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# Unemployment Reduction in Canada: Lessons from Japan and Sweden

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### Article abstract

The active labour market policy has been used to reduce the duration of unemployment in Sweden. The lifetime employment System has been used to lower the incidence of unemployment in Japan. Will the adoption of similar policies in Canada produce comparable reductions in unemployment? Emulating Japan and Sweden could prove difficult, since their policies reflect and reinforce employment interests that are very different from Canada's. As a result, neither lifetime employment nor active labour market policy is transferable to Canada without major modifications to suit the stakeholder interests of Canadian unions, employers, and employees.

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# ***Unemployment Reduction in Canada***

## ***Lessons from Japan and Sweden***

**J. MARK HARCOURT**

*The active labour market policy has been used to reduce the duration of unemployment in Sweden. The lifetime employment system has been used to lower the incidence of unemployment in Japan. Will the adoption of similar policies in Canada produce comparable reductions in unemployment? Emulating Japan and Sweden could prove difficult, since their policies reflect and reinforce employment interests that are very different from Canada's. As a result, neither lifetime employment nor active labour market policy is transferable to Canada without major modifications to suit the stakeholder interests of Canadian unions, employers, and employees.*

Canada has suffered worse unemployment than most other OECD countries during the last two decades. The problem has grown more severe since the onset of recession in 1990, as unemployment has climbed above eleven percent of the workforce. However, even in economic recovery the unemployment rate has not dropped below seven percent (OECD 1993). Every year since 1975, more than one in five Canadian workers has suffered unemployment (Watson 1989) and the losses in income, social integration, and self-esteem which that entails (White 1991). Only twenty percent or less of this unemployment has been associated with voluntary quitting. Most is accounted for by temporary and permanent layoffs and by new entrants and reentrants unable to find work (Gunderson and Riddell 1988: 500).

Canada's unemployment problems are linked to the individualistic orientations of its liberal labour market institutions. This liberal paradigm emphasizes the freedom of employers and employees to enter into and exit

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from employment contracts at will. Employers can thus legitimately vary the size of their workforces in accordance with fluctuations in the character and magnitude of their labour demands. For this reason, layoffs typically affect fifteen percent or more of the workforce (Statistics Canada 1992: 24) and cause forty percent or more of unemployment at all stages of the economic cycle (Gunderson and Riddell 1988: 500). Liberal ideology places the burden of coping with these changes on individual workers, who are charged with finding new jobs, acquiring the appropriate skills in demand, and moving to where work is located. Governments play a residual and passive role in tackling unemployment problems, chiefly by providing educational training through community colleges and income maintenance through unemployment insurance. Job search, training, and mobility assistance have been provided in the past through programs such as the Canada Manpower Program and Canadian Jobs Strategy, but these limited efforts have been focused on particularly needy individuals (Guest 1985). This residual approach has left most employees with the full responsibility of finding and qualifying for jobs. As a result, many individuals suffer long spells of unemployment because they lack either the labour market information required to find work quickly, the marketable skills necessary to qualify for work, or the financial means to relocate nearer work.

Canada needs new approaches to its unemployment problem. It needs new ways to reduce the high incidence of layoffs and the duration of unemployment spent looking for work. Japan and Sweden represent two alternative approaches for reducing unemployment that Canada might conceivably emulate. Both approaches have helped each country sustain low unemployment rates since 1975. Japan's rate has never exceeded four percent, whereas Sweden's only surpassed five percent after 1991 (OECD 1993). Responsibility for these successes rests in part with the lifetime employment system in Japan and active labour market policy in Sweden.

The active labour market policy provides a complementary combination of mobility grants, training, relief work, and employment search services that are 'actively' adjusted by labour market boards to accommodate changes in the volume and type of unemployment in Sweden. Research evaluating the policy's effectiveness is so far limited, but the quasi-experimental studies that have been conducted indicate that it has helped lower the duration of unemployment (Bjorklund 1991). Completed spells of unemployment during the late 1980s thus averaged only eleven weeks in Sweden as against fifteen weeks in Canada, although these durations have subsequently risen in the recent recession by six and five weeks, respectively (Swedish National Labour Market Board 1994: 11; Corak 1993: 4.7). Sweden's active labour market policy has also provided training and relief work alternatives to unemployment for as many as half of those workers without regular jobs, particularly during recessions (Bjorklund 1991: 73).

The Japanese lifetime employment system provides employment security primarily to male regular workers, but the practices used to safeguard it also provide many employment security protections to female regular employees and to temporary and day workers on fixed-term contracts. Investigations of employment practices in Japan show that long-term employment is a reality for most Japanese workers, although more for males than females (Clark and Ogawa 1992; Hamada and Kurosaka 1984; Hashimoto and Raisan 1985; Houseman and Abraham 1993; Tachibanaki 1987). Changes in working hours are generally preferred to layoffs in accommodating any downturn in economic activity, so that the unemployment rate remains highly insensitive to major declines in economic activity (Hamada and Kurosaka 1984; Tachibanaka 1987).

Canada could adopt the active labour market policy and lifetime employment system to respectively reduce the duration and incidence dimensions of its own unemployment problem, but only if these institutions prove truly transferable to a Canadian context. This paper examines the feasibility of such transfers by focusing on some of the factors responsible for the emergence and maintenance of the two policies in the postwar era.

### ***DESCRIPTION OF THE TWO SYSTEMS***

#### ***Japan***

Japanese lifetime employment (or *shushin-koyo*) refers to the employer practice of recruiting employees directly from high school or university every spring and then retaining them until retirement at between fifty-five and sixty years of age (Clark 1979). The formal policy of lifetime employment is only guaranteed to approximately thirty-five percent of the workforce (Cole 1972; Dore 1973; Ouchi 1981), although coverage varies from a low of about twenty percent in smaller enterprises with fewer than fifty employees to a high of around seventy percent in larger enterprises and government departments with more than one thousand employees (Whitehill 1991: 130). Nevertheless, Japanese firms provide long-term tenure to a second tier of employees excluded from lifetime employment, thereby guaranteeing a kind of de facto 'near-lifetime' employment. Tenure lengths are consequently long for all gender, age, and firm-size groups. For example, the average tenure length for 1986 to 1988 was thirteen years: sixteen years for firms with more than a thousand employees and ten years for firms with between ten and ninety-nine employees (Clark and Ogawa 1992: 337). A comparison pertaining to the late 1970s also shows that Japanese men have substantially longer tenure than American men, especially in the smaller firms and younger age groups (Hashimoto and Raisan 1985: 723, 726). An OECD study similarly indicates that tenure lengths are seventy percent longer for

Japanese than Canadian men and thirty percent longer for Japanese than Canadian women (Tachibanaki 1987: 669). Moreover, although separation rates in Japan are almost twice as high for women as they are for men, output-employment elasticities suggest that Japanese women are still less than half as likely to lose their jobs in an economic downturn as either American men or women (Houseman and Abraham 1993: 47).

Formal and informal variants of lifetime and 'near-lifetime' employment are common in Japan today, but before World War Two these practices were limited to skilled workers and management. Even as late as 1962, average employment tenure of Japanese males was no longer than that of American males (Koike 1978), because the lifetime employment system had at that time been in existence for only a decade. Employment tenure was greatly lengthened in the 1960s with the major economic boom, but was not generally shortened after the onset of recessions and slowdowns in the 1970s and 1980s. In fact, average tenure increased by four years during this period: two years for workers aged thirty-five to forty-nine, and five years for workers aged fifty to fifty-nine (Clark and Ogawa 1992: 337).

Japanese organizations offer lifetime employment not as a legal guarantee, but as part of an informal, psychological contract in which employee devotion to the company is expected in return (Clark 1979). A *quid pro quo* is established whereby lifetime employees promise not to quit and employers promise to avoid dismissals and layoffs. An employee demonstrates his commitment to the firm during a rigorous induction process that frequently encompasses a written exam, personality evaluation test, panel interview, physical examination, letters of recommendation, background check, and probationary work period before any assurance of lifetime employment is extended (Clark, 1979; Dore 1973; Marsh and Mannari 1976; Rohlen 1974). Employees are selected for displaying "the right attitude of eager deference" to managerial authority, together with a "demurely and obediently persevering" manner (Clark 1979: 178). However, women, foreigners, retirees, and mid-career employees recruited from other firms are generally excluded from any consideration for lifetime employment status, under the assumption that these employees cannot demonstrate, or have not previously demonstrated, sufficient organizational commitment. Women, for example, are expected to accommodate the demands of child-raising by maintaining a casual or temporary workforce attachment (Carney and O'Kelly 1987; Whitehill 1991), even though in reality most continue to work full-time for one employer after their children are born (Houseman and Abraham 1993).

An employer reciprocates a lifetime employee's commitment by taking measures to ensure that individual's employment security within the firm. If an employee engages in grave misconduct, for example, an employer is

likely to use transfers and demotions as substitutes for dismissal (Clark 1979; Rohlen 1974). Similarly, when revenues are down and costs have to be reduced to restore profits, an employer is likely to implement hiring freezes, shorter work weeks, production for inventory, early retirements, layoffs of contract workers, and employee transfers to other companies in its *keiretsu* (or group) as alternatives to layoffs (Befu and Cernosia 1990; Hashimoto 1990; Sethi, Namiki, and Swanson 1984). Changes in working hours provide the first (Tachibanaki 1987) and primary adjustment mechanism for accommodating more than half the fluctuations in the output of the Japanese economy (Hamada and Kurosaka 1984: 85). The termination of new hiring generally follows, when decreases in working hours prove insufficient to cope with a drop in orders. If this second step fails to resolve cost problems, companies then resort to workforce reductions. These initially take the form of transfers to other firms within the same *keiretsu*. Once these are completed, further position eliminations are accomplished through voluntary retirements of older personnel who are induced to quit through severance payments or management pressure. Finally, any additional workforce cuts are achieved through layoffs, with temporary, day, or part-time female workers discharged first, followed by female regular employees, and then by male regular employees covered by lifetime employment (Tachibanaki 1987).

The various techniques for avoiding layoffs have faced many demanding tests over the past twenty years. Oil shocks, recessions, currency appreciations, and product demand shifts have periodically forced Japanese companies to sharply decrease their operating costs (Befu and Cernosia 1990; Dore 1986; Sethi, Namiki, and Swanson 1984). Firms have responded in all their usual ways, but hiring freezes, overtime reductions, shortened work days, and layoffs of temporary and day workers have remained the most popular options (Hashimoto 1993; Mroczkowski and Hanaoka 1989). As a result, lifetime and 'near-lifetime' employment endure and even flourish, despite the economic strains.

The lifetime employment system and its associated practices have helped minimize the incidence of involuntary turnover for all workers in Japan, even though male lifetime employees have benefited more than other groups. Temporary layoffs in Japan typically account for only one-fifth of one percent of the workforce as against one percent in the United States (Hashimoto 1990: 41). As a result, the unemployment rate, even when adjusted to match U.S. definitions, is highly insensitive to changes in economic conditions (Tachibanaka 1987: 648). Hamada and Kurosaka (1984: 85, 92) have, for example, estimated that a one percent rise in the unemployment rate requires a GNP decline that is proportionately five times greater in Japan than in the U.S. This would mean that the same percentage decline in

output generates one-fifth of the increase in the unemployment rate in Japan than in the U.S., even after adjusting for definitional differences in unemployment.

### *Sweden*

Low unemployment is the primary goal of Swedish active labour market policy, rather than a secondary effect as it is with lifetime employment in Japan. The importance of this goal in Sweden reflects the long-governing Social Democratic Party's (SAP) desire to satisfy the immediate needs of its Swedish Trade Union Confederation (LO) supporters for more jobs and income. The SAP government, in power for fifty-four of the last sixty-two years, has also used full employment to stimulate the demand for unskilled labour and thereby reduce income inequality and relief dependency, which together threaten to impose major financial burdens on an already costly welfare state (Ginsburg 1983).

In the fight against unemployment, the active labour market policy is the main weapon in the Swedish government's arsenal. It consists of three sets of interrelated programs which are used to improve the demand for labour, the supply of labour, and the matching of labour supply and demand. The public costs of these programs are usually in the range of two to three percent of annual GNP (Swedish Institute 1993). The demand-oriented programs primarily consist of wage subsidies, recruitment subsidies, and public relief work, which have been used to provide up to sixty thousand additional jobs per year in occupations, industries, and regions where there are labour surpluses. The supply-oriented programs incorporate vocational training and mobility assistance which are used to increase the availability of qualified workers by more than one hundred thousand people each year in occupations, industries, and regions where there are labour shortages (Swedish Institute 1993). The matching programs encompass guidance counselling, job placement, aptitude testing, occupational rehabilitation, and job clubs which are used to match more than one million workers per year with jobs that fit individual needs and abilities. These programs are available to all job-seekers as part of an attempt to ensure a universal right to work, even though the active labour market policy caters predominantly to heavy-user groups of female, young, or disabled workers who represent the most employment-disadvantaged people in the workforce (Swedish Institute 1993).

Low unemployment is difficult to ensure in a dynamic capitalist economy where job opportunities shift as production methods and consumer tastes rapidly change. Nevertheless, Swedish labour market policy is 'active' in preparing for, and adjusting to, labour market changes. The Labour Market Board (AMS), which oversees the policy, is sufficiently independent of gov-

ernment bureaucratic and financial control to exercise discretion in rapidly dropping obsolete programs and adopting innovative new ones, even when major increases in expenditures are at stake (Rothstein 1985). Central government direction of labour market activities is proscribed by the constitution, except in narrowly defined circumstances and only then through published, official 'letters' (Rehn 1984). In fact, the AMS is even encouraged, under the 1966 Labour Market Ordinance, to undertake rapid and flexible measures in promoting the optimal functioning of the labour market and in ensuring the elimination of unemployment whenever or wherever it occurs (Rehn 1984). This far-reaching trust in the Labour Market Administration has stemmed from its corporatist governance structure in which all major industrial relations actors previously participated in an executive capacity. However, the employer and union federations have assumed a more limited role since 1992 through their membership on the AMS Advisory Council (Trehorning 1993).

### ***POSTWAR INNOVATIONS IN SUPPORT OF DOMINANT INTERESTS***

The Japanese lifetime employment system and Swedish active labour market policy are not the inevitable outcomes of the cultural evolution of the two countries. On the contrary, both represent the intentional efforts of dominant interests to satisfy important constituencies and consolidate recently achieved power at a particular juncture in time.

#### ***Japan***

Japanese lifetime employment achieved its present dominance in the 1950s, when employers used it as a strategy for undermining militant, left-wing trade unionism and for reestablishing managerial control over, and cooperation from, the workforce. In contrast, the traditional employment practices of prewar Japan provided little job security. Early capitalist development in the late nineteenth century followed the earlier British model in its reliance on casual labour for cottage industries. In silk, lacquer, pottery, porcelain, sake brewing, and fish canning among others, family groups performed most of the work and hired day and seasonal labourers to cope with the peak product demand periods (Cole 1978: 252). Work on larger-scale construction, mining, shipbuilding, and transportation projects was organized through internal contracting in a manner consistent with earlier British experience (Cole 1978). In these cases, work was subdivided into parts that were then subcontracted to gang-bosses. Each gang-boss (or *oyakata*) then hired, trained, directed, and compensated a team of other workers who performed the work on the premises and with the tools of the original contractor. Whenever production was complete, each team either



disbanded or moved on to work for a new contractor in a different location (Dore 1973; Fruin 1989; Nakagawa 1989).

Job security improved as work time was regularized to suit the new and expanded product demands of militarization, following the 1894-1895 Sino-Japanese and 1905 Russo-Japanese Wars. New industries developed in cars, trucks, chemicals, railway equipment and other heavy industries, and these required new forms of skilled labour. Established industries in ship-building, iron and steel, and mining also grew dramatically, producing a major labour shortage in existing trades (Dore 1973; Fruin 1989; Hirschmeier and Yui 1975). Total employment in the entire engineering sector jumped from 13,000 in 1890 to 150,000 in 1905 (Dore 1973: 387). Firms increased in size and capital intensity, creating problems in the coordination of work gangs. However, the internal contracting system was poorly adapted to cope with these changes. For instance, low unemployment facilitated the movement of work gangs across firms, thereby inhibiting the possibilities of training in the new skills. In addition, the independence of work team activity rendered coordination and integration within large firms very difficult. Several major employers responded to these problems by abolishing the gang-boss system and replacing it with the direct employment of young, male primary school graduates who were then trained for skilled work (Dore 1973; Hirschmeier and Yui 1975; Nakagawa 1989). For example, Mitsubishi Nagasaki Shipyard created a five-year internal training program in 1899 which by 1908 had completely superseded the internal contracting system (Fruin 1989; Iwauchi 1989; Nakagawa 1989). Yawata Iron Works, Kanegafuchi Cotton Mills, and Yasuda *zaibatsu* among others also developed their own internal training programs that were sometimes complemented by bonus and compulsory savings plans to discourage employees from quitting and taking their expensive skills with them (Iwauchi 1989; Hirschmeier and Yui 1975; Nakagawa 1989). Many of the cotton mills also instigated sick pay and pensions as part of welfare capitalist efforts to attract and retain new recruits while simultaneously dampening industrial unrest and undermining political support for proposed labour standards legislation (Dore 1973). These initiatives were predicated on the managerial ideology of 'familism' under which employers assumed paternalistic responsibility for the health and welfare of their employees (Dore 1973; Hirschmeier and Yui 1975). The principal beneficiaries of these changes were skilled employees who gained some measure of employment continuity and security. However, employment remained casual for the majority of unskilled workers.

The present lifetime employment system emerged in the aftermath of World War Two from a power struggle between unions and employers over the right to control the firm. Prior to the war, unionization was limited by both aggressive management opposition to organizing campaigns and vigorous state suppression of strike activity (Gordon 1985). Union fortunes

completely reversed with the arrival of a deep economic crisis and the American Occupation authorities at the end of the war. The economic difficulties began when military production and raw material imports from former colonies ceased, jobless soldiers returned to Japan, and newly-elected politicians instigated a ruinous, inflationary monetary policy (Gordon 1985; Moore 1983). A smooth transition to civilian production was also hampered by the destruction of organizational capacity, resulting from the American decision to dismantle the *zaibatsu* in an attempt to decentralize power and thereby prevent future militarization (Clark 1979; Dore 1973; Hirschmeier and Yui 1975). The net effects of these changes on the Japanese economy were devastating. Exports plummeted to five percent of their 1944 level and GNP dropped a calamitous fifty percent. Neither exports nor GNP fully recovered until 1951 (Maddison 1991: 318-323, 214-219), when the outbreak of the Korean War renewed the demand for Japanese-made war materiel.

The severity of the postwar economic depression created widespread destitution, with most families unable to afford even the basic food, clothes, and shelter necessary for survival. Poverty provided a virulent environment for the rapid spread of communist and socialist sympathies (Moore 1983). At the same time, business and political leaders enjoyed little credibility because of the part they played in the humiliating surrender of Japan at the end of World War Two (Dore 1973). The American administration, as part of its efforts to demilitarize the country, concurrently popularized both the concept of liberal democracy and the important role of unions in protecting worker freedoms from encroachments by employers or the state (Dore 1973; Hirschmeier and Yui 1975). Rights to organize, bargain collectively, and strike were legitimated through the protection of the 1945 Labour Union Law. Mediation, conciliation, and voluntary arbitration, as provided by newly established industrial relations commissions, were made available through the 1946 Labour Relations Adjustment Law (Gordon 1985; Levine 1958; Moore 1983). These institutional reforms funnelled working-class discontent into a major upsurge in union membership that later peaked in 1949 at fifty-five percent of the nonagricultural workforce (Dore 1973: 239).

The rising tide of union strength encouraged leaders in the Communist-aligned *Sanbetsu* and Socialist-aligned *Sodomei* labour federations to press for codetermination over all personnel and wage issues through the creation of special management discussion councils. In the first six months of 1946, several unions representing 157,000 workers went even further when they temporarily usurped all managerial functions in 255 incidents of factory takeovers (Gordon 1985: 332). Revolutionary fervour eventually culminated in February 1947, when the socialists and communists called a general strike to press for more fundamental and permanent economic and political

changes (Gordon 1985; Levine 1958; Moore 1983). The American authorities countered this imminent industrial insurrection with a general strike ban bolstered by the threat of military force. They also revised the Trade Union Law in 1948 so as to abolish the right to strike and restrict the right to bargain in the public sector (where the more militant unions were concentrated) (Gordon 1985; Levine 1958; Moore 1983). Union use of company premises and acceptance of company financial aid were also legally prohibited, thereby denying these advantages to those unions strong enough to achieve them through industrial action (Gordon 1985). Finally, the Americans organized a 'Red Purge' at the outbreak of the Korean War in 1950 to rid the public sector of 12,000 employees with Communist leanings (Gordon 1985: 333). These initiatives sapped the labour movement of its revolutionary zeal and blocked the renewal of a unified front against the authorities.

Legislative reform helped limit the broader political and economic ambitions of the labour movement, but it was the anti-inflationary Dodge Plan of December 1948 which provided employers with the economic conditions necessary to diminish union power on the shopfloor. In this context, the American administration sought to transform Japan from an impotent, but democratic, former foe into a stable, prosperous bulwark against Communism in East Asia (Gordon 1985; Levine 1958). However, the tightness of the initial monetary squeeze carried out under the Plan severely depressed product and labour demand, leading to major layoffs and large wage reductions. Moreover, management exercised their improved bargaining position to regain full control over important business decisions by reducing or nullifying the contractually-based powers of the management discussion councils (Gordon 1985). The labour movement resisted these 'roll-backs', but many employers responded by dismissing Communist unionists or offering sole recognition status to weak and isolated enterprise unions founded by loyal employees (Dore 1973; Gordon 1985). Firms received tacit approval from the American administration for these unfair labour practices primarily through the example provided by the Red Purge dismissals in 1950.

Coercive measures were generally insufficient to defeat the Communist and Socialist unions so long as their membership backing remained strong. Some concessions to the ideology of democracy and equality were therefore made to strengthen the legitimacy of enterprise unions at the expense of their radical counterparts. For instance, the old status hierarchy differences between white- and blue-collar workers were abolished as rank systems were consolidated and special privileges and perquisites were eliminated. As part of these changes, employment security was gradually extended during the Korean War economic recovery to cover the majority of regular, full-time workers (Dore 1973; Hirschmeier and Yui 1975). For employers, this layoff avoidance strategy brought industrial peace at a time of rapidly rising orders and full utilization of production capacity (Gordon 1985).

Employers have since used lifetime employment to solidify their power over workers by transforming large Japanese corporations into 'total institutions', within which organizational life pervades every aspect of personal existence in a manner comparable to the military or priesthood (Ouchi 1981). A high degree of insularity is reinforced through policies of welfare capitalism, whereby some firms provide their employees with special medical, recreational, and housing facilities (Dore 1973; Hanami 1979; Marsh and Mannari 1976). Efforts to neutralize outside influences and inculcate corporate values are made easier by the policy of hiring lifetime employees at age eighteen or twenty-one when they are still malleable (Clark 1979; Dore 1973; Rohlen 1974). New employees are also indoctrinated through special courses about the firm, its organization and financial system (Pascale and Athos 1982). The widespread practice of mentoring also provides new recruits with an additional means of learning about company norms (Clark 1979; McMillan 1985). Organizational culture is further reinforced through symbols, myths, and rituals. One such ritual includes the *ringi* method of reaching a consensus in decision-making (Ouchi 1981). Some rituals even serve to defuse conflicts which might otherwise disrupt the harmony of the corporate culture. For example, an office party might provide a subordinate with the opportunity to berate a superior, while using intoxication as a face-saving guise (Ouchi 1981).

The internalization of company values through the lifetime employment system creates a culture of shared meanings between employer and regular employee. As a result, Japanese corporations require few written rules or explicit performance targets to guide the work behaviour of their employees, even though there is a high degree of nominal formalization in practice (Abegglen 1958; Lincoln, Hanada, and McBride 1986). Employees are prepared to work hard and help their coworkers without fearing that their higher productivity might result in redundancies (Whitehill and Takezawa 1978). For the same reason, lifetime employees accept technological changes which might jeopardize particular jobs without affecting overall employment security (McMillan 1985; Whitehill and Takezawa 1978). Trust in management is also evident in the employees' increasing willingness over time to support management's unilateral promotion and performance appraisal decisions (Whitehill and Takezawa 1978). Lifetime employment thus provides the large Japanese corporations with a cooperative and compliant workforce which can be easily directed and redirected in the pursuit of high performance (Rohlen 1974; Sullivan and Peterson 1991). The policy of retiring lifetime employees to senior posts with subcontractors also enables larger companies to influence smaller ones in its *keiretsu*. This transfer of personnel provides an ideal conduit for transmitting corporate values and thereby ensuring cooperative and coordinated relationships among interrelated firms

(Ouchi 1981). The high degree of control provided by lifetime employment thus allows management to make decisions expeditiously and unilaterally, without worrying about the possibilities of countervailing obstructionist behaviour so typical in the immediate postwar period.

### *Sweden*

The preconditions for the introduction of the active labour market policy were established by the 1938 *Saltsjobaden* Agreement between the Swedish Trade Union Confederation, the LO, and the Swedish Employers' Confederation, the SAF. This accord signified a turning point in a tumultuous relationship between labour and capital that had been marked by forty years of severe industrial strife. Employers had previously relied on their superior economic power to dominate unions through the use of mass lockouts. However, the electoral victories of the Social Democratic Party (SAP) in 1932, 1934, 1936, and 1938 provided the labour movement with the political power to counter employer actions. Employers then realized that they were unlikely to defeat unions through labour market pressure, and so settled on a compromise as a way of preserving the power they still held (Korpi and Shalev 1979; Korpi 1983). Both parties thus agreed to recognize and cooperate with each other in promoting income growth as an alternative to fighting over income shares (Korpi 1983). Business declared its nominal political neutrality with respect to the distributive policies of the welfare state in exchange for policies that favoured capital accumulation and development in the private sector. The LO consented to these arrangements in the belief that greater industrial concentration, following naturally from increased economic development, would facilitate the government's intentions to plan the economy and nationalize private businesses. SAP and LO leaders also regarded business acquiescence as indispensable to the rapid introduction of policies for redistributing income and achieving full employment (Korpi 1983).

The active labour market policy began as a modest unemployment reduction program in 1947. It was established on the recommendation of the 1944 Myrdal Commission that employment services, vocational counselling, and incentives for geographical mobility were needed to successfully redeploy labour from wartime to civilian industries (Jangenas 1985). A Labour Market Administration was established with policies conceived by the Labour Market Board (AMS) and implemented by several hundred local employment services (Rothstein 1985). A full employment mandate was assigned, but only as a complement to the Keynesian fiscal and monetary measures used to achieve full employment. However, this mandate greatly expanded in the 1950s when active labour market policy was given the

preeminent roles of achieving both full employment and accelerated economic growth in accordance with the spirit of the *Saltsjobaden* Agreement.

The trigger for change came with the failure of the Social Democratic government's Keynesian fiscal policy to generate low unemployment and inflation in the late 1940s. In 1951, LO economists Gosta Rehn and Rudolf Meidner responded by devising the 'Swedish model' to simultaneously achieve full-employment, moderate inflation, decreased wage inequality, and increased economic growth. Their comprehensive plan thus promised to fulfill the main aims of the *Saltsjobaden* Agreement. Workers were assured full employment and reduced income inequality, while the capitalists were assured a vibrant private sector economy with the capacity to fund the socialists' welfare state. However, the SAP initially rejected the proposal because of the unpopular taxes required to finance it and because their Agrarian Party coalition partner feared that any abandonment of Keynesianism would raise the interest costs of heavily-indebted farmers (Rehn 1984). Instead, the government chose to continue with a "a high level of overall effective demand to ensure full employment", but "in combination with a vast system of regulations (price, trade, and investment controls) and more or less formalized agreements with the trade unions on anti-inflationary restraint" (Rehn 1984: 5). These arrangements broke down when employers, in their desperate efforts to overcome a chronic labour shortage, offered wage increases in excess of those demanded by the LO. At this point, the government realized that continuing its policies would encourage members to desert their unions in order to obtain higher wage increases, thereby damaging the SAP's primary source of electoral support and financing (Rehn 1984). For this reason, the 'Swedish model' was eventually endorsed in 1955 by both wings of the labour movement, the SAP and the LO, and implemented in a coordinated effort after 1956.

The two arms of the labour movement divided their responsibilities for achieving the different goals established by the *Saltsjobaden* Agreement. The SAP government agreed to achieve low inflation and unemployment through its active labour market policy, while the LO agreed to achieve decreased income inequality and increased economic growth through a wage solidarity policy negotiated centrally with the SAF. The LO's wage solidarity policy provided equal pay for equal work in the same jobs across all industries in addition to fair and reasonable differentials for different jobs within each industry (Fulcher 1991). These measures reinforced other welfare state efforts to narrow income disparities. Moreover, the equalization of wages for similar jobs across all sectors raised the labour costs of inefficient firms and lowered those of efficient firms, thereby forcing the former to rationalize or close and permitting the latter to retain more of their profits for reinvestment in new machines, equipment, and facilities (Jangenas 1985). As a result, the policy received strong support from the SAF, which

was dominated by large, efficient engineering firms (Fulcher 1991). However, the accelerated pace of structural change displaced many workers from their jobs in traditional industries, even though it produced more rapid economic growth.

The active labour market policy rectified the unemployment effects of the wage solidarity policy by hastening the transfer of people from traditional to advanced industries (Rehn 1985). It therefore fulfilled a crucial supporting role in making faster economic growth and smaller income differences acceptable to the union members who were forced to relinquish their jobs. Moreover, the active labour market policy obviated the need for wage increases to attract new recruits to shortage occupations and industries, thereby dampening any tendency toward wage and hence price inflation.

### ***IMPLICATIONS FOR CANADA***

#### ***Diagnosis***

Are the Swedish and Japanese approaches compatible with the dominant configuration of interests in the Canadian labour market? The answer to this question is 'no' in the absence of major changes to suit the Canadian social and economic context. In Canada, relations among the labour market parties reflect the ideological dominance of market liberalism (Guest 1985), with its stress on individualism and the related concepts of antistatism and social egalitarianism. Individualism emphasizes the capacity of individuals to act independently in their own best, immediate interests. Antistatism is the rejection of government action as a largely unnecessary constraint on the individual's freedom to make personally beneficial choices. Social egalitarianism is the commitment to a classless society with equal opportunity for all individuals to pursue their own immediate interests (Lipset 1990). Together, these liberal principles serve as constraints to the successful adoption of new labour market policies.

The focus of individualism on satisfying immediate personal needs produces an inevitable clash of incompatible wants and desires. In this adversarial climate, cooperative relations based on mutual short-term sacrifices for shared long-term benefits are difficult to develop. In the absence of trust, each party pursues its own short-term goals by directly pressuring its adversary for favourable terms and conditions in its contract (Murray and Reshef 1988). Most employees and employers in Canada use the threat to terminate the employment relationship in seeking better offers from the other party. In organized workplaces, unions and managers also depend on the strike or lockout threat to secure better terms and conditions. Resolution of interest disputes thus occurs predominantly within the confines of the labour

market, where they remain subject to supply and demand conditions. Political action is limited to advisory or lobbying activities which serve as a complement to, rather than a substitute for, economic action at the labour market level (Murray and Reshef 1988).

The Canadian state plays a secondary role to capital and labour in the labour market. It provides support services for the benefit of less advantaged market participants and administers rules of conduct in an attempt to ensure equal opportunities for all parties to achieve their best possible terms and conditions (Guest 1985). To this end, the state provides labour market skills through education and training programs offered at schools, universities, and colleges. It grants social assistance and unemployment insurance benefits to those people without work. It also enforces contracts and regulates the behaviour of employers, employees, and unions through various labour laws. However, these roles are residual in that they are predicated on the belief that most parties can function effectively without state assistance (Guest 1985). In addition, these roles are passive to the extent that they are activated at the request of one of the parties. Greater intervention by the state would be perceived as overly restrictive of market freedoms and as unnecessary for parties capable of taking care of themselves.

Canada's structural characteristics have helped preserve the labour market focus and limited government roles associated with liberalism. Regionalism, multiculturalism, bilingualism, and federalism have fragmented Canada's interest groups, thereby inhibiting concerted political action based on a consensus regarding broad, national objectives. As a result, there are many competing interest groups, each representing narrow and specific constituencies. The union movement, for example, is split along linguistic and industrial lines. Business associations are splintered by sector and firm size. Separate women's and retirees' groups among others also vie for political influence over Canada's labour policies. Furthermore, the state is itself divided into one federal and ten provincial governments, with the latter being primarily responsible for the employment and labour legislation covering almost ninety percent of employees in Canada. It is therefore difficult to establish single, unified labour policies without arousing jurisdictional disputes. These disunity problems are compounded by the presence of American international unions and multinational corporations, some of which are committed to the values of U.S. liberalism and preoccupied more by U.S. than Canadian politics.

Canada's structural characteristics and liberal values and institutions have configured capital and labour interests in ways that are a serious impediment to importing the active labour market policy. First, there has never been a federal, social democratic government with a strong commitment to achieving full employment through active labour market intervention.



Second, there are no centralized interest groups with the authority over their affiliates to coordinate the successful design and delivery of comprehensive labour market programs. Finally, there is no history of widespread cooperation between capital and labour in solving shared problems. No nationwide crisis threatens to transform this state of affairs. High unemployment, for instance, has not precipitated a national political crisis favouring the federal election prospects of Canada's social democrats. In fact, the increased risk of joblessness has helped construction (Rose 1992), clothing (Grant 1992), and airline (Fisher and Kondra 1992) companies to either contract out to low-cost, nonunion suppliers or bargain for intensified work performance, wage concessions, and 'givebacks' on restrictive work practices, without needing to solicit the cooperation of workers and their weakened unions. These forms of zero-sum adversarialism, in which wages are reduced to restore profits, have been common since the early 1980s in both Canada (Myles, Picot, and Wannell 1988) and the U.S.A. (Davidson and Reich 1988), particularly in the large and highly competitive consumer service, retail trade, and construction sectors. Market liberalism thus remains entrenched within its Canadian context, and so the preconditions for an effective Swedish-style active labour market policy do not currently exist.

Lifetime employment is similarly unsuited to Canada's present economic and social situation. Canadian employers are under little pressure to co-opt workers through the bonding mechanisms of a lifetime employment system, since they confront no revolutionary threats from socialist and communist unions like those in Japan after World War Two. Businesses are more likely to contain their unions through changes to the terms and conditions of their collective agreements. Canadian unions are also unlikely to support a Japanese-style lifetime employment system. They already have seniority systems to protect most of their members from layoff (Meltz 1989). Furthermore, unions are unlikely to opt for improved employment security, if they must leave their members more vulnerable to capricious management decisions by agreeing to increased operational flexibility. Unions might also reject lifetime employment for its potential to soften relations between firms and workers, as in Japan, and thereby undermine union representation functions. Lifetime employment therefore requires substantial changes before it could win acceptance from Canadian labour and business organizations.

### *Prognosis*

If the lifetime employment system and active labour market policy are currently inappropriate for Canada, what can be done to change this situation? Two approaches are proposed to adapt these policies to Canada. The

first involves the active promotion of cooperation between capital and labour by the state. The second entails tax and subsidy incentives to encourage independent action by one of more of the labour market parties.

The federal and Ontario governments have tried to develop centralized labour market cooperation through the Canadian Labour Force Development Board and the Ontario Training and Adjustment Board. Both boards provide union and business organizations with equal representation in a majority of seats, while training organizations and social action groups hold the rest (Employment and Immigration Canada 1991; *Worklife Report* 1992). The Ontario board is responsible for coordinating nearly fifty programs, costing \$500 million annually and administered previously by ten different ministries (*Worklife Report* 1992: 17). The federal board is charged with developing strategies, evaluating outcomes, allocating funds, and setting standards for training programs that are planned and implemented by provincial, local, or sectoral boards and financed through the Unemployment Insurance Fund (Employment and Immigration Canada 1991). Together, these boards are supposed to provide a training system which rapidly responds to the changing needs of workers and firms. However, there are early signs that cooperation is difficult to achieve in such centralized forums.

The boards face many potential sources of disagreement. Most concern the difficulties of accommodating the diverse parties found in a liberal labour market system. For instance, larger tribunals allow more groups to participate, but consensus decisions are harder to reach. Smaller tribunals facilitate agreements among members, but leave more groups excluded and uninterested in supporting decisions. The Ontario Training and Adjustment Board has suffered both problems. The board has been criticized for only providing unionized workers with representation (*Financial Post* 1992: 55), even though the eight existing labour representatives have difficulty agreeing among themselves. For instance, some labour members have said that they will cooperate with the board's business representatives, whereas others have indicated that they will not (Steed 1993: A23). Even when members concur on board matters, external confrontations can cause internal dissension. For example, the Canadian Federation of Independent Business has supported additional training (Canadian Federation of Independent Business 1983, 1984, 1986) but nevertheless withdrew from the Ontario Training and Adjustment Board in protest against the Ontario government's labour laws (*Winnipeg Free Press* 1992: D35).

A network of industry tribunals could provide an effective, decentralized alternative to the existing boards. The new tribunals would be voluntarily established by labour market parties in each industry and financed by private contributions and matching public grants. Coordination on issues such as basic skills training and cooperative education would be provided

by a joint federal-provincial board. An adjunct body, similar in membership to the present boards, would advise on policy issues without exercising any direct authority. The Canadian Labour Market and Productivity Centre could continue to fulfill this role as it has in the past (see, for example, Canadian Labour Market and Productivity Centre 1989). However, program planning and implementation would remain with industry tribunals, allowing the state to retain its traditionally passive and residual functions. These tribunals would operate through consensual decision-making, made easier by the small number of parties involved, at least in Canada's oligopolistic and monopolistic sectors, and common industry interests (Olson 1971). The industry tribunals would have the further advantage of building on the foundations of cooperation required for their creation. Successful tribunals might therefore be started in the automobile, telecommunications, forestry, and steel sectors, where collaborative endeavours, involving only a few labour market parties, already exist (Casselton 1994; Kumar and Meltz 1992; Verma and Warrian 1992; Verma and Weiler 1992). These bodies would administer training programs, counselling services, and job placement in their respective sectors. They would also manage retraining for workers with obsolete skills and in danger of being laid off.

The proposed network would be unlikely to include tribunals from all sectors, despite equal access to public funds. In some industries, such as retail trade and consumer services, there are too many small businesses and too few large unions to organize a tribunal with centralized authority. Large numbers of participants also create a free-rider problem where not paying one's own contributions has only a minimal effect on the overall quality of the services provided (Olson 1971). Many firms also lack the cooperative industrial relations necessary for joint decision-making in a tribunal. Instead, they prefer authoritarian systems of worker control which are cheaper and more effective for them than modern human resource management alternatives. In these situations, workers may lack opportunities to strike or quit and jobs may be simple, repetitive and thus easily regulated by management (Godard 1991). As a result, government efforts at fostering labour market cooperation through industry tribunals are not enough to create an economywide system of active labour market or lifetime employment measures. In fact, cooperative efforts may fail to ensure training and prevent layoffs where these problems are worst: the small business sectors (Morissette 1991: 4-6; Statistics Canada 1992: 26). Public subsidies and tax incentives are thus needed to encourage employers, employees, and unions to adopt these policies.

Financial incentives appeal to selfish motives and therefore remain ideologically consistent with liberal values. They are thus preferable to legislated restrictions on behaviour which, as with layoff prohibitions, infringe on the

freedom to contract. Some incentives require substantial outlays of money, as with a general payroll subsidy for firms in high unemployment regions. Most others can be implemented easily and cheaply by restructuring existing programs. For example, allowing workers to train while collecting unemployment benefits requires no extra funding, unless workers further delay returning to work. Permitting workers to access their Registered Retirement Savings Plans or Registered Educational Savings Plans for training purposes also involves no large expenditure increases. Similarly, employer unemployment premiums can be experience-rated to reflect the layoff history of the firm, without necessarily raising average payroll costs. American evidence shows that full experience-rating, where the employer funds all the unemployment benefits of its redundant workers, is particularly effective at lowering the incidence of layoffs (Card and Levine 1994; Kaiser 1987). As a result, experience-rating promises to reduce the aggregate layoff rate and so lower average premiums. Firms would respond by increasing their retraining and by improving their staffing practices to better match workers with available jobs. They would also offer their unions concessions to gain greater operational flexibility in, for example, job classifications, staffing levels, and promotion policies. Hiring would also increase as long as average labour costs fell (Burdett and Wright 1989; Rejda and Rosenbaum 1990). The new system, as already recommended by unions and management (Canadian Labour Market and Productivity Centre 1989), would provide pure unemployment insurance, with laid off workers as the sole recipients of benefits. Union-management councils would adjudicate benefit claims contested by employers. People dismissed from their jobs or quitting work would receive unemployment benefits from a separate fund, financed through general revenues and employee premiums. A joint union-management body would advise the government on common benefit rates and duration levels for both funds.

The proposed combination of incentives and joint cooperative structures would accomplish several objectives. It would provide Canadians with more active anti-unemployment measures than before, while greatly improving their employment security with particular firms. However, the new policies would not require any unrealistic moves toward cooperative, centralized decision-making at the national or provincial levels. Nor would they involve any major redefinition of the passive and residual roles of the liberal state. The parties would assume primary responsibility for the programs, while contributing much of the money.

### CONCLUSIONS

The lifetime employment system and active labour market policy have helped to reduce the incidence of unemployment in Japan and the

duration of unemployment in Sweden. Canada might reduce its own unemployment problems if it managed to import these policies. Copying Sweden and Japan's successes could prove difficult, however, since each policy is grounded in the configuration of labour market interests unique to its country. The active labour market policy approach reflects the highly cooperative relations that have developed out of a power stalemate between very centralized federations of employers and unions. The lifetime employment system is an attempt to co-opt employees so as to undermine the revolutionary threat of communist and socialist unions. The configuration of labour market interests in Canada reflects neither of these situations. Relations between Canadian employers and employees are adversarial and decentralized, mirroring the dominant liberal emphasis on immediate, individual interests and the structural heterogeneity of the workforce. Modifications to the lifetime employment system and active labour market policy are therefore needed to guarantee their successful adoption in Canada. Two approaches are recommended which allow for the limited degree of centralization and cooperation in the Canadian labour market. The first entails state subsidization of the labour market services of industry tribunals operated by labour and business. The second involves providing tax and subsidy incentives that would encourage the labour market parties independently to limit layoffs, increase training, or create jobs.

Analysis of the lifetime employment system and active labour market policy shows the feasibility of adopting labour policies from other countries, but only after adjustments have been made to suit the dominant configuration of interests in the host country. Inattention to these adjustments is certain to limit the effectiveness of any attempt to transfer institutions from one nation to another.

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## RÉSUMÉ

### **La réduction du chômage au Canada : leçons du Japon et de la Suède**

Le taux de chômage canadien a été plus élevé que ceux de la plupart des pays de l'OCDE depuis deux décennies. L'expérience de ces pays peut suggérer des indices sur les moyens de réduire ce problème persistant au Canada. Le Japon et la Suède ont constamment gardé leurs taux de chômage relativement bas et les raisons de leurs succès devraient intéresser les Canadiens. Les Japonais ont réussi à garder leur taux de chômage bas en instaurant un système d'emploi à vie où les emplois sont habituellement protégés mais où les heures de travail varient selon les fluctuations de la production. Les Suédois, eux, ont réussi pareille performance grâce à des programmes actifs de marché du travail pour la formation, le placement et la mobilité qui, ensemble, accélèrent la transition entre le chômage et l'emploi.

Le Canada pourrait réduire ses problèmes de chômage en copiant les politiques japonaises et suédoises. Cela, cependant, pourrait être difficile vu que chaque politique est implantée dans un type de marché du travail unique à chaque pays. La politique active de marché du travail est le reflet de relations hautement coopératives entre des fédérations très centralisées d'employeurs et de syndicats. Le système d'emploi à vie vise à embrigader les travailleurs de façon à endiguer la menace révolutionnaire des syndicats communistes et socialistes. La configuration des intérêts sur le marché du travail canadien ne reflète aucune de ces deux situations. Les relations employeurs-employés au Canada sont conflictuelles et décentralisées et découlent de l'emphase dominante libérale sur les intérêts individuels et de

l'hétérogénéité de la main-d'œuvre. Il faudrait alors modifier les systèmes japonais et suédois pour les implanter avec succès au Canada.

Le Canada pourrait importer ces systèmes de deux façons. On pourrait faciliter la coopération entre le travail et le capital de façon à ce que les deux travaillent ensemble à l'implantation de programme de formation et de placement au niveau de l'industrie. Ou encore, on pourrait offrir des incitatifs fiscaux ou des subventions pour encourager une ou plusieurs des parties au marché du travail à offrir certaines composantes de chaque politique. La première option fonctionnerait mieux dans des secteurs oligopolistiques ou monopolistiques où la prise de décision centralisée et les relations coopératives existent déjà. Par exemple, on pourrait retrouver des tribunaux de formation dans les industries de l'automobile, des télécommunications, de la forêt et de l'acier. La deuxième option serait plus appropriée dans des secteurs compétitifs caractérisés par la décentralisation et l'action indépendante. Une combinaison d'approches aiderait le Canada à réduire tant l'incidence que la durée du chômage sans exiger de transformations fondamentales de son système de relations industrielles.

L'analyse du système de l'emploi à vie et de la politique active de marché du travail démontre la faisabilité de l'importation de politiques du travail étrangères après que les adaptations nécessaires auront été faites. Sans ces adaptations cependant, l'efficacité de tels emprunts sera douteuse.

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