

# The Flexibility Debate in Western Europe: The Current Drive to Restore Managements' Rights Over Personnel and Wages

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Article abstract

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# *The Flexibility Debate in Western Europe*

## *The Current Drive to Restore Managements' Rights Over Personnel and Wages*

**Solomon Barkin**

*Managements' drive for the removal of contractual and governmental restraints on their control of the work force is rationalized in Western Europe as necessary to achieve greater internal and external competitiveness. In support of this view the OECD substituted the advocacy of a flexible manpower policy (including wage policy) under the euphoric title of 'positive adjustment policy' for the prior program of an active manpower policy promoted during the sixties and early seventies. The soundness of the arguments for this change in policy has been questioned by internal research findings as well as reports by consultants and special expert groups appointed by the organization. These studies call for a package of policies and measures negotiated between management and unions to realize the ultimate ends of manpower mobility and job security. The free labor market cannot by itself serve as the mechanism for realizing these goals. Employment security and not segmentation of the work force should be the objective of joint policy making.*

The focus of manpower policy in the early postwar decades was to provide manpower for a highly active economy and thereafter to maintain a mobile workforce to achieve its optimum allocation and utilization. In the seventies and eighties, with the emergence of a looser labor market and persistent high levels of unemployment, the accent shifted to personnel programs for achieving lower labor costs, rates and earnings; spontaneous mobility was to lead manpower to effective competitive employments. Management would regain its authority over the allocation of work assignments, hiring and firing, hours schedules, business structures, particularly in grouping employees between core, peripheral and contract units. The hope was that entrepreneurs would initiate new enterprises in potentially viable and expanding pursuits. This shift in approach took hold rapidly among employers, economists, publicists and some governments as well as

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international agencies, especially the Organization of Economic Cooperation and Development (OECD). The resulting reorientation of public leaders also changed their conceptions and expectations of union-management relations. A controversy on the major assumptions of public policy and the direction of public action has raged ever since, accentuating the divisions in Western nations and contributing to the malaise prevailing in and among them.

To understand this transformation we explore its evolution as disclosed in OECD policy statements, a focal point in this evolving debate. Fundamentally, the center moved from a concern for labor mobility to flexibility. The latter term, loosely employed, has been associated with management's position that lower labor costs would inexorably enable industrialists to create new employments. The promised result requires few changes in the character of the business environment or the orientation of the business culture. As support for this position gained momentum, particularly among conservative-minded people, the rhetoric became persistent and adamant, appearing regularly in the statements of government leaders and in the conclusions reached at intergovernmental international meetings. While the intensity of support for these positions and the precise meanings varied greatly among countries, they have been aired and read in most of them. Mobility was emphasized by those favoring the established manpower programs and flexibility by those advocating the new emphasis.

#### **STAGE ONE — ACCEPTANCE OF ACTIVE MANPOWER POLICY — LATE FIFTIES AND SIXTIES**

The era of postwar reconstruction at the end of the forties brought most OECD countries a period of high employment and labor market scarcities. Major shifts occurred in the economic structure reflected in the new geographical and occupational distribution of the labor force. This was due in part to the transfer of labor from agriculture, the growth of the service sector and, later, to the emergence of a relatively integrated continental economy. As labor scarcities became pronounced, employers sought recruits from the less engaged segments of the population, *e.g.*, women and rural labor and absorbed more alien workers. Recognizing the recruits' lack of experience in the new employments and the industrial environment and the need for many new skills plus marked expansion of select older ones, managements called upon governments to facilitate the incorporation of these groups into the industrial system. In response, public institutions for these purposes multiplied and expenditures for these services mounted. With the emergence of disparate programs and agencies, demands grew for

their coordination and later integration. In time they produced national labor market policies and authorities. To relocate the new labor force, accelerate their adaptation and accommodation through education, health, social services and housing, these agencies assisted with support services. Sweden led the way in the development of these programs, setting the pattern and providing much of the new terminology for this era.

Sweden also realized that these active manpower policies moderated inflationary pressures emanating from shortages in the labor market. Moreover, the Swedish national trade union organization (LO) was particularly sensitive to this problem fearing that overheated labor markets would generate undesirable forces. These might exploit labor scarcities, create uneven wage demands and distort the wage structure, driving it away from the egalitarian model which the LO espoused, feeding the inflationary tendencies in the economy and preventing it from contributing to economic stability. To forestall these developments, the LO called for an active labor market policy to implement these basic objectives. By the middle fifties, this program was fully in operation and has in later years enjoyed the support of most interest groups in the country.

As knowledge of the principles and achievements of the Swedish program spread, it gained broad acceptance and even support in Western countries. The first international confirmation of this approval came with the adoption of a policy statement at the International Labor Office (ILO) annual conference in 1961 which recommended the «Full Productive and Freely Chosen Employment Policy». In accordance with ILO procedure, it was examined at two subsequent conferences, enacted at its 1964 meeting and has been subsequently endorsed by most member countries. The second major international body to subscribe to these principles was OECD on May 21, 1964, in its statement entitled «Manpower Policy as a Means for the Promotion of Economic Growth». Subsequently, the OECD, through the Manpower and Social Affairs Committee and its Directorate, investigated and reported on the experience with many of the constituent problems and instruments for implementing these policies. It also reviewed the progress of individual countries in implementing this program, noting the achievements and innovations as well as the deficiencies and limitations. These reviews were followed by a set of Committee recommendations for the improvement of operations and the extension of the national programs. The Committee identified practices considered worthy of further examination and introduction into other countries. It stressed the role of the national labor market agency, its successes and failures in coordinating the manpower functions and integrating its activities with those grouped together as national economic policy<sup>1</sup>. Supplementing these special studies and national

reviews, the Directorate conducted international seminars for trade unions, managements or jointly, in which all member countries were represented, to consider individual phases of the active manpower policy and their impact and administration. During this period the Committee developed conclusions elaborating policy statements. The first set dealt with the issues arising under the general rubric of *Adaptation and Employment of Special Groups of Manpower* including older workers, workers with family responsibilities, rural workers in non-agricultural employments and urban areas<sup>2</sup>.

Openly committed to achieving full employment, the national active manpower policies and instruments sought to insure an adequate numerical supply and quality of personnel to avoid labor scarcities and bottlenecks in the production system, minimize employee adjustment problems and promote economic growth. Youth was to be prepared through education and training for their occupational life; special programs would ease the shift from schools to jobs; adults, where necessary, were to be retrained for new employments. All groups would have ready access to counseling, rehabilitation, medical care, aids for social adjustment, and living and communication facilities to advance the quality of work life. Government agencies were also to assist the management in the recruitment process, defining and implementing nondiscriminatory employment and personnel policies. Employees would be helped in achieving job and geographical mobility. A better balance would be sought between jobs and the labor force in each locality either through the movement of people or jobs. Many countries enacted area redevelopment programs to advance local economic growth. Public job programs sought to offset seasonal and cyclical fluctuations in employment. Sheltered employments were created for special groups either in private or public industries. The central agency would collect information on job market developments and help individuals overcome their problems in job search. Employers also received assistance in their personnel planning and in redesigning jobs to be suitable for available manpower. The goals were job satisfaction for employees and higher productivity for the enterprise.

Studies of the job market would seek to define likely job trends with respect to their requirements and location and the preparation and training required of employees. Financial provision was generally offered to employees and their dependents during the period of adaptation and movement. A number of countries also organized local services to assist new employees to adapt to new communities. The agencies became the voice for employee needs in adjusting to changes in the labor markets. The active manpower agencies were considered both independent policy systems and instruments for aiding other public policy systems to realize their objectives by helping them obtain suitable recruits and effect their appropriate utilization<sup>3</sup>.

## STAGE TWO — EMPLOYMENT AND INCOME MAINTENANCE SCHEMES — MIDDLE AND END OF SEVENTIES

In the seventies the economic tides changed, bringing unusually high rates of inflation and volatile fluctuations in business activity with a concurrent rise in the levels of unemployment with each cyclical dip. Instead of focusing on the problems of labor recruitment and placement, governments faced the double challenge of finding jobs for the displaced and minimizing the number of layoffs. Governmental leaders and mainstream economists viewed the setback as a short term reversal and responded largely with traditional band-aids rather than long-term programs for structural reorganization or major economic reforms. The common measures were to provide employment for the displaced and offer employers incentives to maintain employment where layoffs were imminent. The unemployed youth attracted greatest concern. Subsidies, loans and other forms of financial aid were extended to individuals, establishments, industries and communities. Where ordinary employment channels were unable to react adequately to the expanded needs and absorb the unemployed, governments sponsored work projects, particularly in the public and voluntary sectors. Only Austria, Norway and Sweden initiated long-term integrated programs for helping the unemployed.

The extension of these programs disturbed OECD leaders and economists. They were concerned that these employment and financial aid initiatives would spread and intensify inflationary forces. While they understood that these programs were intended to be temporary in nature to cushion the impact of the changed economic climate, maintain employment and preserve productive capacity, they feared that these measures would lead to «a deterioration in the trade-off between the short-term economic and social benefits and their longer-run costs». On June 15, 1978, the OECD Council warned that these governmentally-supported employments would result in people being engaged «least efficiently or to produce products for which there is no longer a market». The extension of these programs would «create a vested interest in protection in the country concerned, and provoke protectionist reactions in other countries». In issuing these strictures against measures in support of political and social objectives, it urged national agencies to pursue policies «which minimize any resulting costs in terms of reduced economic efficiency». The Council further underscored that governmental intervention should supplement market forces «which provide the most reliable guide for achieving the desired mobility of labor and capital to their most productive uses»<sup>4</sup>.

In this new era the OECD began focusing on the so-called «rigidities» in the labor market. A Secretariat report on *A Medium Term Strategy for Employment and Manpower Policies*<sup>5</sup> initiated this theme by suggesting that a freer market would lead to the improvement of wage adjustments to facilitate the adaptation of wages relative to prices, to other costs and to each other. The objective is «to reduce labor market imbalances» but the report shies away from dealing directly with the issues of wage dynamics and other aspects of the income distribution system because it was «outside of the area of manpower and employment policies». But this gap was closed in the above-mentioned OECD Council statement that declared that «action is necessary to reduce the rigidities and distortions in the labor market which have become increasingly apparent under conditions of slow growth». It urged that more of the economic and social costs of improved job security cushions be shifted «from employers to society» and that governments, unions and employers need to improve the functioning of the labor market «to insure that the structure of wages does not inhibit the adjustment of the labor supply to changing needs and adversely affect the employment prospects of certain types of labor»<sup>6</sup>.

### STAGE THREE — RECESSION IN THE EIGHTIES

#### The Recession: Regressive Economic Movements

Western economies in the eighties neither regained their stability nor fully recovered their economic vitality. The recession occurred despite efforts during the seventies to control inflation, curtail governmental expenditures and implement modest aid programs. Actually, as years advanced, the contractions became more marked; reaching the low point for the OECD Europe in 1982-83. Conditions improved in 1984, but the rate of economic growth remained relatively low. No country, with the exception of Japan, recovered the level of economic vitality experienced in the sixties; but in 1985 even Japan underwent a reversal of trends. Despite these advances, levels of unemployment continued high. Unemployment rates in Europe have been rising in recent years to 11% and they are expected to remain at this height for the next several years.

Even the United States which boasted of its economic advances was unable to lower the volume for a short period more than slightly below 7%. In part, the continued high levels were registered because the countries were unable to absorb the expanding work force arising from the growing population and the greater recruitment of women. But even these trends must be carefully appraised, since an expanding proportion of the employed

population engaged only in part-time and temporary employments or in work on their own account. The large addition of new youths to the work force explains in part the continued preoccupation of governmental bodies with programs both educational and work schemes, for dealing with the high level of idleness among these young people.

Some governmental and public leaders became clearly cognizant that the economic setback was rooted deeper than cyclical movements. They perceived that underlying the phenomenon of slow growth and high unemployment were issues of structural change and deficiencies in the operation of the labor market. Actually, many fundamental long-term changes were reshaping the industrial profiles of the member countries. With this far-reaching reconstruction came a new geographical distribution of production, distribution and service centers, new consumption patterns and a shift in the relative importance of the sectors and subdivisions. New industries were displacing older ones. The relative position of countries was redefined, particularly with the entry of the third world countries into world production, service and trading systems. Enjoying distinctive competitive advantages, due to low wages and salary payments, lower taxes and charges and looser, or the absence of, public systems of regulation, they were more than able to offset the higher prices and charges in other fields such as capital, transportation, communication and services. The international community was also helpful to them in many ways. For example, the conglomerate multinational corporations, through direct investments, loans, contracts, technical guidance and assistance in marketing products aided them in establishing their new industrial society. Western knowledge and know-how were widely transferred through such organizations and other means, thereby creating new sources of products and services for the world market. The established producers in industrial countries felt the impact of this new competition not only in foreign but also domestic markets, resulting in the closing of many units which encouraged protectionist movements in lands where displacement occurred. But it must be added that as third world production grew, it tended also to contribute newer methods, management techniques, products and high quality standards, thus violently attacking existing industrial systems.

With the intensification of these competitive developments, employers in established areas sought survival techniques. Some introduced new products, others tightened operations, improved product quality, designed products more responsive to consumer preferences, adopted new technology and methods of management and employed new promotional media. But the response was often too little and too late. They were slow to recognize that patchwork and temporary expedients could never recapture or hold



positions. Producers had also to overcome smug attitudes of indifference, condescension and ignorance of the advances in foreign countries and to coopt them where possible or adaptable.

To meet the competitive pressures, the employers often have made use of traditional courses of action realized through reductions in labor costs. When effective, these efforts would bring immediate, automatic and measurable savings. They called for a minimum of managerial ingenuity or invention. The impulse to turn to this expedient was further strengthened by the recognition that the prices of goods and services bought in the external market were not subject to easy adjustment. Often they were governed by international markets, cartels, oligopolies and/or trade associations or governmental regulations. Nor would management consider reducing their remuneration or that of other higher salaried personnel or owners. These were considered as being largely non-negotiable. These rewards were controlled by a market process distinct from that governing payments to lesser employees. But in turning to direct labor components of production costs, they were often unmindful of the vast institutional changes that had emerged in the postwar years. High employment, protective benefits and labor market services had drastically altered the arena of industrial relations.

Also the managements had to recognize that their labor costs had two separate systems of regulation. One was controlled, or negotiated, by local management and the other was set by governmental fiat, either prescribed by law, or administrative or judicial decisions. As for the former, relief or concessions could be obtained where collective bargaining existed only through negotiations with unions. The process became particularly difficult when the basic agreements were binding on whole areas or industries or were national in scope. In such negotiations unions were likely to insist on safeguards which put a limit on concessions or called for union monitoring schemes, representation in the decision-making process and periodic reports on operations. To change governmental regulations called for prolonged negotiations with governmental agencies including the legislative bodies. As the Socialist and Labor parties had secured direct power in the legislative and administrative bodies, serious hurdles had to be surmounted before the benefits would be either fully or partially realized. Unions could, in the course of these considerations, express their views through appeals, demonstrations and even strikes. Nevertheless, the pressure for such achievements was formidable and ongoing. The British magazine, *The Economist*, reinforced this move by supporting the need for such relaxation and concessions in an editorial entitled «Get to Work on a Pay Cut»<sup>7</sup>.

### **New OECD Approaches to Labor Costs — Outright Reductions and Managerial Flexibility**

A broad movement for paring labor costs emerged in many countries, both within the workplace and through governmental action to relax or remove restraints on management's freedom to act. A complementary move initiated by a number of countries was to privatize publicly owned and/or operated enterprises, which it was alleged, would liberate the innovative spirit of management, ultimately contributing to more favorable economic returns, optimum allocation of resources and more opportunities for restraining rising labor costs. This reversal would also serve to weaken unionism and lessen popular and worker support for these organizations.

The degree of concurrency between the moves by private entrepreneurs and the governments varied greatly among the countries. As the political sentiment displaced labor governments in some countries, and also shifted coalitions from center left to center right, the unity between the action in the two sectors intensified. Of course, unions and leftist political groups tended to resist these forces. One result has been a definite accent on regressive action away from restraints to greater freedom for management, though the degree of implementation varied greatly. A previous article analyzed the impact of these forces on unions as operating institutions<sup>8</sup>.

In the public arena employers pressed for concessions in the name of competition and in some cases, unprofitability and the need for financing future modernization. Governments hoisted the banner of anti-inflationism, austerity and anti-government interventionism. Conservative political administrations proclaimed their determination to reestablish and extend free market operations and more relaxed enforcement of existing labor and social legislation and commercial rules. At the international level, the OECD employed euphemisms to present the case, calling for labor market flexibility and the removal of socio-economic rigidities.

The OECD in 1983 defined the purpose and program as follows: «The cost of labor has risen relative to the cost of capital and the resultant squeeze on profitability has hindered investment and employment. The secular decline in rates of return of capital in many member countries has been partly associated with an increased share of labor in value added, reflecting more than proportionate increases in non-wage costs and sluggish readjustment of real wage incomes to lower labor productivity growth. Reversing the secular decline in profitability, possibly by cutting social security taxes and/or continued wage restraints would no doubt help to increase employment if the resources thereby released could be channeled into job-generating investments. Wage-setting processes and alternative ways of

financing social expenditures which do not have a negative effect on employment are extremely difficult to achieve. However, it is important that the need for a revival of profitability be recognized by all and steps be taken to foster this process in one way or another»<sup>9</sup>.

At a subsequent conference of OECD Economic and Finance Ministers this view was further elaborated: «What was needed now was a positive strategy for creating jobs in the content of structural change — structural employment policies... In the real world, however, there are obstacles to adjustment; these make relevant policies that not only assist those most affected but promote the flexibility of salary structures and the adjustment of manpower. First, wage responsiveness to change supply and demand conditions is limited in many countries. Collective bargaining agreements may not readily allow for wage differentials between workers in a given occupation who work in different industries and firms. There may also be strong resistance to changing differentials between occupations. Thus a potentially important factor which could encourage adjustment is out of reach; the financial incentives provided by changes in wage differentials, which would encourage the work force to move to new industries and occupations and induce employers to adjust their input and output. Since the incentive is lacking, workers' capacity to respond to shifts in relative wages by changing industry or occupation may be limited»<sup>10</sup>.

But the OECD in the light of its past operations agreed that «over and above this, manpower policies are needed to improve labor market responsiveness by increasing the efficiency of public employment services, education and vocational training. Where public employment is subsidized, the effect should not be to lock labor into declining activities»<sup>11</sup>.

Noteworthy in the above statements is the omission of any acknowledgment that the so-called «rigidities» were largely an outgrowth of employee and societal efforts to protect workers from arbitrary, capricious and unsocial action within the enterprise and society. These restraints, benefits or regulations were ameliorative in nature, usually pointed to specific deficiencies. They were not conceived as a systematic integrated, antagonistic program for limiting management. The process of systematizing these restraints evolved later as the mounting number of such acts or regulations called for integration and reconciliation.

Moreover, theorists have not pressed their empirical studies far enough to determine the specific benefits derived from these restraints nor have they offered alternative proposals to prevent the abuses, malpractices and inequities which originally prodded unions and governments to act. These analysts have not considered the long- and short-term consequences of the removal of these restraints nor defined the incidence of the costs. Would it

be the individual employee, employer or society who would carry them? Their condemnation of these restraints is, therefore, founded at best upon limited data on their operation, and at worst, derived from unproven employer or theoretical allegations and assumptions.

### **OECD Council Statement of May 11, 1982**

Despite the deepening economic reverses (in the eighties), the OECD's orientation, essentially grounded in neo-classical economics, rested on the faith that the restorative powers of the free market would overcome economic setbacks. As time progressed (and with repetition) its dedication to these principles grew more intense. In 1979, it embarked upon a special program of work on 'Positive Adjustment Policies' which called for the formation of a «Special Group of the Economic Policy Group» composed of senior national governmental officials to identify and elaborate «the basic policy positions open to Member governments faced with the problems of structural change». After the Group's «Summary and Conclusions» were submitted in 1982, they were largely approved by the OECD Economic Policy Committee and on May 11, 1982, reaffirmed by the OECD Council at the Ministerial level, in a paper entitled a «Statement on Positive Adjustment Policies»<sup>12</sup>.

The Statement reaffirms the Group's belief that there is basically a choice between a «virtuous circle of macro-economic stability and economic flexibility or vicious circle of instability and rigidity». It casts its lot with the former. It holds that «an economy with the necessary flexibility to respond promptly to change can be kept more easily on a macro-economic equilibrium path». By implementing a «structural change at the maximum speed which is politically feasible and socially acceptable, (the government) would contribute to establishing the preconditions for increased economic growth, high employment, full utilization and optimum allocation of the labor force, lower inflation and improved international trade relations». But the statement offers little analysis of the nature of the obstacles and the costs of pursuing the proposed course over the disapproval of the affected individual groups. Nor are alternative approaches considered or evaluated. By adding the qualifications concerning «political feasibility» and «socially acceptable», the guide actually begs the vital issues inspiring resistance, the very issues which have been debated for decades.

In the elaboration of its position, it argues that «a competitive market is normally the best mechanism to marshal responses to social, economic and technical changes, flexibility, constructively and without excessive cost». By merely positing these propositions, the Statement hardly

establishes their verity. But it acknowledges that free markets «neither automatically ensure full employment and price stability nor guarantee regional development». A sample of this approach to the evaluation of obstacles and costs may be found in its analysis of the effect of «concentration of market powers». It confidently declares that international competition would overcome their distorting influences. In fact, we would judge that international mergers, increasingly more common, would tend to reinforce these effects<sup>13</sup>. To the Council, effectiveness is essentially measured by the ability to enforce changes within a minimum time period.

As for governments, the Statement declares that they had the responsibility of providing an adequate political and social environment, prescribing ground rules for market operations and pursuing «conscious policies of positive adjustment». They should seek to remove the causes of failure and enhance the operation of the competitive system. But in following this course, governments are warned to be on guard against creating new rigidities and impairing the essential flexibility and raising costs above the level of benefits in specific situations. The principle is to foster the efficient operation of the labor market. In fulfilling this target governments must all communicate «their expectations in the light of overall economic objectives and through tripartite consultation». No discussion is offered on the ways in which governments should meet objections and dissents.

Both the Group and the Council underscore that policy-makers and administrators should be ever sensitive to the interdependence of the parts of the economic system. Microeconomic flexibility is dependent upon predictable political and social conditions and macroeconomic stability, as well as reasonable stable international environments. Measures taken to meet problems should be consistent with one another. To illustrate this proposition the Group observes that the «possibility for the use of non-accommodating money supply policies to realize a stable price level depends crucially on flexibility and mobility in factor and product markets». Distortions and deviations in any part of the system endanger entire programs. To overcome «the current dismal outlook for growth, high capital costs and low profits», it argues, that «greater flexibility of wage (including non-wage labor) costs would greatly contribute to an improved responsiveness of aggregate employment to given increases in economic activity and full utilization and optimum allocation of the labor force and resource use in general».

The emphasis on wage flexibility in this Statement became the central focus in the promotion of the free labor market philosophy. Hitherto it had been assumed actually to exist or was, in fact, approximated. Now the Council and the OECD had to admit that it was a condition to be created and it was spelling out the course to be followed for its realization. Flexible

wages had sensitively to reflect differentials in productivity, demand and supply conditions in factor and product markets and foster mobility to more productive employments. Concurrently, policies which impaired or obstructed this goal would have to be reexamined, including as illustrations, minimum wages for the youth and work rules which discourage the reemployment of the unemployed.

The analysis omits evaluations of management policies, practices and performances, in connection with short- and long-term innovations, investments, productivity, use of effective techniques, competitive products and prices, promotion and salesmanship. Presumably, this exclusion is due to the unwarranted assumption that management is ever on the alert for openings for improved performance and relentlessly pursues opportunities to gain the lowest possible costs and best products for the market. Empirical evidence, however, points to a different conclusion<sup>14</sup>. Management tends to lag behind in the pursuit of these opportunities and must at times be replaced or shocked into action. Most significant, the implementation of these changes often calls for the cooperation of the labor force and a display of an equal or more intensive dedication or spirit of sacrifice by management and ownership. The Council considers the challenge to management to be formidable not only because of the above conditions, but also because of the crucial timing and urgency which managers and others fail to recognize or deal with.

#### **May 1985 Seven-Nation Economic Summit Conference — Endorsed Flexibility Policy**

The United States most enthusiastically advanced the flexibility policy at the May 4, 1985 Summit Conference. In its final statement, it declares in Section 5 dealing with «Growth and Employment» that the parties «will promote greater adaptability and responsiveness in all markets, particularly the labor market... We will encourage training to improve skills, particularly for the young... we will work to remove obstacles to growth and encourage initiative and enterprise so as to release the creative energies of our people while maintaining appropriate social policies for those in need»<sup>15</sup>. A reporter for the *New York Times* elaborated on this section by observing that «most (countries) also endorsed the Administration's position for removing institutional obstacles to economic growth, such as labor laws that discourage hiring and regulations that discourage business formation». In commenting on the American position, the reporter further noted that the President of the United States had sought a statement disapproving «regulatory practices which fix wages and inhibit ailing industries' ability to

lay off workers». Flora Lewis, the international columnist of the *New York Times*, explained that the countries all stressed «the need to create jobs and fight unemployment without risking more inflation, to encourage small and medium-sized businesses and to break down 'structural rigidities' which is mainly a euphemism for union bashing»<sup>16</sup>.

## **OECD Manpower and Social Affairs Directorate Studies**

### ***1. The Consultant's Report (1984)***

The OECD Ministerial Council in 1979 also instructed the Committees and Directorates to investigate the adjustment process and to assess the implications of the proposed measures to facilitate adjustment<sup>17</sup>. To fulfill this task, the Directorate assigned a consultant who reported on available research and current national reports. In his conclusions he stresses that many so-called restraints on management result from efforts to smooth the transition for employees from the old to the new policies and arrangements, to achieve or maintain stable and satisfactory industrial relations within the enterprise and to minimize personnel costs; namely, follow standard personnel policies, thereby avoiding the damages from premature, hasty and abrupt implementation of sweeping changes. He cautions against unfettered management drives for manpower flexibility, which overlook the consequences of undermining a sense of security among the workforce and creating a two-tier, dual or uncertain status for employees. Should other objectives, he asks, be subordinated to the new emphasis, managerial flexibility?

For policy makers to understand the contrasts, he presents the respective points of view of labor and management. Both endorse the theoretical concept of flexibility but they differ profoundly on the meaning, importance and priority of the respective OECD goals and objectives. It is on this practical level that the contest between the two parties is focused.

The report provides a condensed, short- and long-term evaluation of the effects, benefits and costs of proposed measures to surmount the barriers to flexibility but notes that objective and useful data are limited. Most findings relate to short-term consequences. Practitioners are warned against applications which tend to create greater economic instability and unrest in the work force. It rates general unemployment and not employee, union or government rules, as the most significant barrier to flexibility. Hurdles recede in periods of full employment and rise during depressions; employees in their drive for self-protection then display the greatest resistance to

change. Attitudes vary with the state of labor markets for the individual employee. Complaints by management and economists are considered exaggerated and the acts hardly restraining, though they may be troublesome to managements seeking immediate change.

Information about the operation and effects is limited and generally insufficient for reaching objective conclusions. Contradictions among the findings of the individual studies are common. The effects of individual measures and factors can rarely be isolated. Few studies try to identify employer countermeasures, though they are often sufficient to overcome the so-called restraints. The interrelationships of all aspects of behavior do not allow for the careful evaluation of their impact and consequences for management and workers. To illustrate the difficulties of reaching solid conclusions, one should look at the vast number of studies on the consequences of minimum wage legislation. Not only are they not conclusive but the partisans refuse to accept the shreds of information in conflict with their own contentions. The debates continue on ideological grounds. The overriding conclusion is that the concept of flexibility cannot serve administrators with the same degree of clarity and usefulness as the active manpower policy during the fifties and sixties<sup>18</sup>.

## 2. «OECD Employment Outlook» (Annual Report)

The Directorate continued its studies of manpower and social policies in the context of an evaluation of the flexibility theme, thereby countering the subordination or even sublimation of the labor force interests to economic factors being emphasized by other directorates. In its annual publication, *OECD Employment Outlook*, it underscored that a significant reduction in unemployment «requires greater effort directed at finding the right mix of economic, labor market, social and educational policies». Therefore, it concludes that programs for labor market flexibility must be consistent with and complemented by appropriate economic policy and socio-economic structures to raise the rate of economic growth and achieve full employment and to overcome the mistaken belief that wage flexibility is the core and endall of the concept of flexibility. It argues that «flexibility can be achieved by changes in organization, work force mobility and human capital formations as well as by wage adjustments»<sup>19</sup>. In the study of individual measures it reevaluates their respective contributions and failings. It notes that long-term employment arrangements practiced in a number of countries and select enterprises are encouraged by a «variety of factors, such as the level and specificity of skills, the structures of the production process, social security systems and general societal attitudes». Many



employers find them contributing to efficiency and voluntarily continue this policy to achieve their ends. For the long-term unemployed it finds that «there are strong equity grounds for positive discrimination in labor market programs of the long-term unemployed. This may entail giving the long-term unemployed preferential access to programs designed to help the jobless in general, such as public sector job creation schemes», and for the «older long-term unemployed, who face very severe job-finding problems, appropriate action may include provisions for early retirement»<sup>20</sup>. Most significant, it concludes that «while one would expect a flexible wage structure to aid labor market adjustment, it is not clear how important this is in practice... there is no simple relationship between changes in relative wages across sectors and employment». As for firm size, it found that «public support should be focused on new firms rather than small firms per se... to encourage job creation». Wage moderation and greater flexibility by themselves will not stimulate a substantial increase in employment in the absence of adequate growth of demand<sup>21</sup>.

### **High-Level Expert Group**

The program provided for a high level expert group to be appointed by the Secretary General to further evaluate the flexibility policy. He named Professor Ralf Dahrendorf and six other members recruited from different nationalities and identified with employer organizations, government and trade unions and with direct experience in labor relations. Sharing the outlook of the aforementioned consultant and the Manpower and Social Affairs Directorate, its report on *Labor Market Flexibility*, released May 28, 1986 rejected the view that labor market flexibility, if realized, would automatically and spontaneously bring about the desired balance between people, jobs and resources. It clearly declared that the program was quite vague and hardly «a panacea for all economic and social evils». Policies designed to achieve economic efficiency, social progress, economic balance, noninflationary growth and high employment must be complemented by a package of structural measures including appropriate manpower policies adapted to the distinctive national settings.

Placing exclusive responsibility for adaptation on wage flexibility is unreasonable for wages (as well as non-wage labor) costs are not only «sticky» but it is undesirable for reasons of equity as well as demand creation, to allow downward fluctuations of labor costs. Rejecting short-term responsiveness as the ultimate test of effectiveness it stresses long-term policies. It commends «control of labor costs and notably, wage moderation». Its basic strategy was to avoid «all mechanisms which would lead to

wage increases above productivity increases, be they institutional or automatic». By keeping «real labor cost increases... somewhat below productivity increases there would be room for maneuvers for other forms of flexibility, including shorter hours». Fearful of undue restrictions in skill differentials the group urges that youth differentials be sufficient to maintain their job opportunities. Also concerned with the adverse effects on the employed of statutory non-wage labor costs, it calls for the reduction in payroll taxes and shifts to alternative taxes or cuts in public expenditures.

It recommends that a balance be sought between the individual employee's desire for job security, modified in some cases by personal voluntary preferences for part-time or temporary employment and the enterprise's desire for unrestrained flexibility. But no guideposts are set out for finding the happy formula for this reconciliation. No reference is made to devices for restructuring the labor market through arrangements for dovetailing work schedules for individuals among employers in single or proximate labor markets to achieve relative full employment. It adds the dictum hitherto omitted or vaguely considered that «there is no reason why conditions of work should be worse for peripheral employees».

A positive note is sounded with the statement that flexibility can also be attained through changes in job design, work organization and work time schedules, thereby providing an additional opportunity for «the convergence of managers and worker interests... Labor market distortions and rigidities» could be avoided if the parties applied rules and regulations «in a reasonable manner». To assist small and medium-sized enterprises, it proposes the removal of flexibility obstacles to create a favorable climate for new ventures. It endorses programs for reinforcing mobility including education, training and retraining but it omits reference to financial aid to people transferring to labor shortage areas and occupations.

While persuaded that its proposals are widely applicable, it recommends that suggestions should be offered to individual countries through specific country reviews, as formerly arranged in the implementation of the active manpower policy. Governments, employers and unions together should, it urges, review national programs and all should be consulted on proposed changes. The overall guide should be that «preference should be given to aspects of flexibility which promise a balance of benefits». It is necessary to have a «social compact» for all concerned to «seek ways which advance both economic efficiency and social progress».

Little attention is explicitly focused on management's performance though «employers and managers (should) show a sense of adventure and imagination as well as responsibility».

Its overriding conclusion is that flexibility in the labor market is a means for the substantial amelioration of current economic and social problems. But, the parties must be aware that many so-called rigidities in the labor market represented valued protection for the people concerned. In devising programs for relaxation, the human and social, as well as economic costs, must be weighed. It stresses that there is no necessary contradiction between flexibility or mobility and security. «Reducing uncertainty can contribute usefully to improving flexibility»<sup>22</sup>.

### **Employers' Position**

Since the basic call for so-called flexibility originated with employers, it is appropriate to define their overall position. Their international spokesman, the OECD Business and Industry Advisory Council (BIAC), offered its views in May 1985<sup>23</sup>. It endorses the OECD efforts to promote labor market flexibility. It declared that «wage flexibility should be increased. Automatic and uniform wage increases — in particular due to indexing — must be avoided. The relative pay structure for different occupations should reflect the fact that some are structurally declining. Working time should be adjusted to enable the fullest possible use of plant and machinery. Rules governing recruitment and dismissal should be relaxed»<sup>24</sup>.

Many economists joined in support of managements' basic position. For them the employers were the principal innovators and administrators of the economic systems and they should not be frustrated by restraints in realizing optimum results. But occasional writers, while agreeing that governmental intervention and control of labor markets do impair flexibility, concede that the wholesale delegation of such controls and rights to management is likely to produce instability, unrest and «anarchy in the labor market», and therefore, promote the restoration of prior controls and restraints. Management is likely to move either in the direction of introducing «financial diversification or sweating» which would lead to «unemployment of specialized resources» and in the second case, to «continual wage cuts». This writer proposed the establishment of understandings between labor and management «in a deliberate and reasoned way through agreements»<sup>25</sup>.

Another business commentator, alarmed by massive layoffs of managerial and professional personnel in the current wave of business mergers and buyouts, was concerned with the destruction of the traditional values of corporate loyalty. An editorial in *Business Week* urges measures such as «portable benefits (pensions, health disability and life insurance)»

which would «reduce the costs of job changes and would benefit workers and companies alike». With such provisions, «employees could change jobs voluntarily or otherwise, without jeopardizing such protection. Companies could pare staffs without incurring heavy expenses for layoffs. Taking steps to make job changes easier would engender a more aggressive, competitive work force»<sup>26</sup>.

Businessmen are increasingly realizing that the unabridged use of managerial rights they support would bring social unrest, personal hardships, the segmentation of the work force and other unfavorable consequences as experienced in prior decades. They, therefore, are combining the advocacy of rights with proposals for voluntary restraints and the provision for cushions to absorb the costs and shocks of transfer. Simple economic wisdoms, long supported by empirical studies, need to be modified to be acceptable to employees and to labor organizations. Benevolent autocracy, or simple unilateral personnel operations are unwelcome management styles in this present age.

### **Control of Hiring and Firing**

Employer criticism of contractual and legislative restraints on their rights to hire and fire employees has been particularly vigorous. They sought relief through negotiations with unions and governments. The confrontation centered about the issue of employee interests in job security *versus* the employers' preference for freedom to control personnel. Both collective agreements and laws usually prescribe rules governing individual and collective dismissals. The questions they deal with are the tests of fairness, alternative solutions to layoffs, personal aid, such as retraining, relocation, transfers, severance pay, reemployment rights, concessions, inducements for voluntary resignations, demands for introducing new production units and investments, subsidies to maintain operations, minimum periods of advance notice, usually varying by class of employee, length of service, selection rules for layoffs, arrangements for discussions with worker representatives, provisions for adjudication of contested cases, including arrangements for private or public administrative approval, classes of protected employees as well as permissible remedies such as reinstatement, or financial payments. Some governments also require employers to draft «social plans», spelling out these procedures and terms for dealing with redundancies.

Challenges to management's decisions are not uncommon, especially in times of large-scale unemployment and shop closings, and in plants experiencing considerable social unrest. Employees affected by such action in

some areas resort to sitdowns or take-overs to focus public or governmental interest in their plight, to gain public subsidies or to attract new financial interests to the enterprise. In the eighties, employer pressures grew stronger and they were able, in some countries, to secure relaxation of controls or concessions from employees, unions or governments. On the other hand, unions succeeded in some countries to extend the above types of protection to peripheral employees. It must be noted that individual employers publicly express the views that the benefits flowing from such rational and orderly procedures rebound positively to the interests of the enterprise<sup>27</sup>.

### **Other Instrumentalities for Flexibility**

Three other instrumentalities for realizing flexibility have received less attention in the direct debate in this field. They have been widely discussed in labor-management relations in connection with union demands for greater rights to intervene in the determination of working conditions, particularly as regards job assignments, including job jurisdictions, manning schedules and levels of work effort. Union intervention has been most persistent and extensive in Great Britain and the United States. In both, collective bargaining frequently deals with the negotiation of agreements and wage increases. In the United Kingdom in the sixties, when governmental wage controls were extensive, such understandings became known as «productivity agreements». Similar arrangements have been common in the United States. In most European countries, employee and union controls are less formal or handled by works councils, or non-existent. Information of a quantitative nature is scarce. Nevertheless, differences in this field of labor relations are a constant source of industrial tension<sup>28</sup>.

A second field is control of working time. The issues relate to the length of the standard work day, week, numbers, of paid holidays and length of vacations with pay. In more recent years, new dimensions have appeared with the expansion of regulations on the issues of overtime, shifts, flexible working time, and engagement of temporary, part-time, fixed term and casual employees, as well as outside contracted labor. Governments and unions have sought control on these arrangements either to prevent their existence or equalization of their terms of employment with the regular, full-time standard work force. Most pertinent is the removal of many special controls of hours of employment for women achieved both by the efforts of employers and feminist organizations.

The third and newest instrument for promoting flexibility is the effort to establish a distinction of people in the work force between the «core» and «peripheral» workers. The aim is to shrink the number in the former

category in relation to the latter. The core, it is proposed, is to consist of employees who have employment security and enjoy more liberal terms of employment, including employer-sponsored training and compensation for over-all performance. In contrast, the peripheral and contractual workers have no rights to tenure, are paid lower rates, enjoy fewer benefits and are recruited in the external market. Some proponents go so far as to recommend that the two groupings be governed by separate sets of industrial relations and personnel rules. A reclassification of the work force is reported for individual establishments, but management is taking steps to facilitate its introduction through the lengthening of the trial periods for new employees. Labor opposition has emerged on a broad scale in a number of countries on the use of outside contract labor and the differentiation of industrial relations and benefit systems. Unions have resisted the segmentation of the work force. It is contrary to the union credo to accept employer's efforts to relieve themselves of the costs of protection against irregularity of employment and training and to establish multiple benefit structures. In several countries, union opposition frustrated the adoption of codes of employment for peripheral employees which would directly recognize their legitimacy<sup>29</sup>. Unions actually promote the leveling out of benefits and rights for all classes of employees.

### **Proximate Ultimate Road to Flexibility — The «Hollow Business Enterprise»**

The extreme expression of the current trends in structuring business enterprises is to shed the structure of as many business risks and fixed costs as possible and avoid capital investments. The result is the «hollow corporation» which manages a network of services for the business undertaking. Many different devices have been invented to achieve these ends. Essentially, they call for structural changes. The simplest call for the decentralization of corporate units into profit centers; another is outsourcing of parts and products; a third is autonomous subsidiaries. Others in this grouping would be minority interests in other companies, franchising, joint ventures, linked subcontracting and networks. Another direction in which corporations have moved is to create alternate work sites through the use of telecommuting, cottage industries, home work, small firms and subcontracting. Among the industries which have evolved sophisticated forms of this arrangement are automobile and garment manufacture and construction. Japan's industrial system was built on this organizational arrangement.

The central organization defines the ultimate products, coordinates the outside production, service and marketing units and at times also finances units within this network. Multinational corporations accelerated the pro-

cess of dispersal of units. They developed new skills in identifying resources, particularly low-cost ones, and tapping into new manufacturing and management methods and other useful functional units. The ultimate consequence is that the «hollow corporation» is likely to be a limited organization with small staffs and fewer legal responsibilities for the autonomous units of its organization. On the other hand, the component units are highly dependent upon the central organization. Most of the risks of business voluntarily remain with these autonomous units. Rarely does the central organization underwrite these obligations. Unions have only, in limited areas, been able to have the central organization act as guarantor for these units.

It is not surprising, therefore, that unions have been suspicious about the desirability of these highly developed «hollow corporations». Nations have also recognized their own limitations in negotiating with them for assuring direct national benefits emerging from the new operations. They have developed only limited powers to influence the central decision-makers located in distant sites. Even their efforts to involve international bodies such as the International Labor Office and the Organization for Economic Development and Cooperation which have adopted some guideposts for the conduct of these multinational corporations in foreign locations have not been successful, and many governments have not tried to enforce their standards upon them<sup>30</sup>.

The reigning economic philosophies at the international levels have not as yet shown concern for the personal, national and social effects of the great void in defining the location of responsibility in this new business structure. The special interest groups such as labor have little leverage for influencing the conduct of the managers.

Managements think in terms of, and are judged by, the pecuniary results of their own operations. Nevertheless, the price paid for the ultimate flexibility they enjoy is becoming increasingly visible as we deal with individual costs, human and natural resources and environmental issues.

### **Trade Union Response**

The trade unionist's case is primarily a response to the arguments and propositions offered by proponents of flexibility. They see it as aimed at reducing employee earnings, benefits and rights in decision-making within the workplace and business enterprise. They deny that American performance provides a model for European behavior. It is true that the United States has shown an impressive rise in employment and a drop in the rates

of unemployment as compared with European countries as a whole. Still, the rate of unemployment has remained at and principally above seven percent and this rate is higher than that found in a number of Western countries. Some European countries reported substantial improvements in the level of employment in the seventies. America's superior record is attributed not to its flexible labor market and wage practices, but to the huge federal deficit which European countries eschewed, low rates of improvement in productivity and the expansion of part-time and short-term employments and the service industries and the multiplication of the numbers of self-employed. On the basis of a study in the (British) National Institute for Economic Review<sup>31</sup>, it found that both nominal and real long-term wages in the United States «had the lowest real wage flexibility of the countries shown and Japan and the United Kingdom had the highest»<sup>32</sup>.

The primary determinant of the levels of employment is the overall rate of economic growth and not wage flexibility. In support of this conclusion it quotes the OECD: «It is uncertain how strongly and with what lags wage moderation will by itself create new jobs. Simple correlations have been interpreted by some as providing evidence that increases in unemployment over the second half of the 1970s were accounted for by unwarranted increases in real labor costs. But the further sharp rises of European unemployment since 1979 is difficult to explain in this manner because labor cost gaps narrow at the same time»<sup>33</sup>.

The unionists in their studies find that reductions in labor costs do not necessarily produce higher profits, higher investments and new jobs. Rates of investments are determined primarily by the anticipated rate of return or length of the «pay-off period». Nor do these reductions in labor cost lead to the substitution of labor for capital intensive technologies or reduce the firms' costs nor advance a firms' national or international competitiveness and, therefore, higher output and employment. Nor does it reduce the risk of inflation and, therefore, higher employment. They conclude that in the longer term, real wages reflect levels of productivity. In the shorter term, growing real wages can act as a key contributor to economic recovery, not as a constraint upon it. Nor is there a preference for «low technology methods of production and low wages». «The only acceptable strategy to ensure continued development in European countries of high technology, high productivity, high wage industries «is not to compete directly low-wage countries in the third world»<sup>34</sup>. They agree with the OECD that «the adoption of overambitious income policy targets does nothing to favor the much needed development of wage and price setting consistent with macroeconomic targets».



A program for greater wage flexibility in the external labor market is off target in a period of high unemployment when the supply of labor is abundant and when there are twenty applicants or more for each vacancy. Specific occupational shortages can be more effectively overcome through extensive and improved training and the removal of personal and social deterrents to labor mobility than through sensitive pay differentials. Though American gross mobility rates are higher than European ones, only a small part of the workforce is hired and fired on a recurrent basis. Layoffs are typically more significant as causes of high turnover than quits, the forms of migration which wage differentials are likely to stimulate. If the objective is to accelerate mobility, it is more important at this stage in the economy to stress the importance of creating job opportunities. Narrow ranges of occupational rates are not necessarily a significant deterrent to labor mobility as the experience of Austria and Scandinavia has established. Expanding employment would do much more to achieve mobility than the modification of relative wage differentials.

Management's demands for the relaxation or elimination of restraints on their rights to hire and fire employees make for short-term gains, but the enterprises undermine the feelings of security among employees. As the morale is undermined, less cooperation is likely to be forthcoming in accepting and adapting to changes. Labor unions have urged that at all times regulations should be jointly rather than unilaterally determined.

Unions have developed distinctively negative attitudes to many other forms of flexibility sought by management. It has looked suspiciously on the movement toward separating employees between core and peripheral groupings and the development of the «hollow corporation». They have carefully examined proposals for variations of work time for their effects on employment and workers' well being. On the other hand, they have pressed for shorter weekly and annual hours, longer vacations and more frequent holidays with pay. In the late seventies and the eighties they ushered in a movement for a thirty-six-hour week for manual workers, which led to the extensive introduction of the thirty-eight-hour or thirty-nine-hour week for those employees and shorter hours for shift workers<sup>35</sup>.

## **CONCLUSION: THE BASIC DILEMMA**

The preceding analysis outlined the basic premises of the advocates of flexibility. Critical examinations of the arguments and data do not support the oversimplified generalizations underlying the position of the advocates of flexibility. Indeed, these arguments tend to exaggerate and even to mislead. They ignore available statistical and empirical evidence, accessible

in OECD publications. No simple relationship exists between general and occupational wage levels and mobility and levels of employment. Wage differentials do not necessarily impel the migratory movements posited by the policy pronouncements. The direction, volume and timing of labor movements are affected by a complex of factors. Deterrents to voluntary job changes are numerous and often very strong. This welter of conflicting forces is present in periods of high economic activity, recessions and on occasions of major structural changes, though their respective impacts vary considerably under different circumstances. For example, during periods of job scarcity, desperation prods people to engage in blind searches for employment; notices and hearsay on job openings bring often hordes of applicants, many highly skilled and particularly qualified ones. When the push factors are strong, wage differentials are generally a subordinate consideration. In evaluating statistical and econometric findings, one must be duly sensitive to the inherent difficulties of reaching reliable conclusions and prescribing far-reaching policy and institutional changes. Much of the data employed in the investigations are inadequate and aggregate and «hide the divergency of change at the micro level». Proxies for the measures are often only loosely related to the phenomenon being studied; contradictory findings are reported by studies of the same questions<sup>36</sup>. Transnational conclusions are particularly difficult to sustain because of the diverse institutions and conditions underlying the assessments. The OECD high level Group announced its concern about a number of the easy and sweeping conclusions as have the reports by the Manpower and Social Policy Directorate. The Group urged the OECD to pretest proposals in diverse environments. The present author found such national studies to be helpful in understanding general patterns of labor market behavior.

As for economic measures, studies of costs and benefits made exclusively in terms of monetized measures offer few clues to the full range of relevant influences. From the beginning of the century, individual economists have called for a full account of all real costs and benefits of economic operations. Thorstein Veblen initiated much of the thinking by making distinctions between economic and pecuniary values. John M. Clark, in the twenties, proposed the development of a total social accounting system. Two decades later, K. William Knapp offered an extensive analysis of the social costs of production evidence in work injuries, child labor, air and water pollution, animal, energy, social and forestry resources, technological change, unemployment, monopolies and transportation. He concluded that capitalism is «an economy of unpaid costs, unpaid insofar as a substantial proportion of the actual costs of production remained unaccounted for in entrepreneurial outlays: instead, they are shifted to and ultimately borne by third persons or the community as a whole».

One of the major efforts in the field in the seventies was that by William Nordhouse and James Tobin who devised a Measure of Economic Welfare (MEW) which modified the established GNP by three changes: «reclassification of GNP expenditures as consumption, investment, and intermediate; imputation for the services of consumer capital, for leisure and for the product of household work; correction for some of the disamenities of urbanization»<sup>37</sup>.

Concurrently, with the evolution of the theories of social costs, many initiatives were made over the years to ban the sources, or monetize the costs of the injuries in the hope of reducing and/or incorporating them into the actual accounting systems. These objectives were realized through legislation (limits on child labor, establishment of workmen's compensation, national labor standards, social security systems, minimum wages, taxes, penalties for abusive use of natural resources, regulations and taxes).

Now we are being asked to scrap a wide variety of regulations developed through collective bargaining, law or administrative orders. Management wishes to shed itself of costs and transfer them back to individuals or society. This course will not eliminate the effects or their costs. It will merely relieve the entrepreneur of their immediate incidence and thereby remove the incentives for improved practices.

The proposals rest on the argument that competition requires such action. At the national level we elected over the many decades to override this contention and proceeded to implement the rules for their beneficial effects. Now the argument is concentrated on international competition, particularly as it relates to third world countries. Their lower standards allow managements the greatest freedom to operate their enterprises, enabling them to avoid many costs and the levels of payments prevailing in advanced countries. At the national level we dealt with these issues through collective bargaining and legislation, which over time has tended to level out the differences within the countries. A similar course has been followed on the international plane but in a more limited manner through treaties and action by international agencies, including the International Labor Office and General Agreement on Tariff and Trade (GATT). While the achievements to date have been modest and hardly equal to our current needs, they offer channels for effecting further reforms. If these agencies are inappropriate, new instruments can be organized. The challenge is to construct the system of codes and regulations which would enable countries to achieve fair trade in their international exchange<sup>38</sup>. Essential to the administration of this new order of international trade is a system of social accounting of both monetized and nonmonetized costs of economic activities. Thus, relevant data would become available for negotiations and debate.

A third set of findings flowing from the above analysis would be a full statement of employers' responsibilities for their employees. With the change of the employee's position from that of a status relationship to a contractual one accompanying the succession of feudalism by capitalism employers shed their obligations as quickly as they could. Finally, they attained the state of full dominance and complete freedom from liabilities. But in the course of time, individual employers recognized the need to introduce benefits, services, protections and rules for employees to achieve their own economic objectives. These initiatives were labeled at different times as paternalism, welfare capitalism, human relations and, more recently, organizational behavior. Agreements with unions define additional standards, rules of conduct and benefits. Together they became a formidable array of limitations and commitments, with many components being universalized by law. Individual employers moreover added, as a new component of the code, the assurance of full employment for their work force<sup>39</sup>.

Recently, management has sought to reverse these trends. The object is to cancel many advances or obligations and also to limit the employees eligible for such benefit programs. Numerous techniques were invented to achieve these ends. The drive for flexibility is part of this vast movement. The basic goal is to transfer human and social costs from the enterprise to employees or the community. Concurrently, the advocates of flexibility often supported programs to limit governmental responsibilities, thereby transferring even a greater part of the burden to employees and their dependents. Resistance to this movement has been the base for major social conflicts in our current society.

The ultimate question raised by the discussion of flexibility is the degree of initiative management should take in seeking and finding new techniques and investments for stimulating economic growth and new employment. One model is that offered by employers in Japan, who originated many new activities to maintain the practice of life-time employment for their employees, including the introduction of new products and enterprises or in a modest temporary manner arranged for the loan of employees to other employers. Trade unions have proposed, as alternatives to sluggish management efforts, the formation of governmental, tripartite or, as a last resort, trade union sponsored investment funds to promote, organize and assist in the promotion of new enterprises<sup>40</sup>.

New problems have emerged in this era with which national and international agencies must deal. Their solutions must shun a reversion to unilateralism, strive for innovative and progressive answers based upon a system of consultation and joint decision-making with employees and unions. The new modes must encourage the economic stimulation of na-

tional and continental economies. Flexibility no longer serves as a slogan and must be replaced by mobility. Employment security, not segmentation of the labor force, must be the goal and only joint efforts will lead to acceptable and equitable solutions.

### FOOTNOTES

1 Solomon BARKIN, *Manpower Policy — Economic Policy Instrument and Independent Policy Systems*, Washington, DC, U.S. Department of Labor Manpower Administration, 1973 (Project DLMA 91-23-69-20); Also University of Massachusetts, Amherst, Labor Relations and Research Center, Reprint Series Number 43.

2 OECD, *Adaptation and Employment of Special Groups of Manpower*, Paris, OECD, 1968, p. 52

3 Solomon BARKIN, «Introduction», OECD International Seminars, 1964-1, 14-17th April, 1964. *Final Report*, OECD, Social Affairs Division, Manpower and Social Affairs Directorate, Paris, OECD, 1965, pp. 7-11; Solomon BARKIN, «Meeting the Demands of an Active Manpower Policy with the Assistance of the Academic Disciplines», *DeEconomist*, Rotterdam, Vol. 115, 1967, pp. 716-38; R.A. JENNESS, *Manpower and Employment Problems and Prospects*, Paris, OECD, 1978.

4 OECD, *Positive Adjustment Policies Managing Structural Change*, Paris, OECD, 1983, Appendix A, Policies for Adjustment. Some General Considerations. Council Communiqué of 15th of June 1978, (C(78)96) (Final), Annex II, pp. 111-114.

5 OECD, *A Medium Term Strategy for Employment and Manpower Policies*, Paris, OECD, 1978, p. 13.

6 See Footnote 4, pp. 3, 8, 10, 27 and 115.

7 *The Economist*, London, Vol. 285, No. 7265, November 27, 1982.

8 Solomon BARKIN, «The Current Unilateralist Counterattack on Unionism and Collective Bargaining», *Relations Industrielles*, Québec, Vol. 41, No. 1, 1986, pp. 3-26.

9 «The Employment Imperative and Labor Market Policies» in *The OECD Observer*, No. 124, September, 1983, p. 7. For detailed argument see *OECD Employment Outlook*, September, 1983. A significant challenge to the assumptions about employer determination to use wages or working conditions for controlling recruitment or achieving efficiency see Marvin E. ROZEN, *The Economics of Work Reorganization*, New York, Praeger, 1983. See also review of latter book by Solomon BARKIN, *Journal of Economic Issues*, Vol. XVIII, No. 3, September, 1984, pp. 958-62.

10 «Structural Unemployment: Policies for Job Creation», *The OECD Observer*, No. 127, March, 1984, pp. 28-31.

11 Wolfgang MICHALSKI, «Structural Change: Positive Adjustment Policies — Key to Economic Recovery», *The OECD Observer*, No. 119, November 1982, p. 7

12 OECD, *Positive Adjustment Policies. Managing Structural Change*, *op. cit.*, pp. 3, 8, 10, 27 and 115.

13 A current example of such distortions is offered by the United States-Japan accord on semiconductor prices on behalf of their respective producers which evoked a protest by the European Community before the GATT. *New York Times*, October 9, 1986.

14 For a discussion of the lagging nature of management response to market developments see «Managing Manufacturing. What Comes After Quality Circles?» *The Economist*, Vol. 296, No. 7401, July 6, 1985, p. 66; «High Tech to the Rescue», *Business*

*Week*, No. 295, June 16, 1986, pp. 100-108; see also Steven PROKESCH, «America's Imperial Chief Executive», *New York Times*, October 12, 1986, Section 3, pp. 1 and 25. See also Gary JACOBSON and John HILKIRK, *Xerox: American Samvrae*, New York, Macmillan, 1986, 338 pp.

<sup>15</sup> *New York Times*, May 5, 1985, p. 14.

<sup>16</sup> *New York Times*, May 10, 1985, p. A31. In contrast to the above development, we may turn to the experience of the European Economic Community. The British, Irish and Italian members of the Employment Ministers' meeting proposed «help for small businesses and self employment, encouraging more flexible working practices and greater assistance for the long-term unemployed». At a meeting of the Standing Committee of Employment, because of trade unionist objections, the program was replaced by «more broadly based suggestions put forward by the European Commission». It announced joint backing by trade unions, employer organizations and the public members for a «cooperative growth strategy» for tackling unemployment. It was aimed at «getting union support for slower growth in wages, in return for a commitment from the private sector to boost investment and from the EEC Member States to expand economic demand at a faster rate». (*Financial Times*, London, September 22 and 23 and November 6 and 7, 1986).

<sup>17</sup> See footnotes 4 and 12, p. 3

<sup>18</sup> R. A. JANNESS, *Positive Adjustment in Manpower and Social Policies*, Paris, OECD, 1984, pp. 19, 39, 44, 51, 61.

<sup>19</sup> «Job Growth, Flexibility and Security», *The OECD Observer*, No. 136, September, 1985, p. 5. For detailed argument see *OECD Employment Outlook*, September, 1985. Studies in the Netherlands reinforce these views. Dr. A.A.M. Heijke of the Netherlands Economic Institute reports that wage structure is flexible to some extent, but «a reasonable spread of the growth rates of sector wages will probably contribute relatively little to an improved labor market; other measures beside a more flexible wage structure will be required». Moreover, he found that the shortcomings in market responsiveness which became distinctly apparent in the mid-sixties was due primarily to the «strong expansion in service employment and waning employment in the manufacturing industry». He concluded that «increased flexibility will presumably contribute little to the reduction of frictions on the labor market». (DR. A.A.M. Heijke, *Flexibility of Wages and Labor Market Friction in the Netherlands*, Netherlands Economic Institute Division of Labor Market Research, August, 1983, p. 43.)

The OECD in the sixties sponsored a report on *Urban Mobility*, which concluded that «a high level of mobility... need not be (a healthy sign), and high levels of turnover present problems to the employer... The problems of why workers leave existing jobs and why they take other jobs are complex... Attempts at generalization are probably unwise but wages seem to be one important factor, especially where the worker is in the position of choosing between two well-defined job situations... Net migration is generally in the «right» direction (away from locations of high unemployment and low income opportunity) but the effect of migration does not usually appear to be sufficient to equalize the advantages of different areas... Movement in the «wrong» direction (towards low income opportunity areas) continues... Industries can adjust their labor supplies without changes in their relative wage position... More intensive or less intensive recruitment methods, plus the opening up and sealing off of entry points without relative wage changes, may be more effective... There does not appear to be any significant statistical relationship between industrial wage and employment changes... Occupational mobility is more often than not in the direction of greater economic advantage, though this is less true where movement is involuntary... The relative wage structure is still an important factor, however, for unless it is pointing in the right direction (other non-wage conditions also being present) the required occupational distribution may not be achieved». (Laurence C. Hunter and Graham L. Reid, *Urban Worker Mobility*, Paris, OECD, 1968, pp. 21-26).

A further study on *Wage Drift, Fringe Benefits and Manpower Distribution* by Derek Robinson explored the effect of local plant personnel policies and practices on the manning of work sites and manpower mobility. In contrast with the common analytical methodology based on aggregate industry data and average hourly earnings and average employment changes, induced in part by the meagerness of other types of information, the author, like other investigators, «believes that macroanalysis is particularly unsuited to wage studies (because they) hide the divergency of change at the micro level». This report concludes that the relative impact of each package of measures varies in part because of the diverse influences of the specific measures and the degree of tightness in the labor market.

Consequently, the market mechanism does not produce uniform wage rates or earnings or equivalent benefits for comparable jobs. Wage rates and schedules are shaped by many forces other than those that allocate labor; the structures, therefore, reflect the diversity of influences and their strength. Little relation appears to exist between the rate of expansion or contraction of the workforce and wage changes for meeting manpower needs. Employers have other possible courses open to them for building their worker complements and to overcome specific or general scarcities. He observes that «thoughtful, imaginative and dynamic managements regard a tight labor situation as a challenge to find new solutions rather than as an insurmountable barrier to expansion». (Derek Robinson, *Wage Drift, Fringe Benefit and Manpower Distribution*, Paris, OECD, 1968).

The above two reports appeared after the publication of the report by an OECD group of independent experts on the relation between changes in wage differentials and the pattern of employment. It was characterized by Derek Robinson as «the best argued criticism and based upon a more comprehensive study of existing literature of the effectiveness of changes in wages leading to changes in manpower allocation». The chairman of the group declared that «the most important finding... is that in the labor markets and periods studied, large short-term changes in relative earnings do not seem to have been necessary to bring about substantial changes in the pattern of employment... But while tending to give a low weight to the role of changing wage differentials in channelling the supply of labor», the report also notes that the rather small differentiation of earnings observed during the period studied has had effects on the demand for labor: it has put pressure on declining industries and occupations to release labor which might have been retained if wages had risen less, and vice versa». (OECD, *Wages and Labor Mobility*, A report by a group of independent experts on the relation between changes in wage differentials and the pattern of employment with a forward on the implications of the study for incomes policy by Pieter de Wolff, Professor of Econometrics, Director of Central Planning Bureau, the Hague and Chairman of Working Party No. 4 of the Economic Policy Committee of OECD, July 1965, p. 9).

For a further broad detailed critical analysis and judgment on the validity of the assumptions underlying the mechanisms of decision making by labor suppliers and demanders (employers), including the appraisal of the relative significance of monetary and other considerations and forces see a later OECD report which integrated the papers of individual scholars from seven countries and the discussions at their meetings in Paris in November 1972. One overall conclusion reached after this review was that the influences affecting the rate, direction and timing of the labor mobility and demand are complex. «The construction of a new theory capable of explaining everything with the aid of a few simple assumptions is excluded. But it is doubtless possible to escape from the rule of the classical theory which is everywhere latent under its various forms». It further adds that «discussion of the relationship between variations in wages and in the unemployment rate ought not to involve setting matters relating to the functioning of the labor market in opposition to those stemming from collective action. The two series of factors would appear inseparable». (Jean Vincens and Derek Robinson, *Research into Labor Market Behavior*, Paris, OECD, 1974, pp. 79, 85).

20 «The Employment Outlook: Where are the Jobs in Today's Labor Market?» *The OECD Observer*, No. 130, September, 1984, pp. 8-10. For detailed argument see *OECD Employment Outlook*, September, 1984.

21 See footnote 19, p. 4

22 OECD, *Labor Market Flexibility*, Report by a high-level group of experts to the Secretary General, Paris, 1986, p. 23, quotations from pp. 6, 10, 11, 14, 16 and 21.

23 «Business and Trade Unions' View on Economic Policy», *The OECD Observer*, No. 134, May, 1985, pp. 7-8.

24 *Ibid.*

25 Michael J. PIORE, «Perspectives on Labor Market Flexibility» in *Industrial Relations*, Berkeley, California, Vol. 25, No. 2, Spring, 1986, p. 165.

26 «The End of Corporate Loyalty», *Business Week*, No. 2958, August 4, 1986, pp. 42-49.

27 Studies of individual and collective dismissals in *European Industrial Relations Review*, No. 75, 1980; 76, 1980; and 109, 1983.

28 Allan FLANDERS, *The Fawley Productivity Agreement; A Case Study of Management and Collective Bargaining*, London, Faber and Faber, 1964, p. 360. See also William SERRIN, «Work Rules Overtaking Pay as Key Labor Talk Issue», *New York Times*, October 26, 1986, p. 28.

29 David CLUTTERBUCK, editor, *New Patterns of Work*, New York, St. Martin's Press, 1985. See review by Solomon BARKIN, *Journal of Economic Issues*, Vol. XX, No. 4, December 1986, pp. 1163-67. «European Industrial Relations Conference», *European Industrial Relations Review*, No. 138, July 1985, pp. 24-27.

The unions in France in 1984 refused to sign a negotiated agreement on employment flexibility. In 1986, the new conservative government secured the passage of legislation which allowed for more flexible action respecting fixed term, temporary and part-time workers and removed requirements for prior authorization for creating redundancies. *European Industrial Relations Review*, No. 133, February 1985; No. 151, August 1986 and No. 152, September 1986.

30 George S. TRISCUZZI, «Multilateral Regulation of Foreign Direct Investment», Bart S. FISHERAU and Jeff TURNER, editors, *Regulating the Multinational Enterprise*, National and International Challenges, New York, Praeger, 1983, pp. 143-163; George MODELSKI, editor, *Transnational Corporations and World Order*, Readings in *International Political Economy*, San Francisco, W.H. Freeman and Company, 1979, pp. 263-346.

31 David METCALF, «On the Measurement of Employment and Unemployment» *National Institute Economic Review*, No. 109, August 1984, p. 65.

32 The European Trade Union Institute, *Flexibility and Jobs — Myths and Realities*, Brussels, 1985, p. 43.

33 *Ibid.*, p. 47.

34 *Ibid.*, p. 67.

35 British engineering employers and union leaders have prepared joint proposals currently being submitted to constituent unions providing for a reduction of the working week from 39 to 37.5 hours as a trade-off for far-reaching changes in working practices including the elimination of demarcation and other restrictive practices, variations in hours to cope with fluctuations in demand, local level discussions on the reduction of nonproductive working time and changes in procedures for recognition and collective bargaining. *Financial Times*, London; November 7, 1986.

36 The problems arising in such studies may be illustrated as respects earnings. The United States Bureau of Labor Statistics in making standardized comparisons among thirty-four countries of average hourly earnings and hourly compensation, reports that practices differ as to the items included in these earnings with some including pay for time not worked,



bonuses not paid regularly in each pay period; private or contractual family allowances paid by the employer and the costs of payments in kind. Countries vary in their practices as to whether they are calculating earnings on the basis of time worked or hours paid for. The value of the additional compensation paid beyond the standardized hourly earnings vary from 5 to 87.3 percent in 1985 as compared with a range of 5 to 99.4 percent in 1975. For the countries which reported data for the two years two showed a drop (Italy and Spain), five remained the same and increases for the remainder varied considerably. U.S. Bureau of Labor Statistics, *Hourly Compensation Costs for Production Workers in Manufacturing Industries*, 34 countries, 1975-1985, January 1986 (unpublished).

37 For Thorstein Veblen and John M. Clark see Allan G. GRUCHY, *Modern Economic Thought. The American Contribution*, New York, Augustus M. Kelley, 1967, pp. 105-115 and 357-70; K. William KNAPP, *The Social Costs of Private Enterprise*, Cambridge, Massachusetts, Harvard University Press, 1950, pp. 231; William D. NORDHAUS and James TOBIN, «Is Growth Obsolete?» *Fiftieth Anniversary Colloquium*, National Bureau of Economic Research, NY, Columbia University Press, 1972; for a current textbook in this field, see Ahmed BELKAOUI, *Socio-Economic Accounting*, Quorum Books, Westport, Connecticut, 1984, 324 pp. For illustrations and discussion of a full cost-benefit analysis to realize a full social accounting see: Ben ANDERSON, *Work or Support, An Economic and Social Analysis of Substitute Permanent Employment*, Paris, OECD, 1966, p. 116; Solomon BARKIN, «The Economic Costs and Benefits and Human Gains and Disadvantages of International Migration», *Journal of Human Resources*, Vol. II, No. 4, Fall 1967, pp. 495-516. Current application of Veblen's distinction between economic and pecuniary values is developed in an editorial in the *Financial Times* (London), «Reshuffling of Assets», September 19, 1986. The editorial draws a contrast between corporate raiders who acquire companies for asset stripping and those who act as industrial asset developers.

38 Two examples of the author's proposals for alternative approaches to the challenge of achieving fair international trade are the following: Don D. HUMPHREY, *American Imports*, New York, Twentieth Century Fund, 1955. Supplementary Statement by Solomon BARKIN, pp. 521-24; Solomon BARKIN, «International Trade in Textiles and Garments: A Challenge for New Policies», in Carl J. Friedrich and Seymour Harris, *Public Policy*, A Year-book of the Graduate School of Public Administration, Harvard University, 1961, Vol. XI, International Economic Problems, Cambridge, Massachusetts, Graduate School of Public Administration, 1961, pp. 360-400.

39 Among current appraisals and reports on company programs for maintaining full employment are «IBM Fancy Footwork to Sidestep Layoffs», *Business Week*, July 7, 1986; «Has IBM Abandoned Full Employment?» and «Worker Friendly Programs», *The Economist*, (London), September 20 and 27, 1986, and «Indiana Town Loses 985 IBM Jobs», *New York Times*, November 12, 1986.

40 Sweden adopted a system of employee investment funds financed by a levy on corporate profits administered by regional boards with a majority of unionists on each of the five boards. In Denmark the major trade union federation LO established an investment fund financed in the first instance by the unions and subsequently supported by additional capital supplied by financial institutions. The German DGB, the central trade union organization, has long advocates governmental direction for future private investment by national boards on which trade unions would be represented. The Italian trade unions are entitled by agreement to copies of a company's investment programs and to discuss same with the management. Preferences for investments in southern Italian sites are specified in such contractual provisions.

## *Débat sur la flexibilité des conditions de travail en Europe de l'Ouest*

Un des plus intenses débats en matière de politique du travail en Europe de l'Ouest, à l'heure actuelle, porte sur les revendications des employeurs qui demandent à être libérés des contraintes contractuelles, administratives, légales et judiciaires relatives à leurs droits de diriger leur personnel selon leurs propres critères économiques. L'un des principaux tenants de cette politique a été l'Organisation de coopération et de développement économique (OCDE). Pour ce faire, l'Organisation a mis de côté la politique active de main-d'oeuvre qu'elle avait vigoureusement préconisée pendant la décennie 1960 et au début de la décennie 1970. La controverse eut pour résultat le phénomène du développement de partisans de programmes favorables à la mobilité de la main-d'oeuvre qui s'opposaient aux tenants de la flexibilité de la main-d'oeuvre et des salaires. Le système antérieur visait à réaliser, avec l'aide des agences gouvernementales et privées, l'adaptation de la main-d'oeuvre à un milieu industriel et social toujours en mutation et à aider les employeurs à modeler les postes de travail de façon qu'ils puissent s'ajuster aux aptitudes des travailleurs en disponibilité. D'autre part, le programme de flexibilité met l'accent sur la liberté des employeurs de modifier les taux de salaires, d'embauches et de licencier les employés, de les engager selon des modalités et des conditions qui conviennent à un marché du travail au sein duquel chaque entreprise s'efforce de faire face à la concurrence domestique et internationale. Dans la pratique, de telles exigences permettent aux employeurs de fixer des taux de salaires à peu près adaptés aux conditions du marché du travail et aux salariés de réagir spontanément et sans rechargement aux occasions d'emploi au fur et à mesure qu'elles se présentent ou disparaissent.

C'est au moyen d'une série de déclarations de son Conseil ministériel que l'OCDE énonça des points de vue sur la mise au point d'un marché du travail flexible. Il les regroupa sous le titre de «politiques d'ajustement positif». La source de ces principes demeurait le Directeur économique de l'Organisation.

Malgré la prédominance de ces opinions au sein de l'Organisation, d'autres groupes, à l'intérieur de l'OCDE, présentaient périodiquement des positions plus modérées, s'interrogeaient sur les propositions fondamentales ou s'y opposaient. Mais ils ne réussirent pas à modifier la position de base de l'OCDE. La première de ces propositions fut présentée en 1965 par un groupe de spécialistes qui enquêtèrent sur la politique des revenus. Les propositions suivantes portaient l'imprimatur du Directeur des affaires sociales et de la main-d'oeuvre et elles provenaient de recherches exposées dans des articles des services de rédaction ou de rapports de consultants ou de spécialistes engagés par le secrétaire général. Elles s'efforçaient d'éviter de traiter directement de questions touchant la politique économique, même si les dernières d'entre elles s'interrogeaient sur la praticabilité de s'en remettre à l'efficacité du marché du travail pour obtenir les résultats préconisés par les économistes. Ces rapports soulignaient la nécessité de mesurer les effets négatifs qui seraient de nature à faire tomber de tels programmes, ce qu'il faudrait éviter. Les auteurs faisaient valoir la nécessité de mettre au point un ample éventail de mesures complé-

mentaires pour atteindre les buts fixés, soit une certaine modération en ce qui a trait aux salaires et à la mobilité. Ils estimaient que les programmes devraient être élaborés conjointement par les employeurs et les syndicats de façon à obtenir un certain équilibre entre les avantages et les sacrifices afin de renforcer le soutien nécessaire au succès de ces mesures. L'unilatéralisme serait fatal aux programmes. La sécurité d'emploi et non pas le fractionnement de la main-d'oeuvre devrait être l'objectif de la mise en place d'une politique conjointe.

Alors que l'OCDE mit surtout l'accent sur la nécessité d'établir des régimes de salaires flexibles, les employeurs firent valoir leurs droits de diriger leurs entreprises et les processus de travail comme ils l'entendaient. Mais ils durent faire face à de nombreuses difficultés de nature juridique et administrative ainsi qu'à l'opposition des syndicats. Pour triompher de ces obstacles, ils eurent recours aux influences politiques en vue de regagner leur pouvoir de négociation antérieur, de négocier des changements sur les lieux même du travail. Des accords avaient été conclus par les parties qui accordaient des concessions aux employeurs mais qui incluaient la garantie des avantages déjà détenus par les salariés auxquels s'ajoutaient dans certains cas des compensations sous forme de réduction des horaires de travail, d'augmentation des salaires ou encore d'élargissement des régimes de négociation.

Cependant que les discussions et les négociations mettaient en évidence plusieurs questions, d'autres restaient entières. Le présent article en signale deux. La première consiste dans la nécessité de tenir compte d'une façon formelle et systématique du coût humain et social de l'activité économique. La seconde a trait à la responsabilité des employeurs de prendre l'initiative de transformations industrielles et d'instaurer de nouvelles mesures destinées à contrebalancer les effets négatifs sur l'emploi que peuvent produire les changements dans les marchés, l'économie, la technologie et l'administration.



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