in working practices, or to find mutually acceptable procedures for introducing change.

7. A good deal of this paper will be devoted to a discussion of the extent to which these are policy alternatives, and to which there might be a trade-off between the two types of flexibility. It has been argued quite strongly that the great flexibility in training and job allocation among the core labour force in large Japanese enterprises has been accepted by the enterprise unions as a quid pro quo for job security (2). A similar form of "social bargain" can be found in many large enterprises in other OECD countries, for example, in the banking sector (3).

## 2. Outline of the Study

8. The selection of countries to be studied was guided by the need to provide a fair representation of the diversity of collective bargaining arrangements in some of the economically most advanced OECD countries, pointing to the different articulation of bargaining levels as relevant for adjustment policies. The countries thus reviewed are France, the Federal Republic of Germany, Italy, Japan, Sweden, the United Kingdom and the United States.

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(1) The case for positive adjustment policies, a compendium of OECD documents : 1978-79. June 1979, OECD, Paris, p. 82.

(2) T. Shirai and H. Shimada. Chapter on Japan in Labour in the Twentieth Century, J.T. Dunlop and W. Galenson, eds., Academic Press, New York, 1978.

(3) One should not however forget that in many such organisations, as indeed in the large Japanese enterprises, job security is not extended to all employees, notably women. This has been found, for example, in the British clearing banks in a study of internal labour markets in Great Britain and West Germany, currently in progress, by the present author and Bernhardt Keller of the Institut für Angewandte Wirtschaftsforschung, Tübingen.

9. In the first section, the role of collective bargaining and work group norms in the definition of job content, in their alternation, and in job allocation, also their relationship with managerial prerogatives in the different countries, are examined. Such systems of job regulation are crucial both to the introduction of new technologies, and to the way companies and unions react to the question of job security. The following section is devoted to an analysis of some of the recent agreements and laws in the seven countries on job security, in the light of the discussion of job regulation.

10. One of the key factors in labour market adjustment is changes in relative pay, and the degree of flexibility of pay structures is widely believed to influence the speed with which labour markets adjust. The second part of the paper is therefore devoted to a brief analysis of some of the recent changes in pay structure in the seven countries, in an attempt to see how far rigidity is likely to prove an obstacle to adjustment policies. It is suggested that pay structure has undergone a number of changes in these countries, largely, but not exclusively, in response to the problems of restraining inflation and of protecting the incomes of the lower paid. It may be difficult to ensure that pay structures respond to the needs of other policies, but at least within internal labour markets their role in adapting labour supply to new demands should not be overlooked. The paper concludes with a discussion of some of the policy implications of the development of job security provisions and their relations to other aspects of national and enterprise bargaining. Some relevant characteristics of the collective bargaining systems of the countries studied are sketched in an Annex, which indicates the different articulation of bargaining levels and looks at the significant shifts of power away from formal national or regional structures towards the enterprise and shop floor in most countries. These shifts are particularly important because of the scope they provide for bargaining over the introduction of change, including technical change in the work process.

### 3. Patterns of Job Regulation and Labour Force Flexibility

11. The United Kingdom is one of the oldest industrial countries, and Japan one of the newest. The British industrial system grew out of small-scale industry, and this had a crucial influence on the development of many of Britain's labour market institutions, notably her systems of training and industrial relations. The importance of these organisational forms however is not confined to the United Kingdom because they were used as models in many of the countries of the old Commonwealth and to some extent in the United States, although adapted to local conditions. Japanese development began later and was carried through more self-consciously at a time when the scale of production had become much greater and correspondingly more advanced organisational technologies

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had been developed.(1) It has thus become common to contrast Britain and Japan as providing two extreme cases in the first of which inflexibility of job allocation within the enterprise, and demarcation rules, have slowed down the introduction of new technology, and thus productivity growth and growth in national income, while in the second the absence of such constraints has been said to be a factor underlying Japan's remarkable post-war economic performance. It has been suggested that some collectively bargained provisions in the United States, concerning seniority rights, promotion, transfer, lay-off and other benefits, have strengthened inflexibility in that country.

12. Abstracting from the British and Japanese experience (again mainly for manufacturing industry) one might identify two methods of job regulation, one of which relies rather more on adjustment through the external labour market, and one which relies more on internal labour markets. Historically these methods have had a profound effect upon the development of trade union methods and organisation, one leading to a focus on craft organisation and subsequently occupational trade unionism and the other to enterprise based unionism. Their effect upon trade union structure is not always direct, and much depends upon how far one form of labour market organisation predominated in the formative stages of trade union organisation. It will be argued that these also establish different parameters for adjustment, particularly as concerns adjustment to incremental changes in production methods, through their effects upon the management of job content and job allocation.

13. This section will be devoted to an analysis of the balance between these two models in the seven countries, and how they lead to different responses by organised labour and management to such questions as redundancy and adaptation to new technology. It will become clear too, in the course of this and the following section, that similar measures, for example increasing job security, can lead to different effects depending upon which of the two models prevails in any particular case.

14. The form of job regulation that has often been observed in many parts of British industry, particularly in connection with craft jobs, is one in which the total number of tasks to be carried out within a plant are divided into a number of occupational job territories within each of which only members of that particular occupation may be employed. This form of organisation owed much to the early importance of craft unionism in British economic development, where one

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(1) See for example R.P. Dore, British Factory-Japanese Factory, George Allen and Unwin, London, 1973, who stresses the importance of Japan importing best-practice Western organisational technologies in the late nineteenth century, notably from National Cash Register and Krupp.

of the functions of the union was to maintain the job boundaries, and thus defend the labour market of its members. Craft restrictions on the numbers entering a trade could only be an effective form of economic action if the ability of employers to substitute other forms of labour was also restricted (which it would be if no part of a craft job, however routine or simple, could be done by another grade). Although craft unions now account for only a small part of the unionised labour force in Britain, craft workers have maintained a privileged position in the general and amalgamated unions and, perhaps most important, they passed on their methods of job regulation to other groups of workers basing organisation on occupational lines. R.E. Cole (1) makes a similar observation in the case of the United States, where non-craft unions came to develop more control over the seniority system, which applied mainly to skilled and semi-skilled workers.

15. Such a system is not entirely rigid, but changes have to be introduced through bargaining over job contents as well as rates (in contrast to the procedure envisaged in the West German rationalisation agreements) rather than by unilateral management decision. One of the chief concerns of productivity bargaining, when not being used to circumvent the provisions of incomes policies, has been the achievement of changes in work practices, in the tasks bound into different job territories and in the categories of worker allowed access to particular jobs, by collective bargaining. It is in respect of this that such a process deserves the name of job "regulation".

16. Such a system is not without economic rationality, particularly where employers are too small to develop their own training schemes, and to offer sufficient security of employment to workers for them to agree to invest in any form of training which could not be transferred to another enterprise, as in the small scale capitalism that predominated in Britain's early development, and which is still prevalent in the handicraft sector of some economies, today. Of course, the main element of flexibility in such a system lay in the growth and decline of small firms, so that labour adjustment took place mainly by mobility on the external labour market.

17. This system of job regulation has entered a crisis in the conditions of rapid economic growth and technical change that followed the Second World War, because occupations defined in terms of job territories are very sensitive to technical changes which nibble away at their set of tasks. In addition, workers' feelings of insecurity

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(1) Robert E. Cole, Work, Mobility, and Participation: A Comparative Study of American and Japanese Industry. University of California Press, Berkeley & Los Angeles, 1979.



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will be increased because the rigidity of other groups' job territories means that there is less chance of using transfers and retraining to ease the problem of adjustment within the firm. This kind of reason may explain why the British enterprises whose experience was examined in a recent Anglo-German study had made relatively more use of redundancy and less of internal transfer and retraining than their German counterparts(1).

18. Robert E. Cole (2) has argued that a form of job regulation based on job territories and collective bargaining can be found in the United States, at least in large parts of the unionised sector of American industry. In an article written in the 1950s, Clark Kerr (3) distinguished between two types of labour market regulation by collective bargaining: that of the craft union giving rise to a "craft-market" which was jointly owned by craft workers by virtue of their union card, and from which only the union could exclude workers; and an industrial market in which Kerr suggested that each worker owned his own job by virtue of his seniority, which also determined his rights to move to the next job on the ladder. A critical distinction between the two types of labour market was that in the first the workers could be said to have some ownership over the market, but not over their individual jobs, while in the second, they might have highly evolved rules defining their rights to a particular job or set of jobs, but the employer owned the market, and could control its size to a much greater extent.

19. A good deal of the literature on internal labour markets has stressed the economic rationality of seniority rules where jobs require a fair amount of on-the-job experience but relatively little formal training, as is the case with many process and mass assembly jobs. The organisation of job ladders with accumulating experience means that when vacancies occur at the top there is always a pool of suitably experienced people from which they can be filled and, at the same time, by offering workers the expectation of rising income if they stay with the firm, labour turnover is reduced.

20. Flexibility in labour costs over the economic cycle is obtained through the practice of "bumping" people up and down job ladders at the company's demand for labour expands or contracts, and applying seniority in lay-off. Some of the

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(1) E. Jacobs, S. Orwell, P. Eatersen and F. Weltz. The Approach to Industrial Change in Britain and Germany, Anglo-German Foundation for the Study of Industrial Society, London, 1978.

(2) R.E. Cole, op. cit.

(3) C. Kerr, the Balkanisation of Labour Markets in W. Bakke (ed), Labour Mobility and Economic Opportunity, M.I.T. Press, Cambridge, Mass. 1954.

problems of redundancy are attenuated by the use of seniority in recall, and by provision for the maintenance of seniority for a certain time after lay-off (1).

21. However, this form of flexibility in lay-off may be obtained at the expense of reduced flexibility in job structures and transfer, as in the craft system, because of the way the units (work group or occupational) to which seniority applies are defined. Change in seniority jurisdictions has to take place through negotiation, and again one might argue that it is the pace of technical and economic change which poses problems, as negotiation of such questions is frequently lengthy.

22. Japan and West Germany offer a rather different picture of the influence of collective bargaining upon adjustment at the level of the workplace, and in either case it can be argued that, despite the strength of some collective bargaining institutions at this level, management is able to play a much bigger role in the definition and allocation of jobs. In recent years the West German works council has developed considerable powers in the area of training, promotion, transfer and recruitment and lay-off. The most important legislation in this respect has been the 1972 revision of the Works Constitution Act (Betriebsverfassungsgesetz). Many of its provisions, particularly those relating to redundancy, had already been the subject of collective agreements (e.g. the 1964 textiles agreement and the 1968 agreements in the chemical and metal working industries) (2). The 1972 Act gave the works council powers of consultation on recruitment and of negotiation (subject to compulsory arbitration) on redundancies and the elaboration of a "social plan" consisting of the measures of redeployment and retraining to minimise redundancy, and of compensation for those to be laid off. Clearly the use of outside arbitration will limit the extent to which the works council can use such powers of co-decision to bargain for other advantages.

23. The role of collective bargaining in the regulation of training for skilled jobs in Germany is particularly interesting in contrast with the models in Britain and the United States. The emphasis on the attainment of a certain standard of technical competence validated by passing a

(1) For a more detailed picture of the working of seniority provisions in collective agreements see the United States Department of Labor, Bureau of Labor Statistics, Bulletin 2065, Characteristics of Major Collective Bargaining Agreements, Washington, 1980.

(2) These agreements and the 1972 law were complemented by the 1969 law on industrial training (Arbeitsförderungsgesetz) which established among other things a programme of retraining, and assistance for labour mobility.

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recognised examination is greater in the German apprenticeship system, and allows greater integration of apprenticeship training into a more general system of technical education. Such a system, it can be argued, is less sensitive to small technical changes affecting the range of tasks to be undertaken, without greatly affecting the skill requirements. The historical reasons for this would seem to be the absence of any tradition of craft unionism in Germany, the larger scale of industrial firms at the time of Germany's industrialisation, and the greater power employers thus had over the organisation of apprenticeship training. As a result it has been possible for a system of job regulation to develop through the powers of the workers council enabling decisions on transfer and job allocation to be dealt with in a more centralised and abstract way. The resulting increased flexibility in the redefinition of the jobs done by different occupational groups within the enterprise, allows a greater part of the adaptation to small scale technical changes or improvements in production methods to take place without recourse to the external labour market, and thus less use of lay-off. This is broadly consistent with the findings of the comparison of British and German enterprises mentioned earlier, and with Delamotte's analysis of the treatment of productivity in collective bargaining in Britain, France and Germany (1)(2). Despite the growth in their numbers and in the strength of their organisation, German shop stewards (vertrauensleute) do not appear to have developed the same kind of bargaining power as their British (or indeed their Italian) counterparts (3), and

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- (1) The approach to industrial change in Britain and Germany, op. cit. Yves Delamotte. British productivity agreements, German rationalisation agreements and French employment security agreements. Bulletin of the International Institute of Labour Studies, Geneva, 1969 and The Social Partners Face the Problems of Productivity and Employment, OECD, Paris, 1971.
  - (2) This is not to say that all German firms respond in the same way to changes in demand or technology. H.G. Mendius and W. Sengenberger found both types of reaction in the German car industry after the oil crisis. Mendius and Sengenberger : Konjunkturschwankungen und Betriebliche Politik in H.G. Mendium, et.al., 'Betrieb-Arbeitsmarkt - Qualifikation I.', Aspekte Verlag, 1976, Frankfurt-am-Main.
  - (3) See K. Koch, Trade Union Workshop Representatives in the Federal Republic of Germany, Anglo-German Foundation for the Study of Industrial Society, London, 1978.

detailed questions of job organisation appear to have remained within the area of managerial prerogative. One reason may lie in the absence of detailed job territories, which has meant that there has been less of a substratum on which such disaggregated bargaining could flourish (1).

24. The employment system of large Japanese firms offers another picture of flexibility in job allocation and redeployment of labour between job classifications, though it is perhaps somewhat paradoxical that the main locus of trade union strength and activity should be concentrated at the enterprise level. But the emphasis of union activity has been upon pay bargaining especially in the annual "spring offensive" of industry-wide co-ordinated enterprise bargaining, leaving management a more or less free hand in work organisation and labour allocation within the firm. Robert E. Cole (2) has stressed some of the important labour market similarities between the United States and Japan, finding a broad similarity between the labour markets he studied in Detroit and Yokohama in the patterns of inter and intra-plant mobility with age (except for the youngest group of workers), and with firm size, which is broadly consistent with Suzuki's study of the relationship between age and earnings in a number of countries (3) (including Japan, the United States, France and the United Kingdom). This study showed, moreover, that the two countries in which earnings increased most with age were Japan and the United States. Within Western Europe, earnings increased more with age in France and Italy than in Great Britain or West Germany (4).

25. Nevertheless, an important difference remains in the operation of the seniority principle in Japan and the United States, and it can be argued that a crucial reason for this lies in the extent to which collective bargaining reaches into the workplace in the United States (as it does in Britain). In applying seniority rules to the filling of vacancies from within the plant, as to the order of lay-off and rehiring, the

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- (1) This point has been developed at greater length in David Marsden : 'Industrial democracy, job regulation and internal labour markets' in H. Diefenbacher and H. Nutzinger (eds) Mitbestimmung : Probleme und Perspektiven der Empirische Forschung. (Campus Verlag; 1980, Frankfurt-am-Main).
- (2) Robert E. Cole, op. cit.
- (3) H. Suzuki, 'Age, seniority and wages' in International Labour Review, Volume 113, No. 1, Jan-Feb 1976. If one takes the relationship between pay and age as an indicator of career progression and upgrading through life, this would support Cole's data.
- (4) Christopher Saunders and David Marsden, Pay Inequalities within the Community Countries, Butterworths, Sevenoaks, Kent, Forthcoming, 1981.

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union can reduce managerial discretion in the awarding of promotion or of favourable job transfers, and prevent them from using this as a way of rewarding employees, or for favouritism. While seniority remains an important factor in Japanese pay structures, as it does in the United States, there is less sign that it is used in job allocation decisions. There would thus be less of a problem in the large Japanese companies about the definition of the groups within which seniority is to apply (1).

26. France and Italy provide a contrast to these two models of job regulation; and somewhat different implications for adjustment at the enterprise level. Until the closing years of the 1960s trade union influence upon workplace relations in both France and Italy was markedly limited, mainly being confined to acting through works committees (comités d'entreprise) and the personnel delegates in France (2), neither of which had developed any appreciable bargaining powers over either pay or work organisation, and in Italy to the "commission interne", similar to the works committees, but established through collective bargaining at the inter-confederal level rather than through legislation, as had been the case in France. Before this time, the main strength of the unions had lain at the national level. It is significant that the principal French agreements on security of employment, starting in the late 1960s, were concluded initially at the industry level, and then generalised at the inter-confederal level, before becoming the object of legislation.

27. Industrial relations at the enterprise level changed greatly in both countries, but particularly in Italy with the events of the late sixties. In both countries, the unions as collective bodies gained access to the workplace, in France with the law allowing unions to form their own works branches (sections syndicales d'entreprise), and thus to organise a collective presence within the place of work, and in Italy with the growth of a vigorous shop steward organisation based on "homogeneous" work groups, and organised into factory councils. The numbers and influence of both the French works branches and the Italian factory councils grew rapidly in the early 1970s, but whereas the Italian councils appear to have developed a wide range of bargaining powers over pay, conditions

- (1) However, it should be remembered that a relatively small section of the United States Labour force is covered by collective bargaining, and an even smaller section by highly developed seniority provision, and that even within this group it has been suggested that managements have often been able to bargain changes in seniority units without too much difficulty. See R. Herding, Job Control and Union Structure, Rotterdam University Press, 1972.
- (2) Cases of seniority rules can however be found in France, e.g. in the study of M. Crozier, 'Le phénomène bureaucratique', Seuil, Paris, 1963.

and even work organisation, to the point at which some speak of a crisis in the management of the large companies, the extent to which the French union works branches have developed any bargaining powers appears to have been both more limited and more uneven (1). Part of the reason for this appears to have been the French employers' preference for dealing with the works committee, whose responsibilities and powers are set out in law (and which do not include bargaining even of the restricted form open to the German works council) and on which the employer is himself represented, and the measures of successive governments to promote the works committee by making it the principal channel through which certain recent social legislation should be administered.

28. Job structures and pay structures tend to be linked in French and Italian industry by ordering jobs in a hierarchy and giving them an index in a scale running from the least to the most skilled. The archetype of this was to be found in the old Parodi system set up in France during the period of wage and price controls after the last war (2). Thus basic rates tend to be established in relation to other jobs within the enterprise rather than to those on the external labour market, as would be the case for a craft rate. There is some evidence that this may be linked to a greater tendency for French and Italian industrial employers to rely more on their own training schemes, thus placing more emphasis on their own internal labour market for the supply of skilled workers than for example Britain or Germany (3). It can be argued that this has given French and Italian employers a good deal of freedom in the design of jobs and manning, and that part of the current crisis of large scale Italian industry at the moment lies in the difficulty of moving from a system in which job structures were controlled by managerial prerogative to

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- (1) There is some evidence that a degree of recognition for negotiations has been obtained in French banks. See J.F. Bachy, F. Dupuy, D. Martin, Représentation et Négociation dans l'Entreprise. Editions du CRESSI, Paris, 1974.
- (2) The Parodi system assigned indices for wage payment to different skill grades, setting the index for the least skilled at 100. Although the full form of the Parodi system has been abandoned, it continues to exert a major influence on pay and job structures. See F. Eyraud, in Sociologie du Travail, 1978.
- (3) See David Marsden, A Study of the Changes in the Structure of Earnings of Manual Workers in Industry since 1966, Report for SOEC, 1979, Ch. 5, and, with Christopher Saunders: Pay Inequalities within Community Countries, Forthcoming, Butterworths, Sevenoaks, 1981. See also M. Maurice, F. Sellier and J.J. Silvestre, Production de la hiérarchie dans l'entreprise, recherche d'un effet societal France Allemagne, CNRS/LEST, Aix-en-Provence, 1978.

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one in which they are subject to joint control under collective bargaining but where the institutions are still in a considerable state of flux (1).

29. In Sweden the highly centralised system of collective bargaining has meant that the parameters of workplace bargaining have been fairly tightly set, confining the autonomy of bargaining to the adapting of the higher level frame agreement to local circumstances and to consultation on a limited range of issues. However, the extent of wage drift suggests that even before the MBL Act pay negotiations at enterprise level between management and the union club were very active. One is therefore left with something of a puzzle that there should have been such wide-ranging managerial prerogative over questions of work organisation, job allocation and transfers. Indeed, Delamotte points out that Swedish employers had a good deal more freedom over such questions as transfers of workers than their counterparts in France, Great Britain, Italy or West Germany (2).

30. In part this may be explained by the absence of the traditions of craft unionism, and by the 1929 court judgement which upheld management's rights in this area. A further reason may lie in the effectiveness of centralised bargaining and the power of the union clubs, the basis of which was not really put into question by changes in work organisation to the same extent that union strength might be in Britain.

31. The powers of the union organisation within the enterprise were strengthened greatly with the introduction of the 1976 Codetermination Act, which created a set of rights of bargaining and consultation over a wide range of questions. Indeed, the Act envisaged that if an employer wishes to undertake any major change in the work or employment conditions of his employees, he has in effect to negotiate with the recognised union. The scope of this is, however, limited by the fact that if, in the last analysis, no agreement can be reached, then the employer is free legally to go ahead with the change. Of course, few employers would seek to go completely against the views of the union, but the right nevertheless remains.

32. However, the Act also envisaged the establishment of a large number of enterprise-level participation agreements according to a general framework to be established by collective agreement at the national level. In the private sector little progress has been made towards such a frame agreement so that the whole process of extending co-determination through collective bargaining remains in limbo.

(1) An account of the crisis in work organisation in Italian industry can be found in F. Butera, 'Mutamento dell'Organizzazione del Lavoro ed Egemonia', in Economia e Lavoro, 1974.

(2) Y. Delamotte, The Social Partners Face the Problems of Productivity and Employment, OECD, Paris, 1971.

33. In the absence of empirical studies it is hard to tell how great a change in work conditions has to be in Sweden in order to become subject to negotiation. The absence of any tradition of craft organisation within unions and within the training system, taken with the extent of managerial prerogative before the MBL Act, suggest that such changes would be considerably greater than those triggering negotiations in Britain. Such a situation might lead one to expect that internal labour markets would constitute a major channel for adjustment in Sweden, but the solidaristic wage policy implies an acceptance that labour should move readily from enterprise to enterprise that is something of an exception to the argument of this section. One important element in the picture has, however, been left out; the role of the Swedish Labour Market Board (AMS) in organising retraining and in helping with job search. Thus the Swedish experience suggests that although there may be a trade-off between adjustment through internal and through external labour markets its effect may be influenced by greater government support for retraining. However, the success of such measures also depends upon the ease with which the skills of retrained workers can be integrated into the established labour force, and in this respect the absence of craft traditions in Sweden may have been an important element in the success of these measures (1).

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- (1) One of the problems with British retraining programmes has been that skilled workers who have served an apprenticeship feel that their investment is threatened by the arrival of people trained in other ways, and have in consequence in a number of cases either refused to work with them, or have imposed such conditions on their employment that the jobs are made unattractive.



4. The pattern of job regulation and the approach of unions to job security

34. In all the countries surveyed here, except the United States, job security either in the face of redundancy due to market conditions or to restructuring and rationalisation has been the subject of legislation in the last 15 years. Although there is no comparable federal legislation on job security in the US, (1) a number of States have acted, although such initiatives have generally been confined to those in which the unions have traditionally been strong. The general pattern of such legislation has been to delegate the precise provisions to local levels of collective bargaining, but also to establish certain general norms relating to advance notice of lay-offs, consultation on the plans to be applied and over possible use of retraining and transfers, and some provision by the company or the state of financial compensation for the workers affected.

35. While it would be wrong to overstate the degree of homogeneity in any country's industrial relation system, and the extent of any one system of job regulation over a whole economy (2) it is possible to trace certain influences of the prevailing model (which will be most developed where collective bargaining is strongest) upon the approach to job security. This partly because one has to build on institutions already in existence, and partly because the regulation of redundancies is an extension of the system of job regulation.

36. The first two countries to be considered here will be Britain and the US, in both of which job boundaries are particularly subject to collective bargaining.

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(1) A number of bills have come before Congress recently, v. Audrey Freeman, "Plant closed - no jobs", in Across the Board, August, 1980. Their progress has probably been made more uncertain by the change of administration.

(2) In a study still in progress on internal labour markets, the present author has found considerable inter-industry variations in the extent to which management controls questions of job allocation and the definition of jobs. In banking, for example, where craft unionism has never existed, the level of control exercised by management is very great.

37. The greater prevalence of craft and occupational rules defining job boundaries, and of rules defining seniority jurisdictions, in British and American industry especially, although not exclusively for manual workers, is likely to make adaptation by transfer and retraining within the enterprise more difficult, and to lead management to prefer to adapt to changes in demand, or even restructuring by redundancies, followed possibly by recruitment later from the external labour market. Indeed, the seniority system in the US is perhaps at its most highly developed for questions of lay-off and subsequent recall. As laid-off workers are eligible for state social security benefits, this process represents a shift of labour costs over the cycle from the firm to the state. In so far as workers retain their seniority rights the process is symmetrical over the cycle. An interesting contrast between the two countries lies in the much greater prevalence of agreements (1) in the US providing arrangements applicable to possible redundancies covering seniority and its role in relation to dismissal and recall.

38. One might argue that the system of seniority in recall, and the conservation of some seniority rights during lay-off maintains the link between workers and the enterprise so that there is a sense in which they do not leave their employer's internal labour market. Thus the ex ante job security agreements in many parts of American industry form an integral part of the seniority system. This may in part explain why these agreements are much more widespread in private industry in America than in Britain where unions have been reluctant to enter such agreements, partly because it entails a degree of acceptance of redundancy and partly because a better bargain can be made when the employer most needs redundancies. The same reasons may explain why Parliament has stepped in to lay down minimum provisions for lay-off and redundancy in Britain in the Redundancy Payments Act, 1965 (2), which dealt with permanent lay-offs and the Employment Protection Act, 1975, which (among other things) extended legal protection to temporary lay-offs and short-time working.

(1) Of the 7 million or so workers covered by major collective agreements on January 1, 1978, about 2 million were covered by provisions for supplementary unemployment benefit, over 2.6 million for severance pay, over 5 million for advance notice (mainly lay-off). About 3.3 million were also covered by agreements relating to inter-plant transfers, although it is hard to generalise about the way such transfers are meshed into the seniority system. "Characteristics of Major Collective Agreements", US Dept. of Labor, op. cit.

(2) Its provisions with some modifications over the years, have passed into the 1978 Employment Protection Consolidation Act.

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39. The US system of seniority rules gives rise to a form of internal labour market in which flexibility is achieved through temporary lay-offs with re-engagement provisions and a degree of inflexibility in movements between jobs within the enterprise. It thus offers a form of intermediate case between British industry's greater reliance upon the external labour market, and Japanese industry's greater reliance upon adjustment within internal labour markets.

40. Until the last five years there had been little legislative provision in Japan for job security, nor had there been any national level negotiations. Much reliance had been placed upon the "life-time" employment system, especially for the permanent male labour force of the large firms, and the ability of companies to find other ways of adapting their costs over the cycle, or of absorbing them. One reason for this may lie in the outlook of the enterprise unions, with their strong defence of jobs in view of the great cost to their members of losing them through losing the pay and other advantages associated with long service. Shirai and Shimada have argued that such pressures from unions have been a major factor in the development of the "life-time" employment system (1). It has been, in a way, the quid pro quo of the enterprise for control over training and job allocation.

41. Reliance upon the resources of individual companies became increasingly difficult after the oil crisis, and the legislative programme between 1974 and 1977 was designed to maintain the system (and thus individual workers' investment in it) by shifting part of the burden of adjustment onto the state through the setting up of the employment stabilisation fund (2). The main elements of the stabilisation services include the payment of an employment adjustment grant to cover up to two thirds of the non-duty allowance of workers temporarily laid off under a labour-management agreement (reached with the enterprise union), and up to two thirds of normal wages for employees undergoing training under the auspices of a similar agreement, plus help with the cost of training. Similar types of arrangement exist for companies undergoing reconversion.

42. Of the remaining countries, West Germany lies somewhere in between Britain and Japan in its reliance upon internal labour markets for adjustment, its apprenticeship system producing transferable skills, but permitting, as mentioned earlier, greater flexibility in task allocation than in Britain, so that more adjustment can be carried out by internal redeployment.

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(1) T. Shirai and H. Shimada, op.cit.

(2) Employment and Employment Policy, Japanese Industrial Relations series, No. 1, Japan Institute of Labour, 1979.

43. The use of redeployment has been one of the subjects of the rationalisation agreements of the mid-1960s, which represented the first wave of agreements on employment security in cases of rationalisation of production methods. The most notable of these were the industry-regional agreements in the textile industry, which set the trend, and the industry-wide agreements in the metal industry and in chemicals. In these agreements protection was confined to older workers, but there were provisions for transfers and retraining. Despite provision for consultation with the works council, they increased the cost of making people redundant but did not reduce the area of managerial prerogative (1). Managerial prerogatives were, however, reduced in the 1972 Works Constitution Act, in which the arrangements for major changes in the work force and employment levels were to be the subject of a social plan which was subject to full codetermination (agreement subject to compulsory arbitration). A second wave of agreements on job security followed the oil crisis, focusing more on redundancy for economic reasons, extending the earlier ones, but maintaining special provisions for older workers.

44. There is some evidence that the rationalisation agreements have been extremely successful, to the point at which some labour market experts have become concerned about the effects of job redesign upon the viability of the apprenticeship and technical training system and upon labour mobility as workers acquire a higher and higher proportion of skills which cannot be transferred easily to other companies. This may be encouraging enterprises to make greater use of their internal labour markets in the future.

45. In both France and Italy there has been a market tendency to settle the main arrangements for dealing with redundancies, lay-off, and rationalisation at the inter-confederal level by agreement between the employers and the main trade union confederations. Such was the case with the French 1969 and 1974 inter-confederal agreements on job security, and the Italian agreement reached in 1965. At least in the French case the main substance of the agreement was subsequently reinforced by legislation, leaving employers and unions free to reach additional agreements which were more favourable to the workers. In both countries regional bodies have been set up to facilitate the placement of displaced workers in the form of the French Commissions paritaires pour l'Emploi set up by industry agreements and linked to the Delegation pour l'Emploi, and in Italy, following the 1977 law, the tripartite regional employment commissions, but in neither case have these institutions been able to fulfill the initial expectations (2). One of the

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(1) Y. Delamotte, OECD, op.cit.

(2) For an analysis of the treatment of redundancies in a sample of Turin firms and the failure of those commissions and of the factory councils to place redundant workers more successfully than by individual labour mobility, A. Bulgarelli, La Mobilita Difficile, Edizioni Politecnico, Rome, 1980

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reasons has simply been that they have been swamped by the high levels of unemployment, but the main one in both countries appears to have been employers' reluctance to deal with third parties who have no stake in the enterprise.

46. Concerning concentration on the inter-confederal level of the establishment of procedures for dealing with lay-off and redundancies, it was not until after the events of May 1968 and the Grenelle agreements that the French employers agreed to discuss the questions at this rather than a lower level (1). The subsequent discussions in France have been carried out at this level, but in Italy with the great increase in the power of workers' workplace institutions there have been a number of initiatives at lower levels, notably by the factory councils.

47. One such policy has been to attempt to bring about direct transfers from one enterprise to another without requiring workers to go through a period of unemployment and job search. In theory part of this should be carried out by communication between factory councils in different companies, but a study by Bulgarelli (2) on four Turin companies in difficulty suggests that such measures may only account for a small number of placements, and that when such schemes are negotiated with other enterprises, the receiving one tends to cream off the market taking those workers who would have had least difficulty in finding another job. A second initiative lay in the series of company agreements on employment and investment policy, for example, at Fiat and Olivetti. Most of these were concentrated in the years 1974-75, but for the time being at least their development appears to have been halted by the recession.

48. It has been suggested that in France much of the initiative still remains with individual employers for transfers, especially between plants belonging to the same enterprise, and that this is helped by the French practice in respect of continuous training (formation permanente) in producing greater flexibility in the labour force. "Formation permanente" was originally provided by collective agreement before being embodied in a law, and is administered at plant level by the works committee. Empirical studies of this are lacking, so it is hard to assess the validity of such impressionistic reports.

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(1) For an account of the events leading up to the 1969 agreement see Y. Delamotte. "L'accord interprofessionnel sur la sécurité de l'emploi du 10 février, 1969", Droit Social, No. 9-10 Sept-Oct, 1969. The text of the agreement was published in the issue of the same journal for April, 1969.

(2) Y. Delamotte, op.cit.

49. In view of the weakness of French unions in the workplace, even after the changes following 1968, one might expect to find that management initiatives play a bigger role, and that some of the large industrial groups which have developed in France in recent years might seek to adopt specifically group labour market policies. However, a study of the reaction of three big industrial groups to the economic recession by a team at Grenoble suggests that there has been no uniform pattern of reaction by such groups, and that one of the chief factors in deciding whether the groups would react to the recession by redeploying labour between member firms was the similarity or otherwise of the workprocesses and skills used in the different parts of the group. In other words, the groups formed for purposes of economic or financial management did not appear to have developed any special patterns of labour market management(1).

50. Redundancies and lay-offs in Sweden are governed partly by the 1974 laws on the security of employment and the promotion of employment, and the 1976 Codetermination Act. The legislation provides a floor of rights concerning notice and compensation for redundancy, and important obligations on the employer to attempt to find suitable alternative employment for the employee within the enterprise and give employees who have been made redundant in the last twelve months priority when seeking to fill vacancies from outside. Under the Promotion of Employment Act the employer is also obliged to give notice of intended redundancies, the length of notice depending on their scale, to the local office of the Labour Market Board (AMS). In many respects this provision represents a logical extension of the active manpower policy.

51. The Promotion of Employment Act, like the Codetermination Act may be supplemented by collective agreement, but unlike the latter many such agreements have materialised. However, it should be remembered that, even before 1974, there had been a fairly long practice of ex-ante agreements concerning consultation with the works Committee (which in most cases has now effectively given way to the union club), and from 1964 an agreement on redundancy payments. The emphasis on transfers and retraining, and the role of the Labour Market Board, again illustrate the way in which the Swedish experience represents one alternative to the choice between intra-enterprise and inter-enterprise flexibility.

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(1) C. Beauviala, W. Cavestro, J. Freyssinet and G. Mermillod, La Division du Travail et la Stratégie de Structuration de l'Emploi des Grands Groupes Industriels, IREP, University of Grenoble, 1977.

5. Job security laws and agreements and labour market flexibility

52. As a concluding thought to this section one might ask how far legislative or collective bargaining action to reduce the cost of adjustment to individuals affects the ability of enterprises to adjust to new technologies and new market conditions. The most important point is that the provisions raise the cost of laying people off rather than preventing employers from so doing. They raise it most for older and long service, mainly manual, workers, (non-manual workers have long benefited from more stable employment conditions). Length of service data for the (then) six EEC countries in 1972 show that among manual workers median length of service varied between about six and eight years in manufacturing industry, so that many of these workers would not be receiving the kind of severance payment that reaches newspaper headlines in times of cut-backs. Moreover, the increased cost of closing an enterprise down, it can be argued, should not have a major effect upon adjustment.

53. The main cases where cost of lay-off might inhibit enterprise adjustment strategies are (a) where employers are forced to divert funds from new investment into redundancy payments or pay for temporary lay-offs; (b) where they cut recruitment and subsequent training of young workers; and (c) by the encouragement of "labour hoarding" over the economic cycle. The first case is most likely to occur in restructuring and may be fairly serious, but this cannot be quantified easily. For the second, low recruitment of young workers and trainees is much more likely to be a reflection of the cost of training workers when profit margins are being squeezed in recession. These costs would appear to be far greater than those of laying off young workers. With labour hoarding, the most critical group would seem to be that of skilled workers, and in this case the costs of rehiring for some groups, and the development of internal labour markets for others, would seem to be more important factors.

54. This is not to deny that measures to increase job security, or more accurately to compensate workers for job loss, add to employers' costs, but these may be exaggerated, as may be their effect upon the ability to adjust. On the other hand, a number of employers' confederations interviewed in the course of this study expressed more concern about the impact of legislation upon individual rather than collective dismissals. The

main reason for this would seem to be that the former imply a greater reduction of managerial prerogative in selection of employees, and in discipline. No doubt there are many cases in which both unions and management would agree that certain offences (e.g. concerning safety at work) should be punishable by dismissal, but in some other cases the boundary between following management's instructions and refusing to do more than one thinks one is paid for may be very narrow and controversial. Similar problems may arise with the boundary between adequacy and incompetence, or laziness and workers' feelings about the wage-effort bargain. In such cases, restrictions on management's rights of dismissal may reduce its power to organise work efficiently. However, it is very hard to tell in abstract what the practical importance of such cases is. Moreover, in plants with a high degree of union organisation, it is unlikely that the present laws would further diminish managerial prerogatives.

55. This argument is not intended to suggest that labour hoarding is a minor problem. How serious a problem it is will depend on whether the hoarding takes place in the context of a purely cyclical movement of employment at the level of the enterprise or whether it takes place in a context in which the economic situation dictates that on grounds of efficiency the activities of a particular enterprise should be phased out or not.

#### 6. Pay structure and labour market adjustment

56. Despite the difficulties involved in testing the extent to which changes in relative pay levels between industries affect labour mobility, and the uncertain statistical evidence that changes in relative pay levels provide an important adjustment mechanism within the labour market, (1) a great many managers responsible for recruitment believe that pay levels in their own establishments, compared with those of their labour market competitors, have a strong influence on their ability to recruit and retain the right staff. However, differences in relative pay are also felt to be important between occupations and jobs, to provide motivation and to encourage workers to accept training or promotion. Some concern has been expressed that the narrowing of industry and occupational pay differentials of recent years, in response to the pressures of collective bargaining or of government incomes policies, may have reduced incentives to people to accept job changes and promotions. The purpose of this section will be to examine some of the evidence on changes in differentials in the seven countries surveyed in this paper, and to see how far some of the probable causes of these changes might inhibit mobility of labour towards those areas of the economy where it is in greater demand.

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(1) See for example Wages and Labour Mobility, OECD, Paris, 1965.



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A note on definitions. Earnings in this section will, unless otherwise stated, be gross cash earnings before deduction of income tax and employee social insurance contributions.

## (a) Occupational differentials

57. In the period 1969-79, occupational differentials as a whole, including both manual and non-manual occupations, have generally declined - at least through the 1960s and much of the 1970s. However, because of the greater reliance of Japanese firms upon internal labour markets and the extent to which occupational boundaries are less defined within the firm, there are no straightforward comparisons of occupational pay that can be made with the other six countries.

58. The decline in relative pay of higher managerial occupations in France, the United Kingdom, the United States, and West Germany is illustrated in Table 1, showing the results of a survey carried out by HAY-MSL Ltd., a firm of consultants, for the British Royal Commission on the Distribution of Income and Wealth.(1) The lowest grade is approximately that of foreman or supervisor, and the other grades are based on HAY-MSL's job evaluation system. Besides giving an indication of differences in management differentials between the four countries, it also shows a decline in differentials between 1969 and 1975 when the survey was carried out. These results are consistent with those of various regular national earnings surveys which cover a narrower range of management levels and often omit top management.(2) These surveys show that for Britain and Germany the decline is part of a longer term decline, but that for France it follows an increase in the relative pay of managers through the 1960s. The Italian Ministry of Labour Survey also shows that there has been a decline in the relative pay of higher non-manual occupations (top management are not included in the survey) between 1974 and 1977, the first and the latest year for which these data are available.

59. The reduction in the differential of higher management shown in Table 1 may have been intensified after 1975. In France, restraint of higher incomes was introduced as part of M. Barre's stabilisation plan in 1976. The British Social Contract, which also provided for smaller increases in pay for those on higher incomes did not come into full force until 1976,

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(1) Royal Commission on the Distribution of Income and Wealth, Background Paper no. 2, by HAY-MSL Ltd, Analysis of Managerial Remuneration in the United Kingdom and Overseas, HMSO, London, 1976.

(2) These results are analysed in great detail in Christopher Saunders and David Marsden, op. cit.

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1. Table 1

Differentials in median base annual salary for certain management occupations in France, FR Germany, the United Kingdom and the United States. July, 1975 and changes since 1969. Pay as per centage of lowest grade.

HAY-MSL job level	France		FR Germany		UK		US	
	1975	% inc. on '69	1975	% inc. on '69	1975	% inc. on '69	1975	% inc. on '69
F	644.2	93.3	459.5	na	529.7	78.4	457.8	134.7
E	471.9	91.6	364.9	31.7	412.5	83.3	356.3	134.9
D	331.5	105.8	270.3	56.3	286.6	90.2	257.8	137.5
C	256.6	104.5	213.5	67.4	221.3	91.4	208.6	139.3
B	176.0	102.2	156.2	82.9	160.9	98.1	154.7	139.4
A	100.0	113.6	100.0	121.6	100.0	113.3	100.0	142.2

**Source:** Royal Commission on the Distribution of Income and Wealth, United Kingdom, Background Paper No. 2.

Note on the job levels.

Grade A corresponds approximately to that of foreman in the large organisations surveyed, and its pay level in the United Kingdom corresponds roughly with the upper quartile (Q75) of all employee incomes as shown in the Board of Inland Revenue, Survey of Personal Incomes, 1975-6. Level D corresponds to the top percentile (Q99).

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In Italy, the decline shown in the Ministry of Labour survey only catches the first year of the full system of flat rate compensation for increases in the cost of living under the revised "scala mobile" which came into force at the beginning of 1977, and the complete suspension of the indexation agreements for higher incomes at the end of 1976.

60. The other factor noted in the long term decline in the relative earnings of managerial occupations is the growth in the numbers of managers, notably in the four EEC countries covered here. Part of this may be the result of an inflation of job titles and the inclusion of lower paid occupations, which reduces the average. Part may be due to their growth, which will be largely through the recruitment of younger workers who will be at the lower end of age-related pay scales, so that the differential should at least partially re-establish itself as recruitment lessens. Perhaps a more important factor is the growth in the supply of highly qualified non-managerial manpower, which has more than matched the growth of professional management.

61. It is hard to draw conclusions about managerial motivation because the changes in averages are not necessarily reflected in the experience of individual managers. This may be particularly true of the long term decline. The short term declines associated with incomes policies may, on the other hand, have a more marked effect upon individual managers and upon employers' ability to reward additional responsibilities or promotions. However, at least in Britain there are signs that part of the relative decline in managerial pay associated with incomes policies was of fairly short duration.

62. The occupational differentials most likely to be affected by collective bargaining are those among manual and non-managerial white-collar workers. Some of the most relevant changes from the points of view of adjustment policies are those which have taken place in the Federal Republic of Germany, Italy, Sweden and the United Kingdom.

63. Skill differentials in West German industry have displayed an overall stability which has masked a number of changes in different groups of industries, and in wage rates negotiated at the industry-regional level. In the engineering industries, for manual men the biggest increase was for the unskilled (Table 2), although the gap between the skilled and the semi-skilled increased. In the lower paid "consumption goods" industries (tanning, leather goods, shoes, textiles, clothing and food and drink) differentials between all three skill grades increased.

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64. Direct comparisons cannot be made between the results of the quarterly earnings survey and the survey of wage rates in collective agreements, but analysis of the rates for Nordrhein-Westfalen, one of the largest and most industrialised regions, published by the Statistisches Bundesamt(1), shows that over the same period there has been some reduction in the differential in rates between the higher and the lower skilled occupations in metal manufacture, automobiles, chemicals, iron and steel, and in the metal and electrical goods industry (with the least skilled receiving increases up to 10 per cent bigger over the period since 1968). There is no agreement for textiles in Nordrhein-Westfalen, but in other regions textiles and clothing also showed reduced differentials in rates. Thus there is some indication that at least part of the decline in differentials in rates led to a decline in earnings differentials in engineering industries, but not in the lower paid group of industries where the two sets of differentials moved in opposite directions.

Table 2

F.R. Germany. Skill differentials in engineering and consumption goods industries in October 1980 and changes since 1966, manual men, average gross hourly earnings.

	<u>Engineering industries</u>			<u>Lower paid industries</u>		
	1980	1980 as % of 1966	% in grade in 1980	1980	1980 in % of 1966	% in grade in 1980
Skilled	104.8	295.9	60.3	106.4	286.8	49.3
Semi-skilled	94.9	297.0	30.9	95.5	287.4	36.3
Unskilled	84.8	305.0	8.9	89.0	289.4	14.4
All grades	100.0	297.5	100.0	100.0	288.2	100.0

Source: Statistisches Bundesamt. Quarterly survey of earnings in industry.

(1) Tarifröhne und Tarifgehälter, Statistisches Bundesamt Fachserie 4.1 and 4.12., Wiesbaden.

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65. It is hard to say whether the opposite movement in differentials in rates and earnings in the latter group represents the triumph of market forces over collective bargaining, or whether it represents the bargaining power of skilled workers in the works councils who were able to re-establish their differential at the level of the enterprise.

66. Skill differentials in Italian industry underwent two main periods of compression: following the "Hot Autumn" of 1969, and then a second movement from the mid 1970s. Overall changes in differentials in hourly earnings between 1969 and 1977 are shown in Table 3. Two types of bargaining policy have been important. The first movement was associated with the marked shift of bargaining power to the shop floor and a decline in the proportion of the pay packet determined at the sectoral level of bargaining, and with a period during which the whole system of skill grades came under question. That such questioning occurred is probably related to the absence of a craft tradition and the consequent dependence of much of the status of skilled workers upon the position they held in the company's internal labour market and to the effect of the technical rationalisation of the 1960s on skilled jobs. During this period earnings rose faster than wage rates, reflecting the growth of workplace bargaining. The second phase was associated with a reassertion of higher levels of bargaining, as the main union confederations sought to regain some of the initiative in bargaining that they had lost to the factory councils and the shop floor generally. The system of indexation, the scala mobile, played a big part in this, particularly from 1977, when the flat rate provisions were introduced. These have had a very marked narrowing effect upon differentials, perhaps so strong that employers feel unable to use the traditional method of wage drift to restore differentials at the workplace. Consequently, in the second period, wage rates have risen faster than earnings.

Table 3

Italy. Skill differentials in hourly earnings in 1969 and 1977. Manual men in manufacturing.

	1969	1977
Highly skilled	116.7	108.2
Skilled and semi-skilled	97.4	96.0
Specialised workers	95.1	92.8
General labourers	73.7	86.3
All manual men	100.0	100.0

Source: Ministry of Labour.

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67. Skill differentials have declined in the British engineering industry since 1968 after a long period in which a decline in nationally negotiated differentials was offset by a strong degree of drift. The picture since 1968 is shown in Table 4.

Table 4

Great Britain. Skill differentials in engineering and related industries. Average gross weekly earnings as a percentage of the mean for all grades. Manual men adults June of each year.

	1968	1971	1976	1979	1980
Skilled					
Maintenance	113.3	116.4	114.3	115.7	117.4
Toolroom	113.3	109.5	107.0	110.2	110.4
Other skilled	106.3	105.5	102.8	104.7	106.7
Semi-skilled	96.1	96.9	97.7	95.6	93.5
Unskilled	76.4	76.9	81.9	92.7	82.3
All grades	100.0	100.0	100.0	100.0	100.0

Source: Department of Employment. DE Gazette.

68. Skilled maintenance workers (mainly maintenance electricians and fitters) have seen their relative pay increase since 1968, the decline for the skilled being concentrated among the toolroom workers (who make or adapt the tools used in many parts of the factory) and the "other skilled", many of whom are skilled workers in production jobs. The decline of the toolroom workers' differential was largely concentrated in the car industry, and was associated with the shift in payment systems from payment-by-results to measured daywork. Payment-by-results was most widespread among semi-skilled workers, and it was here that management had lost most control over the payment system and had to pay most to "buy back control", so that skill differentials suffered. Incomes policies then delayed the restoration of these differentials.

69. A second factor underlying the change may be the impact of rationalisation of work organisation and of production techniques which has undermined the position of many skilled workers engaged in production, and which would at the same time increase the demand for maintenance workers. This may explain the growth of the gap among skilled workers between those in maintenance and those in production jobs, and the (limited) convergence in pay - at least before 1980 - between skilled workers in

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production and the semi-skilled whose conditions they resemble more and more. A similar process of "deskilling" of production skills has been noted in other West European countries particularly in the 1960s and early 1970s.

70. Some indication of recent changes in occupational pay differentials in Sweden is given by an unpublished survey carried out by the employers' confederation, SAF(1). A summary of the results is shown in Table 5.

Table 5

Sweden. Occupational differentials in hourly earnings in industry in 1978 and changes since 1971 (Earnings as a percentage of manual workers, and of earnings in 1971).

	1978 (% of man. workers)	1971 = 100 (change since 1971)
Non-manual workers		
Middle management (job levels 4-5)	142.1	189.9
Clerical (job levels 6-8)	111.2	210.4
All non-manual	138.2	206.0
All manual workers	100.0	207.9

Note: the job levels are part of the system of job grading agreed between SAF and the white collar unions.

Source: SAF

The decline in the managerial, albeit middle management, differential, echoes that found in the other countries, but the increase in the gap between clerical and manual workers reflects the problems arising from the pursuit of two separate solidaristic wage policies by the blue collar and the white collar unions. This has led to a reduction of differentials within each group, but to a worsening of the situation of the more highly skilled manual workers compared with clerical staff, which has aggravated shortages of skilled workers.

(1) Some results were made available to the national press. Those quoted in this paper were published in "Veckans Affärer", No. 15, 1979.

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71. The changes in occupational differentials over the last few years have not taken place in response to any one single factor, and, although there were a number of factors at work in one form or another, in most of the countries differences in the institutional structures meant that they manifested themselves in varying forms and not always with the same results. As a result it is hard to draw firm lessons about the effect of collective bargaining and other pressures on occupational pay structures in recent years. However, some general points may be made.

72. While a number of the egalitarian provisions of certain stages of income policies (usually put forward in response to pressure from unions), or of indexation provisions as in the case of Italy, may pose problems for the recruitment and retention of more highly skilled workers, it should be remembered that one of the chief concerns of such measures has been not to alter the structure of the labour force but to protect the incomes of the lower paid and to reduce the rate of inflation. Taken overall it would be wrong to infer from the existence of such norms that collective bargaining as distinct from national social policies necessarily runs against promoting adjustment of the labour market. To a degree the problems some employers have had to face, as a result of some of the compression of differentials, in order to recruit certain grades of skilled labour, or to get certain people to accept upgrading or promotion, can be attributed to the sacrifice of one policy objective in order to achieve what was felt to be a more pressing objective.

73. Nevertheless, because trade unions are coalitions of groups of workers, often engaged in very different labour markets, they are under pressure to develop overall bargaining strategies which bring together as large a number of groups as possible, so there is an inherent tendency to opt for solutions transcending the conditions and problems of individual labour markets, which are often expressed in terms of justice or fairness, to the detriment of certain labour markets which may be of key importance in a strategy for adjustment (be it at the level of the firm or the industry). However, this short summary of some of the recent changes has also highlighted the importance of the different levels of bargaining, the different pressures to which they respond, and the ability of collective bargaining at the company or plant level to attenuate or reverse changes in differentials negotiated at a higher level. Thus bargaining at these levels can introduce an element of flexibility which may appear to have been sacrificed at higher levels.

74. Finally, in view of the long lead times required for the expansion of the supply of qualified labour, it would probably be undesirable to have a pay structure which was too responsive to short term changes in demand. There are thus very good economic reasons why change in the pay structure should be gradual, even in the absence of social norms linking the rates of different groups of workers.



(b) Industry differentials

75. Although changes in average earnings by industry display a much greater uniformity than changes in net output per head or in profits, the last fifteen years have also seen marked changes in some countries in the inter-industry dispersion of earnings, despite a general stability in the rank order of industry average pay levels.

76. In the four West European countries covered in this section there is a great deal of similarity in the rank order of industry pay levels with industries such as oil refining, coal mining, and printing occurring in the top paid, and textiles, wood, leather, and clothing and footwear appearing among the lower paid, even when attention is confined to manual men's pay. The low paid industries tend to be those with the highest proportion of women and juveniles.

77. A summary of changes in the dispersion of average hourly earnings between industries for male manual workers is given for all seven countries except Japan in the Charts below, showing the unweighted coefficient of variation of earnings between industries from 1966(1). The countries in which there have been big reductions in inter-industry differentials are France, Italy and Sweden. In France one of the main influences has been the minimum wage, which was raised by 35 per cent and linked to changes in average earnings instead of the price index, as a result of the Grenelle agreement in 1968 and subsequent government action. There was a revaluation of the minimum wage in July 1973, which contributed further to the reduction of differences in pay between industries. In Italy one of the main influences has been the adoption of a system of flat rate compensation for increases in the cost of living which was introduced at the beginning of 1977, after a transition period which began in January, 1976.

78. In neither France nor Italy do these changes account for the whole of the reduction in inter-industry dispersions, but

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(1) The data for the EEC countries were taken from Hourly Earnings and Hours of Work, published by Eurostat. The series for Great Britain was supplemented with material from the Department of Employment's October earnings survey published annually in the DE Gazette. These data relate to average gross hourly earnings of manual men in between 30 and 35 industries. Data for Sweden and the USA are taken from the Wages and Total Labour Costs for Workers: International Survey 1965-75, compiled by the Swedish Employers' Confederation, SAF, and updated from the International Labour Office's Yearbook of Labour Statistics. The coefficients of variation for Sweden and the USA are not strictly comparable with those for the EEC countries being based on a different industrial classification and a different grouping of industry headings. Moreover, the number of industries was smaller. The Swedish data are for manual men, but those for the USA are for manual men and women.

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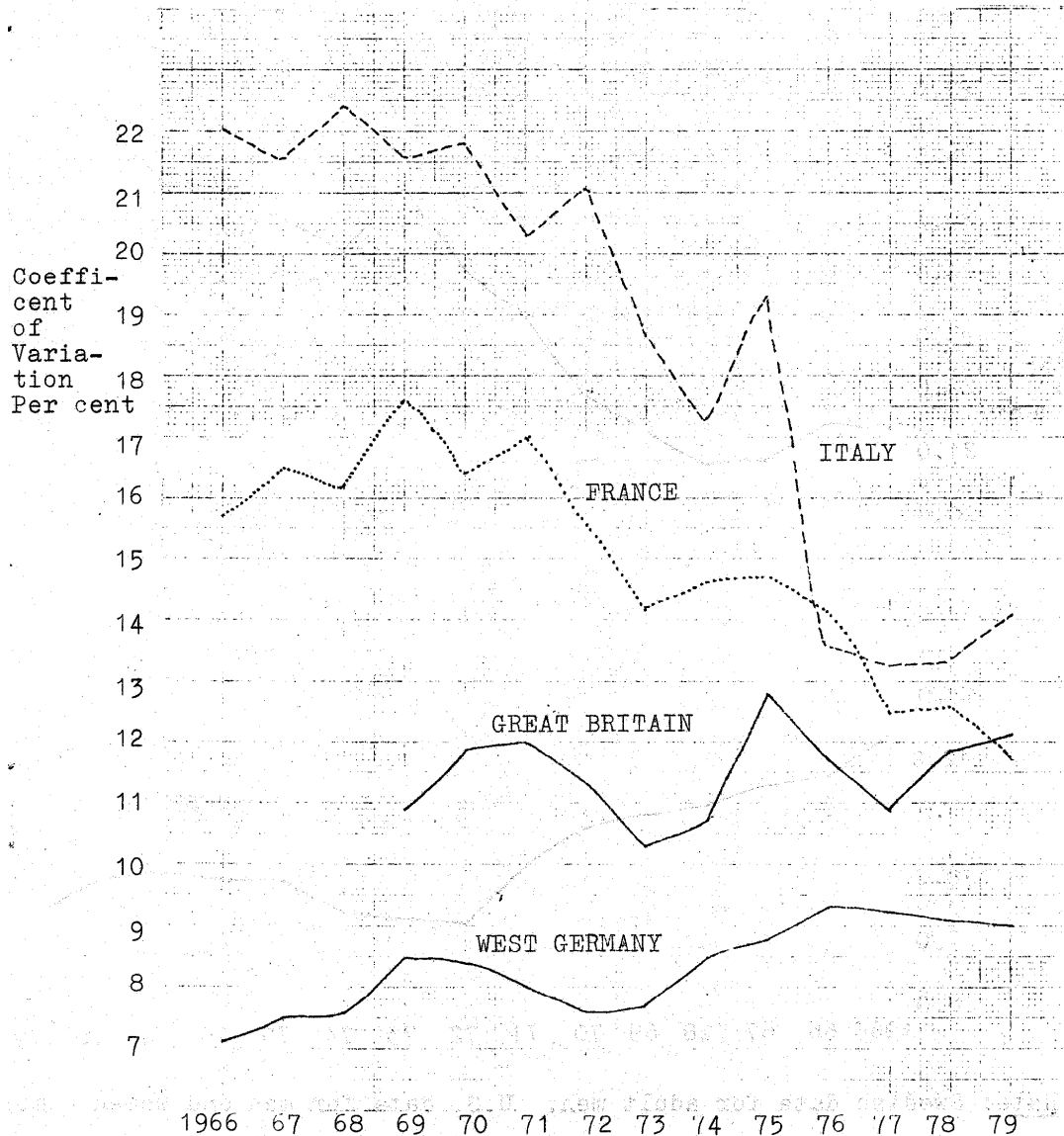
## CHART A

### Industry differentials in Britain, Germany, France and Italy

October 1966 - October 1979

#### Manual men: average gross hourly earnings

(unweighted coefficient of variation over about 30 industries in mining, manufacturing and construction)



Sources: Eurostat HEI and United Kingdom Department of Employment annual October earnings survey.

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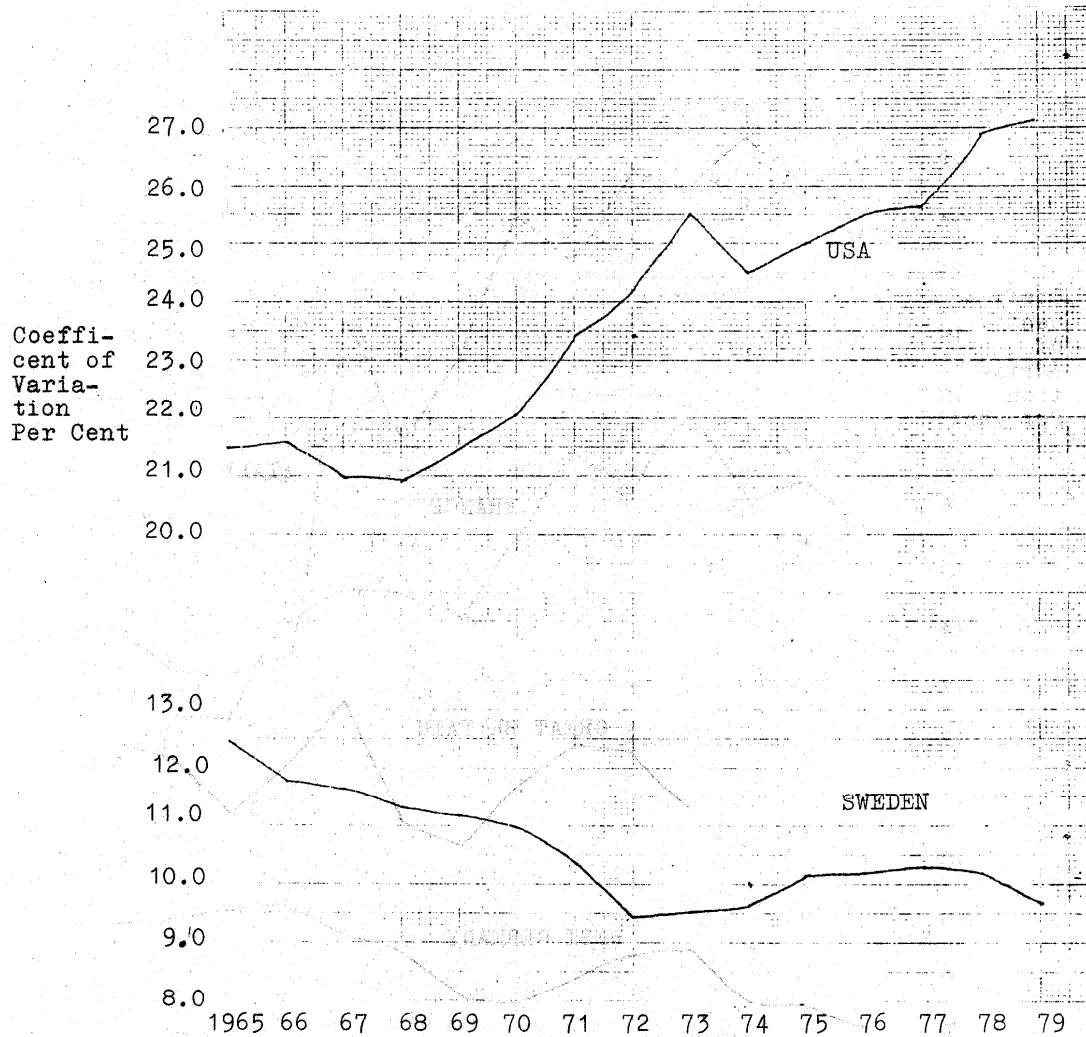
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## CHART B

### Industry differentials in Sweden and the USA 1965-1979

#### Manual workers' gross hourly earnings

(Unweighted coefficient of variation over 17 industries in mining, manufacturing and construction)



Note: Swedish data for adult men; U.S. data for men and women combine

Sources: Swedish Employers' Confederation 1965-77, updated from ILO Yearbook of Labour Statistics.

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especially in Italy, where the process was under way by the late 1960s, another factor has been the pressure for greater equality, and what might be called the institutional unification of the labour market which has involved the elimination of regional differences in wage rates in the industry(1) agreements between 1972 and 1974 and in the system of indexation, the adoption of the same rates in larger numbers of industries, and of a single pay scale for manual and non-manual workers. Some parallels can be found in France, notably with the end of regional zoning of the minimum wage in 1968.

79. The Swedish solidaristic wage policy, particularly in its early form of insisting on equal pay for equal work irrespective of the individual employer's performance, is largely responsible for the decline in inter-industry differentials up to 1972. It should be emphasised that these data relate to manual workers, and so will not reflect the adoption of a solidaristic policy by the white-collar unions in the early 1970s.

80. While the chart shows fluctuations but little sign of any trend in Britain, inter-industry differentials have increased in the United States and West Germany. The increase in the USA is not dissimilar to that which occurred in France between the late 1950s and 1968, when inter-industry differentials increased because the French minimum wage progressed less rapidly than average earnings. Inter-industry differentials in the USA began to increase after a period of stability up to 1968 and continued to increase until about 1973. In 1968 the minimum wage stood at 54 per cent of average hourly earnings of production workers in manufacturing. There was no change in the minimum until May, 1974, by which time it had fallen to 45 per cent of average earnings. It was raised by 25 per cent in that year, but continued from then on at about 45 per cent of average earnings.

81. The increase in inter-industry differentials in West Germany does not have any similar explanation(2). It displays a degree of counter-cyclicity which may be related to changes in the state of the labour market. One possible explanation for compression as the labour market tightens is that pressures on low pay industries increase proportionately more because they experience higher rates of turnover and are less able to retain workers with the promise of better prospects. As a result they have to make greater use of variations in pay levels. Such an explanation may be consistent with growing levels of unemployment, but one has to explain why there is little evidence for similar movements in France and Italy, unless the institutional factors already described have swamped them, but there is no easy test for this hypothesis.

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(1) Except in distribution and agriculture, where they still remain.

(2) See Chart A.

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82. Finally it has not been possible to match up data for Japan. However, referring to the Swedish Employers' Confederation compilations for 1965 to 1975, the coefficient of variation of hourly wage costs between industries over the period shows marked fluctuations but no clear trend.

83. One of the conclusions that one might draw from this section, for adjustment policies, is that the existence of a minimum wage in itself is less important than its level compared with average earnings. Inter-industry differentials increased in France as the minimum wage fell behind average earnings through the late 1950s and 1960s, and differentials increased in the USA during the period when the minimum wage was held down.

84. Minimum wages can function in many ways, as the French case illustrates. In the early 1950s it was designed as a subsistence floor, and the unions' wish to see it turn into a form of indexation for weaker bargaining groups did not materialise until 1968. There have also been pressures within the unions to link the base of company pay scales to the minimum wage so that it can act as a more general form of indexation, although this has been strongly resisted by the employers and the government. Thus the French minimum wage is very much part of the general system of collective bargaining, and its working is to some extent determined by this.

85. In this respect French experience does not appear to be qualitatively different from that of the Swedish solidaristic wage policy, which also grew out of concern for the lower paid, weaker, groups, and the problems for LO in designing a bargaining strategy suitable for negotiations with a highly centralised employers' confederation. The economic philosophy of the Swedish policy is perhaps clearer in that it sought to use this to push labour out of less productive uses and away from less efficient industries and included provision for retraining. The main difference in theory between this and minimum wage policies is that it applies to all levels of skill, and so leans in the same direction as market forces, while the effect of minimum wage policies is concentrated on less skilled groups, who arguably are more vulnerable to unemployment. However, in moving from theory to practice, although there has been a marked narrowing of industry differentials in Sweden, there has also been a considerable degree of wage drift, which will to some extent have re-established differentials between more and less productive employments, so that the chart shows the outcome of those two factors. The difficulties of drawing broader conclusions from the Swedish policy lie in the extent to which their success depended on the existence of alternative jobs for those displaced, and on the extent to which the degree of co-operation between government, unions and employers was dependent upon the centralisation of bargaining and the greater homogeneity of Swedish society.

(c) Sex differentials

86. Of the West European countries the biggest change in the differential in hourly earnings between men and women was to be found in Britain with the implementation of the Equal Pay Act, and its complement, the Sex Discrimination Act, in the early 1970s. This change does not seem to have had any major immediate effect upon women's employment, which has continued to grow until quite recently. One reason for this may be that, despite the sharpness of the change, it did no more than bring Britain into line with other major EEC countries. Other reasons are the marked rise in female employment in the public sector, more part-time work, and probably a higher degree of labour market segmentation.

Table 6

Women's hourly earnings as a percentage of men's.  
Manual workers in industry (all ages) October.

	1970	1978
<u>Manual workers</u>		
France	77.9	78.3
FR Germany	68.8	73.0
Great Britain	58.8 <sup>a</sup>	69.9 <sup>a</sup>
Italy	74.2	83.1
<u>Manual and non-manual workers</u>		
Sweden <sup>b</sup>	80.0	88.4
United States <sup>c</sup>	62.3	61.0

a) Adults, April

b) Adults in manufacturing

c) Median weekly earnings all sectors, May

Sources: France, FR Germany, Italy; Eurostat Hourly Earnings and Hours of Work; Great Britain, New Earnings Survey; Sweden, Yearbook of Labour Statistics; USA, US Bureau of Labor Statistics.

87. One positive aspect of the improvement in women's pay in Britain may be that women will be regarded less as a source of cheap unqualified labour, and that employers will look more carefully at ways of developing their potential and so make fuller use of their female labour force.

7. Pay structure, collective bargaining, and internal labour markets

88. The discussion of pay structure is often conducted in terms of traditional or customary differentials, which appear as rigidities in the price structure of the external labour market preventing the flexible adaptation to changes in the supply and demand of different categories of labour. However, the growing importance of internal labour markets, not least because of the very pressures for increased job security dealt with earlier in this report, has increased the importance of other types of pay differential, reflecting the amount of company-specific skills which cannot be transferred across the external labour market, notably differentials in pay reflecting age or length of service which are so much a feature of Japanese payment structures.

89. The extent to which such features are peculiar to Japan can be overstated. In a study of the structure of earnings in a number of EEC countries it was found that length of service, among manual workers in industry, was an important determinant of earnings in France and Italy, notably when compared with West Germany and Great Britain. Using data from the 1972 Eurostat Structure of Earnings Survey, it was also found that in France and Italy there was a greater tendency for skilled workers to be recruited from among the semi-skilled. These findings were broadly consistent with an analysis of the results of the 1973 Eurostat survey of vocational training (matched to data on training for school leavers for 1974 for Great Britain) which suggested that the prime reason for this lay in the key role played by apprenticeship in the training of manual skilled workers in Britain and Germany, providing skills that can be transferred across the labour market, and the greater importance of company based training and on-the-job experience in France and Italy(1).

90. This pattern of skill and training probably emerged in France and Italy because of the absence of a well-developed

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(1) David Marsden with the assistance of Lydia Redlbacher. A Study of the Changes in the Wage Structure of Manual Workers in Industry in Six Community Countries since 1966, Report for the Statistical Office of the European Communities, July, 1980, Mimeo, Eurostat/C2/80032, and forthcoming with Christopher Saunders, 1981, op.cit.

apprenticeship system (or equivalent form of vocational training in schools) placing the burden of organising training upon employers, and the weakness of the union within the workplace at least until the late 1960s, which meant that the employer had a fairly free hand in this. Similar conditions applied in Japan.

91. To set the Japanese pay structure in perspective one or two approximate comparisons may be made between the coefficient of variation of average monthly earnings of workers of all ages in industry with age and with firm size. According to the 1977 Basic Wage Survey the coefficient of variation for pay with age was 18 per cent, and that for size of enterprise was 12 per cent. In 1972 the roughly equivalent figures for France and Italy were respectively for age, 15 and 12 per cent, and for establishment size: 8 and 15 per cent(1). This suggests that many of the features of Japanese payment systems may be shared with Western European economies.

92. In the earlier discussion of job regulation and collective bargaining it was suggested that the unions had acquired greatest influence over the process of training and promotion, at least for manual workers, in Britain and Germany, and it was in these two countries that the greatest reliance was placed upon transferable skills and that pay increased least with length of service. Nevertheless the way in which such joint control materialised in the two countries was very different. Unfortunately it has not been possible to study the dynamics of the adjustment of these aspects of pay structure owing to the short time series available on these variables.

#### 8. Conclusions: pay structure and adjustment

93. Many economists have pointed to the ability of the labour market to allow the existence of differentials which did not appear to have any strong economic rationale, to the diversity of rates for similar work in different enterprises even in the same locality without any very apparent ill effects. Ignorance of the market on the part of workers no doubt played its part. But pay structure does not work only through the system of differentials between jobs with different employers, but between jobs within the same firm. Indeed, adjustment through the firm's internal labour market is likely to increase in importance in

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(1) The Japanese figures were taken from the 1977 Ministry of Labour Yearbook of Labour Statistics, and refer to regular monthly contractual earnings. The European figures were taken from the Eurostat 1972 Structure of Earnings Survey. It should be noted that there may be a degree of non-comparability owing to differences in payment systems, but both sets of data exclude periodic bonuses; which are important in Japan, but also in France and Italy.



future years, not least because of the very measures of job protection discussed in the first part of this paper. Under such conditions it is probable that inter-firm differentials and inter-industry differentials for particular jobs will decline in their importance for adjustment, and those between occupations within the firm, and between age and length of service groups become more central, as it will be these differentials which will be the central means by which employers will achieve flows of the right magnitude between the different job classifications within the firm. It may also prove to be an important element in employer and union planning at the enterprise level to avoid the need for lay-off by means of transfer and retraining. The need to adapt internal labour market structures may require greater flexibility in differentials within the firm, and this may run into conflict with the requirements of government pay policies which frequently freeze pay structures in their concern to achieve a ceiling on pay increases, and it may also run into conflict with union policies for changing differentials, for example to favour a low paid group.

94. Pay structures have undergone some marked changes in recent years, and have thus shown their potential flexibility. This flexibility was, however, often obtained as part of a policy to protect incomes against inflation, or to restrain pay increases. This responsiveness may have been obtained because it was possible to link such policies to more traditional union policies on equality, or at least of an improvement for the low paid. The question remains whether similar changes could be obtained to help policies of adjustment, especially when these might have involved an increase in some differentials. Such changes might prove easier to obtain within company internal labour markets, but this in any case is the level at which the brunt of the problems arising from technical change in production methods is likely to be felt.

#### 9. Conclusions: job security

95. Labour market adjustment can take place in many ways, and mobility of labour between firms and between industries is but one of these. Probably as important is the adjustment which takes place on the internal labour markets within enterprises, and, with the growth of large organisations, one could argue that what were once moves between enterprises have become movements between jobs within organisations. Our understanding of such mobility is much weaker than of that between organisations, but one important difference is the greater influence of collective bargaining over intra-organisational mobility.

96. While collective bargaining and legislation on job protection and compensation for redundancy may inhibit labour mobility between firms or between industries by encouraging labour hoarding, there is no reason to believe that this should of itself affect mobility within the firm. Indeed, such measures are likely to increase adjustment by redeployment and

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internal retraining. In some respects, however, use of internal redeployment accentuates internal labour markets, as the retraining involved is likely to be closely tailored to the present employer's needs, giving the worker a stock of training which may be of only limited use to him or her in getting a job elsewhere in the future. Thus both the employer and the employee can have an interest in the duration of their relationship, and some guarantee of job security becomes an essential condition for the working of this kind of flexibility. In the absence of such guarantees the individual worker has much less to gain by adapting to the changing technical needs of his present employer. Thus to some extent internal and external labour market adjustment represent alternative strategies for any particular section of an employer's labour force.

97. The extent to which they are alternatives depends upon a number of factors. Perhaps the most obvious is the extent of public involvement in industrial training. The role of the Swedish Labour Market Board is extremely important in facilitating labour mobility between sectors and between firms, and has contributed to the success of the solidaristic wage policy in easing the passage for labour into more profitable sectors. It has thus been possible in Sweden to combine a high degree of managerial control over transfers and training within the enterprise with labour mobility across the labour market.

98. How easily can such a solution be generalised to other countries? One important aspect of the solidaristic wage policy that reflects specifically Swedish conditions is that it was developed as a union response to a highly centralised employers' organisation. SAF is in this respect quite unique among the seven countries. Centralisation on both sides is probably also an important element in the success of the Swedish Labour Market Board's activities. Although tripartite regulation of such bodies is not confined to Sweden, the positive role played by AMS probably depends upon a high degree of co-ordination. Secondly, such a policy can pose difficult problems to unions operating under different conditions in other countries because the acceptance of labour mobility for economic, as opposed to personal, reasons reduces the opportunity for bargaining the terms of lay-offs.

99. A second factor is the organisation of skilled jobs and the regulation of job boundaries by collective bargaining. Of the countries studied it is in the United Kingdom and the USA that the grouping of sets of tasks into job territories plays the biggest part and, despite important differences in the way this is done in the two countries, it can be argued that in both such methods represent a response by workers to the problems of investment in training and job insecurity. Craft demarcation rules serve to ensure an adequate return on the investment in apprenticeship and seniority rules help to give individual workers some control over their investment in training within the enterprise which cannot readily be transferred to other employers. These two systems, and especially the first, are likely to reduce the extent to which adjustment within the enterprise can take place through transfers, and

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increase the degree to which reliance is placed upon local labour markets. Within the enterprise in Britain bargaining is more fragmented than it is in the USA, with greater reliance upon bargaining at the level of the work group. This is partly the result of the organisation of job structures, and partly reinforces them, but it also means that the range of issues discussed at any time are focussed at this level, and that broader strategic considerations are less easily introduced into the discussions.

100. Centralisation of negotiations within the enterprise is probably more important for the purposes of adjustment than whether negotiations are conducted at the national or the enterprise level. Although West Germany, like Britain, relies heavily upon apprenticeships for the production of (transferable) industrial skills, greater flexibility of labour allocation and job contents within the enterprise is achieved through the centralised bargaining with the works council. Indeed, compared with Britain, one might say that West German workers have developed a degree of positive control over job organisation, whereas British workers have more control at the level of the job, but this translates into a negative control at higher levels within the enterprise (an ability to resist rather than shape change). Nevertheless there exists within the German system a tension between such internal flexibility and the transferability of skills, especially if an apprenticeship has added to it a large proportion of non-transferable training or experience arising out of successive adjustments. But public programmes for retraining and additional training, particularly in broadening people's range of skills, can help counterbalance some of these dangers.

101. Legislation on job security is less likely to inhibit labour market adjustment where employers rely heavily upon adjustment through internal labour markets. This would not apply, however, where casual workers are used extensively, whereby variations in labour costs can be achieved over the economic cycle. Such transient workers receive very little protection as concerns job security, from either collective bargaining or the law.

102. In assessing the likely effect of job security provisions upon labour market adjustment it is important to remember that the greatest protection is often afforded to older and to long service workers, be it in terms of notice of redundancy or of financial compensation. Very often the reason for extending more protection to such people lies in the greater difficulty they experience in finding a new job. The main problem posed by such workers lies in the personal and social difficulties they face when displaced than in labour market and industrial adjustment. The greater ease with which younger workers find new jobs is an indication of their greater value to a new employer because of their greater potential for training, and the longer period over which this might produce some return. It is the mobility of workers in this age group which is the

most important, and an employer is far more likely to "hoard" such labour because of the greater competition to recruit it than because of compensation for redundancy or lay-off, which will on account of their age and shorter service be less than that for the older workers.

103. In the absence of a detailed statistical analysis of the incidence of the costs of provisions for job security, it would seem, *prima facie*, that their effect upon labour market adjustment is easily overstated, especially when compared to other factors.

104. The growing importance of internal labour markets, not least because of increasing specificity of employers' training requirements, means that a central problem in designing adjustment policies lies in assessing the way in which collective bargaining within the enterprise has developed, particularly since the late 1960s(1). This has led to a fundamental change in relations within the enterprise, notably by reducing the number of decisions management can take concerning work conditions and organisation without either consultation or negotiation. It is unlikely that this change can be reversed, so an important part of adjustment to incremental changes within the enterprise will require the development of adequate procedures at this level to deal with the problems which arise.

(1) See N.F. Dufty, Changes in Labour-Management Relations in the Enterprise, OECD, Paris, 1975.

ANNEXSome features of collective bargaining in the seven countries  
and recent changes

1. In all seven countries (though the USA is rather different from the others) unions and employers' associations are organised at a number of levels ranging between the enterprise and the national level, and even if collective bargaining is not conducted at all levels, as is the case for example in Japan and the United States, where it is mostly confined to the enterprise, the national level nevertheless remains important for lobbying or discussions of economic and social policy. As effective pressure tactics usually require the ability to give something in exchange, for example securing a degree of adherence to an agreed norm in an incomes policy, the linkages between the higher and lower levels of union and employers' organisations and collective bargaining, in the form of the ability to carry the support of lower levels, can be extremely important. Such linkages are also important in determining the extent to which governments can use consultation on economic, or indeed on adjustment, policies as a way of gaining acceptance of them and increasing the chances of their success.

2. A convenient and up-to-date account of the industrial relations institutions of these seven countries can be found in other OECD publications (1). All that is necessary here is to combine a brief reminder with illustrations of the importance of varying levels of bargaining in the different countries and the linkages between the various levels. The most centralised countries with the most effective linkages between the industry and enterprise levels, namely Sweden and West Germany, will be considered first. Then two countries with well developed central bargaining which is less well articulated with enterprise bargaining, namely France and Italy, will be considered, before passing to the countries in which enterprise bargaining is the dominant form, the United Kingdom, Japan and the United States, although in the British case one should not overlook the importance of industry and sector-wide agreements. Because the main concern of this paper is with industrial adjustment, attention will be focused primarily on bargaining in industry as distinct from services or agriculture.

Sweden

3. The ability of Swedish unions and employers to reach a central bargain over pay is one of the reasons for their success in relating pay bargaining to other aspects of economic

(1) See especially Collective Bargaining and Government Policies in Ten OECD Countries, OECD, Paris, 1979.

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policy, and to industrial adjustment. The so-called solidaristic wage policy, which has sought to reduce pay differences between workers doing the same work in different firms and industries, and which probably accounts for the smaller inter-industry differentials as compared with the other six countries, would have been much more difficult to achieve without centralised bargaining. Interpretations of the policy vary, but its basic objective has been to reduce inequalities between those doing similar work, and to prevent workers subsidising inefficient employers or declining industries by taking low wages. This policy has sought the movement of workers out of the low productivity firms and industries, one of the expressed objectives of positive adjustment policies, so that the active manpower policy, particularly in the area of retraining and of labour market information pursued through AMS (the Swedish Labour Market Board), has been an important element.

4. Although the Swedish employers have pursued a centralised pay bargaining strategy since the beginning of the century, backed up by a strike insurance fund, centralisation on the union side only developed in response to this, and the unions are still divided into three main organisations: LO, mainly for manual workers (about 2,000,000 members), TCO for non-manual workers (about 1,000,000 members) and SACO/SR for professional staff, mainly with university degrees (about 200,000 members). Of these LO has developed the most centralised approach to bargaining, and has been the main advocate of the solidaristic wage policy. The TCO does not bargain centrally on behalf of white collar workers, partly on account of the diversity of conditions of white collar employment, but delegates these powers to four "cartels", of which the PTK deals with the private sector and collaborates closely with LO.

5. The basic framework of industrial relations has been established by collective agreement, the most important step being the Saltsjöbaden agreement of 1938, and until recently the law has played a subordinate role. Important changes occurred when LO dropped its opposition to legislation on job security in 1971, and moved away from its policy of developing consultation at the enterprise level through works committees established by collective bargaining to one of pressing for legislation on industrial democracy. These changes led to the legislation on job security in 1974 and on industrial democracy (the Codetermination, or MBL, Act) in 1976.

6. The pressure for greater industrial democracy represents some movement away from centralisation by creating a new level for negotiation and reinforcing the powers of the union "clubs" or branches in the enterprise. The Codetermination Act, 1976, to be discussed later, established certain minimum rights of consultation and negotiation going far beyond the limited powers of the old works committees, which have declined in importance, but it was intended that these should be supplemented by agreements setting up fuller machinery for

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participation. The electoral defeat of the Social Democrats and the change of economic climate shortly afterwards has meant that only very slow progress has been made on the participation agreements in the public sector, and almost none in the private sector. Nevertheless the basic rights of consultation and negotiation over a very wide range of questions (including the appointment of management staff) set out in the Act apply. Thus, while the centralised system remains the main focus, the direction of future events, in particular over bargaining on adjustment policies, is in a state of flux.

## Federal Republic of Germany

7. Although the main German trade union confederation (the DGB), and the German employers' confederation (the BDA) do not bargain centrally, the industrial relations system of the Federal Republic has been sufficiently stratified to permit pay bargaining to be related to the wider economic context. However, the policy of "concerted action" between unions, employers and the government, suspended in 1977 when the employers contested the constitutional legitimacy of the 1976 Codetermination Act, did not operate for so long as has the Swedish centralised bargaining system. Moreover, growth and the restriction of inflation were the main objectives rather than adjustment.

8. Bargaining over pay and conditions takes place at the industry cum regional level between the industry union and employers' association, establishing a frame agreement (Manteltarifvertrag) which sets the parameters for company and plant level negotiations between the works council and local management. Legally, the parties at this level have to reach agreement within the terms of the frame agreement, or go to compulsory arbitration by a tribunal (Einigungstelle). Strike action and lockouts are legal only in support of the regional level negotiations.

9. Negotiation over questions related to adjustment has usually taken place either at the industry level, as in the case of the "rationalisation agreements" of the late 1960s, which concerned provisions for union co-operation in technical change as it affected jobs, and at the enterprise level, particularly since the passing of the 1972 Works Constitution Act. This gave considerable powers to the works council in the event of redundancies, and restructuring of the enterprise. An important element in these policies has been the strengthening of bargaining power at the enterprise level within the works council, which has allowed the discussion of changes to take place at a level at which the individual concerns of different work groups can be set against the interests of the work force as a whole, and at which longer term considerations can be more easily taken into account.

France and Italy

10. In France and Italy inter-confederal bargaining, that is to say bargaining between national central employers' and trade union organisations, is important, particularly for questions such as general conditions of work, although pay bargaining has effectively been centred at the industry or industry-regional level. Until the early 1970s, the main reason for this lay in the power of the unions at the national level compared with their relative weakness at the local level, and especially in the workplace (although there were some exceptions, e.g., Renault). In France the inter-confederal level has been the main area of bargaining for such questions as the extension of staff status to manual workers (1970 and 1977), the length of the working week (v. the current discussions on a reduction of working time) and, most important, the agreements on job security (1969 and 1974), both of which subsequently became the basis for legislative action. Despite the political impact of the events of May 1968 and the factory occupations at that time, bargaining at the company level did not receive a permanent boost, and recently there have been a number of reports that companies have moved to refocus their workplace relations on first line supervisors, thereby reducing the influence of the unions in relation to the enterprise.

11. In Italy, the inter-confederal level has, in contrast to France, also played a major role in the establishment of a procedural framework for collective bargaining, throughout the post war period, setting up the system of articulated bargaining and of factory commissions (commissioni interne) both of which broke down under the pressure of the "Hot Autumn" of 1969). Bargaining at this level has also played an important part in establishing the rights of the factory councils (consigli di fabbrica) and workplace bargaining set up after 1969. With the disappearance of the system of articulated bargaining at the close of the 1960s went the demarcation of responsibilities between the different levels of bargaining for dealing with particular sets of issues which has, according to some, given an inflationary twist to the system. Wage indexation also appears to have played a part in Italian inflation.

United Kingdom

12. In the United Kingdom one can also see a decline in the importance of industry level bargaining and an increase in the company level, in the private sector and in manufacturing industry. In the public sector, national agreements continue to be the main influence on actual earnings. Although in the important engineering industry national agreements continue to determine basic conditions of employment, including normal weekly hours, (see the 1979 national engineering strike over the reduction of the working week below 40 hours), the plant and company levels have grown in importance for pay and questions of job regulation, (e.g. with the introduction of new technology), and for redundancies.



13. The task of co-ordinating any central adjustment strategy in any country is extremely difficult, but many have argued that it is made more so in Britain by the nature of its union and employers' associations, neither of which has developed any powerful central organisation. In common with the West German and the American systems the British Trades Union Congress (TUC) and Confederation of British Industry (CBI) do not bargain centrally, but despite their influence on national economic policies, particularly during periods of voluntary incomes policy, they have no more than powers of persuasion over their constituent organisations. Moreover, Britain also has a much more fragmented union structure than any of the other countries, particularly at the enterprise level, and in the private sector. In recognising this one should not forget that inter-union rivalries exist in most countries, and that even in the countries where unions are organised by and large on an industry basis, there are cleavages between industry unions belonging to rival confederations, as in France, or between blue and white collar unions as to some extent, in Sweden or West Germany. Thus the difficulties posed by Britain's fragmented union structure should not be regarded as different in kind from those faced in other countries. However, fragmentation may make it much more difficult to apply adjustment policies agreed upon by central employer and trade union organisations, because of the greater number of points at which objections can be raised and supported by organised action. Although for a time Britain had, under the Social Contract, an incomes policy which was designed to compress pay differentials, and could in the long run have developed on the lines of the Swedish solidaristic wages policy, the occupational fragmentation of trade unions meant that the more skilled (manual and non-manual) were sufficiently well organised to exert pressure for a re-establishment of differentials, so the policy as far as pay was concerned had to retreat to simple restraint.

#### United States

14. One of the difficulties of talking about the United States' system of industrial relations is that, despite the general framework of legal rights that are given on collective bargaining, a relatively small proportion of workers, by West European standards, are unionised or, correspondingly, covered by collective agreements. American trade union membership as a percentage of the total labour force stood at about 20 per cent in 1978; however, membership in manufacturing industry is somewhat higher at about 40 per cent(1). As the greater part of adjustment policies have been concerned with industry, which has been more affected by changes in technology and the terms of trade, the importance of collective bargaining should not be underestimated.

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(1) The membership figures are taken from the U.S. Department of Labor, Handbook of Labor Statistics, 1980, table 165. Union membership has been declining, at least in the private sector (see Richard B. Freedman, The Evaluation of the American Labor Market 1948-1980, Harvard Institute of Economic Research Discussion Paper No.758, April 1980.

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15. One of the reasons for this situation lies in the weakness of employers' associations, which never developed the strength customary in Europe, mainly because of the directions given to collective bargaining by the Wagner Act, 1935, and because of anti-trust legislation. As a result multi-employer agreements play little part, and the main focus of collective bargaining is on the enterprise. Moreover, while many aspects of American enterprise bargaining may resemble practice in Western Europe, one has to remember that it does not take place against a background of industry or regional agreements.

16. Despite the decentralisation of American collective bargaining a degree of coordination can be achieved through the existence of well-defined wage rounds and of certain key bargains which set the pace for subsequent bargaining in other companies or industries. These have, to some extent, been open to influence by appeals from the President for cooperation in government incomes policies through high level meetings between union leaders and government officials.

## Japan

17. Understanding Japanese industrial relations for people from Western Europe or the U.S. is made extremely difficult by lack of understanding - or misunderstanding - of how the system works. As in the U.S. the main focus of collective bargaining is the enterprise although in its most developed forms this is confined to the medium and large firms, and most of its benefits, for example in terms of job security (1), accrue to the prime age regular male labour force.

18. A good deal of the capacity to adjust to changing markets, both for companies and for the collective bargaining system, lies in the ownership structure of the large companies, and the fact that many of these spread across separate industrial labour markets. These companies differ from many West European conglomerates in that the unification of decision making extends beyond financial management to a whole range of other areas including production and manpower. Under such conditions, it is possible to accommodate desirable adjustment by moving workers from one type of industrial activity to another. Moreover, such changes would be within the jurisdiction of the same enterprise union.

19. Industrial unionism as such has only developed fairly weakly, with certain exceptions, for example the seamen's union; and the industry federations remain federations of enterprise unions. The main form of coordination lies in the "spring offensive" in pay bargaining (the "shunto"), in which the unions harmonise their pay claims and bargaining strategies. There is

(1) Shirai and Shimada, op.cit., have argued that job security in the form of lifetime employment has been the fruit of union pressure, and a sort of quid pro quo for leaving management free on training, job allocations and career management.

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little sign of this having extended to other issues, nor has it developed into direct bargaining at the federation level.

20. It is often pointed out that the success of the privileged relationship between large Japanese companies and the enterprise unions depends upon the existence of a secondary labour market of workers in small firms who work on contract for the large ones, and it is these which bear the brunt of lay-offs in recession, and provide the large companies with the variable element in their labour costs which allows them to retain a permanent labour force. Women and workers past retirement age often also work outside the security of the lifetime employment system.