LABOUR MARKET INSTITUTIONS AND ECONOMIC PERFORMANCE IN EUROPE

by

Paul Teague

First of all, let me say that it is a great honour to be invited to give the Countess Markovievicz Lecture. Reading through past lectures, some of your esteemed guests have been able to recount rich stories about the role of the Countess in the Irish Revolution and her contribution as Minister for Labour in the early governments of the Irish Free State. I am afraid I cannot do likewise. I was born into a mixed religion marriage in Armagh, N. Ireland. One of the features of my childhood and adolescence was how Irish history - either nationalist or unionist - was gently side-stepped. Learning how to solve differential equations was what preoccupied me the most at that time.

It was only much later that I learnt more about the formidable life of the Countess. Much of this knowledge was acquired when I was teaching at the University of Massachusetts, U.S.A. There the person who occupied the next office to my own was a Literature Professor. He was an enormous fan of the Countess and had written a play and many articles about her. Being extremely informed about her life he spent hours recounting this to me in exhaustive detail. There was a period of three months when I was learning more about the Countess than labour economics. Thus if you go away unimpressed with tonight's lecture you can console yourself in the knowledge that I am at least familiar with the life of one of the greatest women in Irish history, if not European industrial relations.

Tonight's lecture is about labour market institutions and economic performance in Europe. My interest in this topic was first raised by what I regard as a mismatch between much of the literature on the role of institutions in European labour markets and actual developments in European industrial relations. In the literature we are encouraged to believe one of two extremes. Either that institutions are bad for labour markets since they cause them to be rigid and lack flexibility - the British deregulation argument. Or that a dense ensemble of interlocking institutions is required to coordinate the labour market similar to that which happens in Germany. Thus we are presented with two contrasting models - labour market flexibility versus labour market coordination - and much of the academic debate is taken up with assessing the relative merits of both.

But if the functioning of most European industrial relations systems, outside of Britain and Germany, is examined then it becomes apparent virtually immediately that none can be described as fully flexible or completely coordinated.On the one hand, institutions and rules are still considered important so to provide those in employment with some degree of protection or to bring order to collective bargaining systems or whatever.On the other hand,these institutions do not appear to operate in a way that secures labour market coordination. In many instances, institutions and policies are not fully successful in performing the tasks that they are put in place to do.Thus the story of labour market institutions in most European countries is that although they are regarded as necessary they fail to reduce tensions or distortions in employment systems.In other words, most European industrial relations systems lie somewhere between the flexibility and coordination models.

Thus an important theme of tonight's lecture is that we ought to be sceptical of big heroic models of the labour market. Invariably these models either attach too much blame to institutions for many of Europe's employment problems or exaggerate the ability of institutions to solve these problems. Following on from this observation another theme of the lecture is that a governance gap exists in most European labour markets. This phrase is used to capture the idea that institutional arrangements that did bring order and coherence to some labour market systems in Europe have broken down. An obvious example is the fragmentation of the corporatist wage setting procedures in the Nordic countries.The causes of this governance gap are multifaceted involving productive, social and political influences. But as a result of it opening up it may be more accurate to say that the dominant trend in European industrial relations is the lack of symmetry between labour market institutions and ground level employment dynamics.In the rest of this lecture I develop these points in greater detail in three specific areas (1) wage bargaining, (2) training and productive systems and (3) equity and the role of labour standards.

THE WAGE BARGAINING PROBLEM

A large body of economics and industrial relations literature argues that uncoordinated forms of wage bargaining are distortionary. [Soskice 1990 and Dore 1993] Under uncoordinated bargaining, for example, trade unions will be less aware of the impact of wage claims on the price level and as a result less likely to pursue moderate wage aspirations. Similarly if employees do not coordinate their wage offers and pursue only their individual self-interest, each will continually seek to leap frog over the other in an effort to recruit and retain efficient workers. Layard (1990) gives a concrete example as to why uncoordinated pay deals may have a distortionary impact. He argues that some industrial sectors have inherently greater productivity growth than others, which is mainly due to technological factors and not to the efforts of workers. Thus, he points out that between 1979 and 1986, productivity growth in British manufacturing varied hugely between industries - doubling in man-made fibres while remaining constant in brewing. If pay had been based on productivity, wages in man-made fibres would have doubled relative to those in brewing. But in fact the wage increase was identical in both industries (70 per cent). In other words, competition for labour always produces a going rate, and where enterprises with high productivity growth grant large pay increases, other industries end up paying the same in order to retain labour.

The central idea of is that a pay increase for one group of workers produces negative externalities for the economy or society as a whole. Calmfors (1993) suggests that there is at least seven types of negative wage externalities which can produce sub-optimal labour market outcomes in one way or another. A further argument of this literature is that these externalities can be internalised by cooperative or coordinated behaviour [Rowthorn 1992]. When negotiating the level of pay increases, the bargaining system can either set conventions or contagions. A convention is when the going rate for pay settlements does not generate negative externalities. In particular, it does not have any harmful effect on levels of inflation and unemployment or other parts of the macroeconomic environment. A contagion, on the other hand, is when the going rate for wage settlements is out of line with prevailing macroeconomic conditions. Leap-frogging - a process of bidding wages- is frequently cited as a contagion.

Establishing a convention for pay rises is seen as dependent on the existence of coordinated bargaining. However, it is not always clear in the economic literature what coordinated wage bargaining amounts to in institutional terms[Boyer 1993]. The industrial relations literature is stronger on this point. Here there is wide agreement that for coordinated bargaining to work, either trade unions or employer organisations or both outside the firm should have the capacity to formulate collective strategies, negotiate collective obligations and implement collective policies [Crouch 1994]. In other words, extra firm institutional arrangements are required to tie enterprise pay determination to economy-wide goals and to ensure that wage drift does occur at the ground level caused either by employers paying efficiency wages or by the 'local pushfulness' of trade unions. Thus coordinated bargaining creates an interface between the macro- and micro-dimensions of the labour market from which arises positive externalities.

Wage Formation in Europe

Undoubtedly the centralised wage setting procedures in the Nordic countries heavily influenced this argument (Crouch, 1993). Here, highly centralised, and encompassing trade union and employer organisations had the authority to conclude and police national pay deals. As a result, wages levels were highly sensitive to changes in employment or inflation. A consensus exists that these corporatist wage systems were a key factor in allowing the Nordic countries to sustain virtual full employment for most of the 1980s (Glyn and Rowthorn, 1988) whilst other parts of Europe were experiencing unemployment rates of 10 per cent and above. Table 1 categorises each country by the degree of labour market coordination and plots this against their level of unemployment. It confirms the view that the corporatist countries were able to hold down unemployment more successfully than other European countries.

However, in recent years, these centralised pay structures have more or less crumbled for a number of reasons. First of all, as the globalisation of economic life proceeds, it has become increasingly difficult to insulate a cohesive national system of industrial relations from the dissolutive effects of external trade flows and international capital mobility. With economies becoming more open, employers have become less committed to national level arrangements on pay determination. To improve their competitive performance, they are eager to develop employee relations that are more sensitive to the competitive circumstances of the enterprise. Moreover, centralised pay structures seem increasingly too rigid to adapt to contemporary commercial developments, such as the rapid rate of technological change and highly fluctuating patterns of demand. In this environment, enterprises require greater freedom to organise their own production and employment systems. Furthermore, the political commitment to centralised bargaining has declined in countries like Sweden and Norway. All in all, it is not surprising to find that recent studies of corporatism have an indisguisably valedictory feel to them (Ahlin 1989 and Elvander 1990).

At the moment Germany is the only country in the EU that can be regarded as having a successful co-ordinated wage bargaining system; but the organisation and purpose of this bargaining regime is somewhat different to the Scandinavian experience. In countries like Sweden, co-ordination was secured through highly central institutions, yet in Germany it is achieved in a more decentralised and informal way (Soskice, 1990). Strong employer organisations being able to tie individual firms to regional and sector pay deals, as well as a commitment to consensus amongst all labour market actors, underscore the German system. Moreover, whereas the Nordic countries regarded corporatist bargaining as a way to hold down unemployment, in Germany the focus of co-ordinated bargaining is to maintain economy-wide competitiveness.

Apart from Germany, none of the other member states have co-ordinated wage bargaining systems. Table 2 details the institutional framework of wage bargaining in European countries. Although the exact institutional form of each system differs, the general trend is for a certain amount of wage bargaining to take place at the sector or national level, supplemented by pay negotiations at company level. In other words most member states have a multi-level or multi-tier bargaining structure. But in nearly every case the mere presence of institutional structures for pay determination outside the firm has not lead to the elimination of negative externalities arising from wage setting. Most of these countries continue to suffer from high unemployment and unimpressive employment growth rates. In other words, just because a wage determination process may have certain institutions outside

the firm, it does not mean that the system is co-ordinated. Most European economies I would argue have systems of connective bargaining rather than systems of co-ordinated bargaining.

Connective bargaining is different to co-ordinated bargaining in several important respects. First of all, connective bargaining is less institutionally or socially embedded than co-ordinated bargaining and, as a result, is more prone to breaking down. For instance, trade unions may be fragmented, decentralised or have a low membership rate relative to the size of the workforce. Employers organisations may display similar characteristics, reducing their capacity to promote orderly labour market behaviour. Moreover, the industrial relations environment may have a tradition of adversialism and mistrust, making it difficult to establish consensus building institutions. Thus, some countries arrive at connective bargaining, largely because the institutional foundations for co-ordinated pay setting are absent.

A second distinction, which really only follows from the above observation, is that under connective bargaining the relationships within the multi-tier pay setting arrangement is seldom symmetrical. Thus, at one point, trade unions may use the scope for enterprise bargaining to capture pay increases above the minimum rate set at the sector or national level - the problem of wage drift. In other instances, the reverse occurs with employers securing concessions from trade unions at the local level in the context of a national bargaining framework. Moreover the importance of the different bargaining tiers may change over time. Recently, France and Italy have attempted to strengthen the sector and national components of their bargaining systems whilst Belgium and the Netherlands have gone the opposite way and encouraged decentralised wage setting. In this situation of constant flux, it is difficult to establish institutional relationships of any permanence that may create the conditions for wage coordination.

Connective bargaining also stands apart from co-ordinated bargaining for economic reasons. In some circumstances, prevailing economic conditions may effectively rule out co-ordinated bargaining procedures having a positive impact. For instance, a country experiencing sharp deindustrialisation may not benefit greatly from a co-ordinated wage system - unemployment is unlikely to stop rising. Equally, a country with endogenous economic imbalances, such as high government debt or large labour supply increases, may only marginally gain from a properly organised wage setting system. Co-ordinated pay systems are likely to be weak defences in the face of such adverse economic shocks. It would be unwise for anyone to conclude for example that Spain or Ireland could solve their unemployment problems by simply putting in place a system of co-ordinated bargaining.

All in all, the notion of connective bargaining attempts to capture the common scenario that although governments desire to establish co-ordinated bargaining arrangements to remove distortionary effects from the wage setting process many invariably fail to do so. Attempts at creating a sustainable co-ordinated bargaining regime frequently break down. As a result, most governments are continually engaged in the process of reforming, reordering and patching up the connections between enterprise level and more centralised forms of wage setting. The story of collective bargaining in Europe is about an ongoing challenge to contain the tendency for wage formation systems to fragment rather than the functioning of integrated and coherent pay arrangements. Thus we have a situation where there is a sizeable gap between quite valid theoretical insights and the actual functioning of wage systems in Europe. The idea that organised and co-ordinated bargaining can result in lower unemployment and inflation is elegant and seductive on paper but the institutional and economic circumstances in many European economies appear to be an unwelcoming context for such ideas. The gap between theory and practice on this point seems formidable and there is no easy way it can be reconciled. Thus for the forseeable future most national labour markets in Europe will operate without coordinated wage bargaining systems

THE TRAINING ISSUE

(a) The Market Failure Problem

Across the EU it is widely accepted that European economies can only maintain existing living standards by producing high quality, high value added goods. It is similarly recognised that a precondition for such a productive system is a highly skilled workforce. This perspective has put the matter of education and training at the top of the economic policy agenda across Europe. Since Gary Becker's seminal work in this area over thirty years ago, economists are fully aware of the complexities of creating training systems that produce skilled workers of sufficient quantity and quality. A central problem is that enterprises for a number of reasons have a tendency to under invest in skill formation (Buechtemann and Soloff, 1994). For example, enterprises may be reluctant to invest in general skills - i.e. those skills recognised through an economy-wide certification procedure - since after training, the company will have to pay the employees the on-going rate for the skill or they will quit. But to pay the employee the market wage reduces the incentive to make the initial investment in training. A more cost effective strategy would be to either hire a worker with the necessary skills from the external market or to poach such a worker from other firms.

An alternative route open to firms is to invest only in company based training. But company focused training systems have also a downside. On acquiring skills, employees become more indispensable to the company - in economic terms they become a quasi-fixed factor of production. In such a situation, a firm is exposed to rent seeking by employees i.e. employees attempting to secure a wage rate in excess of their productivity performance. Additionally, an economy where firm specific training predominates may be under provided in general training. As a result, the external labour market may be underdeveloped causing tensions in the movement of workers between firms.

All these problems suggest that a high skills economy cannot be created by enterprises alone. In the academic world these problems are regarded as market failures - the inability of market transactions to produce efficient outcomes. To resolve these market failures and create a training system that produces enough skilled workers requires institutional interventions. At the moment, Germany appears to be the only European economy that has been able to establish a vocational training system that more or less suppresses the market failures associated with skill formation. The German apprenticeship system is built on two key foundations. One is a bank-industry relationship that permits long-term investments by companies in sophisticated production systems. This gives enterprises the incentive to invest in training so that the necessary skills exist amongst employees to handle state-of-the-art machinary. The other is the willingness of young people to work hard at school to secure a place at the top end of the apprenticeship hierarchy and to accept low wages throughout the period of training. This ensures that on entering a company, a young person has a high level of general education and has in effect accepted to pay for part of their training.

A range of institutional arrangements ensures that these core features of the training system are sustained over time. First of all, because wages are mostly set at the sector and regional levels, enterprises find it difficult to pursue either cost-based commercial strategies centred on low wages or engage in poaching by offering attractive remuneration packages to workers in other firms. At the same time, workers find it difficult to rent seek since wages are not bargained at the enterprise level and the threat of quitting is not credible in the absence of a market for poaching. Secondly, a number of positive benefits arise as a result of employer organisations having an active part in the administration of the system. One is that they lower the transactions costs associated with running an elaborate economy wide training system. Companies require comprehensive, up-to-date advice and consultation in organising apprenticeship schemes and employer organisations deliver these services cheaply. In addition, they perform a monitoring function on behalf of government to ensure that national standards are being reached. As monitoring can only be effective if the company trusts the external agency, employer organisations are more likely to get better access to a firm than a state body. This ensures that the certification system is more credible and allows the private sector itself to put right any defects in training provision.

Employer organisations also operate as an external institutional sanction against free-riding behaviour. Not all companies will be prosperous all the time and when times are bad the temptation is to cut back on training or to reduce the number of apprentices on the pay roll. But employer organisations effectively close off this option by exerting pressure to maintain existing levels of training. Inside the enterprise, the system of work councils which gives employees a voice in business decision-making acts as a third institutional buttress for the apprenticeship system. Through this arrangement, employees receive guarantees that young people will not be used as replacements for older more skilled workers. They also secure an input into the format and content of training provision. In return, management gain assurances that trade unions will not rent seek after employees acquire skills and a wider commitment to cooperation in any production or organisational restructuring. All in all, the

climate of consensus that arises from the work council system creates a favourable environment for the operation of high skills training.

Thus various aspects of the German industrial relations system interlock with each other to create an incentive structure that suppresses the market failures that all too easily can emerge in a national training system. The impressive competitive record of much of German industry is attributed in large measure to the presence of this system. One argument is that other European countries should imitate the German system as it has proved so successful in overcoming market failures [Prais et al 1989]. But so far none have been able to do so. Because the system is deeply embedded in the country's economic and social structure, it seems unlikely it can be transferred across national boundaries [Sako 1993]. As a result, most countries have more or less gone their own way in regard to training. But few have developed a skill formation system to match the German arrangement.

Over the years, the United Kingdom has gained the reputation of comprehensively failing to meet the training challenge. In a damning assessment, Soskice and Finegold (1988) argue that Britain has become trapped in a low skills equilibrium. Market failures appear endemic within the economy: poaching and free riding is widespread amongst enterprises: wage determination is fragmented to the extent that it encourages sectionalist and rent seeking behaviour amongst trade unions; the financial system is too insistent on industry maximising profits in the short term, thereby making it more difficult for British companies to pursue meaningful skill formation programmes. All in all, Britain has succeeded in creating an incentive structure that nudges enterprises towards low value-added, low cost commercial strategies. Thus the consensus in the literature is that a sizeable skills gap has opened up between Britain and its European partners [Kweep and Mayhew 1993].

But everything is not rosy in the continental garden. Many of the training systems there also experience market failures, although not on the scale as in Britain. Consider the situation in France. In that country, legislation requires every employer with ten or more employees to spend about 3.14 per cent of its total wage bill on the education and training of its employees or pay a tax equal to the difference between its obligated and actual training expenditure. On paper this legally based regime appears a powerful way to lock firms into training activity, but in practice it has a number of shortcomings. One problem is that creative accounting has become widespread amongst firms so that they neither spend the obligated financial amount on training nor incur a higher tax bill. A second problem is that there is little control over the quality of the training provided which has caused the system to be uneven and fragmented [Bishop 1993]. Problems are also emerging in the Nordic countries. In this group of countries, school based vocational training is pursued in order to equip the school-leavers with a high level of general education. In other words, government picks up the tap for a large part of training that goes on and this explains why public expenditure on training here is higher than anywhere else in Europe. But such government sponsorship has encouraged firms not to take an active involvement in training. As a result an increasing concern has been expressed at the growing mismatch between the training provided by the state and the skills that are being demanded by the private sector [Lynch 1994].

Thus the general pattern across Europe is for institutional arrangements not to fully face down the negative externalities or market failures that can arise from creating an economy-wide skill formation system. Just as in the case of wage formation, most European countries have not fully solved the training problem. Rather they are engaged in a continual process of institutional reform and adjustment in an effort to improve the delivery of training.

(b) The Production Problem

In forthcoming years, this process of attempting to squeeze out market failures from skill formation systems will probably become more difficult. At the moment, most European economies are undergoing far reaching structural change. One of the biggest changes is the move away from mass production by enterprises towards some variant of flexible production. In the past, the characteristic production system was the large-assembly line used to make fairly standardised products. To a large extent this system is no longer suitable for today's highly volatile and differentiated patterns of demand. Enterprises are now required to use new technology to make high quality products in small batches.

Just how enterprises adopt new production methods can vary a great deal, but the notion of lean production appears to be dominating the literature on the subject. Lean production was coined by a team of MIT researchers studying the performance of the automobile industry world-wide [Womack et al 1990]. One of the central conclusions of their report was that Japanese car manufacturers were more efficient than anybody else. The ability to make quality cars cheaply was attributed to the production system in Japanese factories. This system got the name of lean production and the MIT report concluded that it could be used in a wide range of commercial settings other than automobile manufacturing.

Lean production has a number of key elements: (i) the design and manufacture of products are integrated and synchronised rather than separated like under mass production; (ii) just-in-time inventory systems are used so that production is virtually in line with market demand. The aim is to reduce costs by avoiding shortages or stockpiles or wasted time; (iii) total quality control systems are built into the production process so that virtually no defective products reach the market; (iv) team work is frequently used to allow for job rotation in an effort to reduce monotony and boredom; (v) co-operative industrial relations are pursued in the form of quality circles or other involvement schemes that encourage employees to make suggestions about how the production system could be improved. Thus a distinguishing feature of lean production is that it focuses as much on the nature of work organisation as on the narrow technical elements of new manufacturing systems.

The form of work organisation created under lean production represents, as shown in table 3, a half-way house between scientific management that governed jobs in the mass production factory and craft based work. Under scientific management most jobs were relatively unskilled and most workers performed single tasks repetitively. Little on-the-job training was required and virtually no learning took place. Work tasks were organised hierarchically with close supervision of individual employees. Craft based work, on the other hand, involved the integration of the conception and execution of work: craft workers have a theoretical understanding of the job tasks they are performing. Such highly skilled workers enjoy a high degree of autonomy at the workplace and normally perform a range of complex tasks.

Lean production attempts to create a work regime somewhere between these two extremes. Thus to remove repetition from the working environment job rotation is introduced. Job tasks are made more meaningful whilst close supervision is replaced by quality circles or some other type of involvement scheme. At the same time, there is little job autonomy and skill levels required are not particularly high, resulting in few employees being engaged in a coherent, identifiable piece of work.

The principles underlying lean production are applicable to economic sectors other than manufacturing.Consider the example of nurses in the UK public sector. In many Trust hospitals there is a big move to upgrade the work tasks of auxiliary nurses so to weaken the reliance on highly trained nurses; in other words to increase the numbers of semi skilled workers relative to the skilled workers. Lean production ideas are also being used to blur the boundaries between separate professions. Consider another example from the UK health sector. Previously occupational therapists and physiotherapists jealously protected their professional autonomy from each other. Now there are moves to integrate the two professions. The only conceivable way this can be done is to reduce the theoretical part of current training provision for each group and focus more on task orientated matters. Lean production par excellence!

Across Europe, policy makers in charge of training have been heavily influenced by the notion of lean production. As a result, they are busy introducing innovations into their skill formation regimes that make it easier for the principle to be diffused within organisations. In particular, many European countries are trying to develop competence based training systems. Table 4 shows that there are four main elements to the idea of competence. Firstly, specialised competence relates to knowledge and technical aspects of training. The main objective is to develop skills amongst trainees which simultaneously meet the specific needs of enterprises and are transferable across firms.To establish this balance between general training and company specific training, the specialised and indepth knowledge and techniques associated with craft based apprenticeship is being sacrificed. More emphasis is placed on practical know-how than on theoretical knowledge of the processes that lie behind the performance of a work task. Thus the transferable part of the skill acquired is much thinner than before.

The other three aspects of the competence based approach are more to do with teaching trainees behavioural skills that are conducive to lean production. Methodological competence is about giving young people the adaptability to perform in today's work organisation where narrow, standardised job categories are eschewed in favour of flexible patterns of skill utilisation. Social competence and participatory competence are more concerned with ensuring that trainees are able to function within a team work setting. Thus the focus is on improving communication and interpersonal skills as well as upgrading individual abilities in areas such as leadership and coordination. All in all, these features of competence based training aim at getting the learner to internalise the behavioural patterns that will allow them to work in a lean production organisation.

Perhaps the biggest merit of a competence approach to skill formation is that because it puts less emphasis on indepth knowledge based training it may help stop the collapse of semi-skilled manual occupations. In the past decade, virtually every industrial country, as shown in Table 5, has experienced a loss in such jobs. Various factors explain this trend, the general shift from manufacturing to services, the demise of Fordist mass production systems in industry and technological change. A negative consequence of this development is that the labour market may become increasingly divided into highly skilled, highly rewarded jobs and those characterised by low skills and low wages. Competence based training by focusing on creating jobs at the middle tier of the labour market may represent an important counteractive to this trend. It is interesting to note that the table shows that Japan which practices lean production the most is where there has been the least decline in semi-skilled jobs.

But there is a down-side to competence based training. One concern is whether an institutional apparatus can be devised that translates what on paper is a fairly coherent model into practice. A particular worry is whether a reliable standardised certification system can
be established when so much of the training occurs on-the-job and geared towards the specific needs of companies? All the evidence suggests that training regimes are finding it exceptionally difficult to establish a reliable certification system in which both trainees and enterprises have confidence [Steedman 1994]. Other evidence suggests that enterprises are simply interested in giving trainees on-the-job training and nothing else [Marsden 1994].

Together these two pieces of evidence suggest that under competence based training the enterprise will be at the centre of the economy wide skill formation system. As a result, given the content of the competence approach, the possibility is that employee rights, responsibilities and skills become increasingly tied to the organisation for which they work. The significance of such a development is potentially far reaching. In many instances it is specious to talk about a European social model or a model of European economic citizenship. But in this area it is possible. Traditionally in Europe the rights and status of employees were largely determined outside the enterprise. For instance a skilled worker had as much attachment to his or her profession or craft or to institutions like trade unions as to his or her place of work. It was not like Japan where workers are encouraged to stay with the one organisation throughout their working life. Thus the competence approach to training along with lean production may dent if not undermine this European model of economic citizenship [Grahl and Teague 1994].

Furthermore, big social question marks can be raised about the competence approach. For example can a collection of competences which are primarily concerned with modifying the behaviour of learners be considered as adding up to an efficient skill formation system? Who is the more skilled - the craftsman who is master of his or her craft but who cannot string two sentences together or the person who is highly motivated, highly flexible and with good communication skills? Such questions are important for in the past the occupational structure of most European economies formed the skeleton of the wider social structure. A certain social status was attached to certain jobs or occupations. Thus the rush to align European industry with lean production through the promotion of competence based training may unravel many of the traditional features of work and skills in the region. This may not mean we are turning Japanese or American but it does put stress on the cement that has bound social hierarchies in Europe together.

Put another way, the argument is that just as the system of mass production triggered in its wake a wave of social innovations, the shift to lean production will do likewise. It would be heroic to suggest that any training system in Europe, even the acclaimed German arrangements, is on top of or in control of the changes that are occurring. Many are caught between the old and new training systems which suggests that they have yet to fully meet the challenge of lean production. In other words, there is a governance gap emerging between production arrangements being pursued by companies and that the institutional provision of skill formation in many European countries.

To summarise and conclude this section. Across Europe there is a consensus that institutional interventions are required to help produce the skilled workforce necessary for European economies to engage in high quality production. However only Germany has been able to establish an ensemble of institutions that interlock with each other to remove the market failures associated with developing a national training system. Most other European countries continue to experience market failures, Britain perhaps more than most. In forthcoming years the quest to establish effective skill formation regimes will become even more difficult as a result of the emergence of lean production. To encourage the diffusion of this production method most European countries are promoting a competence based approach to skill formation. Although a fairly coherent model on paper, the competence based approach appears difficult to implement in practice in any integrated way. To the extent that it is fully diffused, large scale changes may be triggered to the role of skill formation in the European model of economic citizenship.

THE EQUITY DIMENSION

The extent to which labour market standards should exist to promote equity and fairness in employment systems has been a long standing controversy. Two arguments are normally made in support of this view. One is that employment regulations close off the possibility of enterprises pursuing low wage commercial strategies and as a result redirects their efforts towards building productive capacity. The second is that by offering advantageous employment contracts and creating good working conditions employers will profit by attracting the more capable workers in the labour market. There is much that is unsatisfactory about this approach. In many instances, the case for labour market standards is based on a moral imperative. There is no general institutional theory of labour market standards as such and thus the argument for protectionist measures often lacks analytical grounding. Nevertheless, this approach has also its strengths.

One of the strongest aspects of this line of argument is that it exposes some of the limitations of the view championed by the British government that poor labour market performance in Europe is caused by too many rigidities in employment systems. According to this perspective, excessive government intervention and over-powerful trade unions have reduced the flexibility of European labour markets. Trade unions and collective bargaining arrangements are regarded as the main obstacles preventing wages adjusting to market conditions, resulting in workers being priced out of jobs. On the other hand, state intervention is held responsible for excessive legal and financial guarantees in the labour market that cause redundancies and discourage hiring. Thus from this standpoint if employment growth is to resume then the strength of trade unions must be weakened and government legislation streamlined.

One criticism levied by the institutionalists is that the first order effects of flexibility is to increase income inequality rather than to increase employment[Solow 1991]. Table 6 plots a synthetic index of the intensity of labour market regulations in European countries against their unemployment levels. This table clearly shows that the UK rate of unemployment is not particularly better than other European countries even though it is the least regulated. In contrast, once wage dispersion rates are compared across a number of European countries - as shown Table 7 - it shows that the UK fares much worse than the others. This picture of wide wage inequality in Britain is in line with a host of other studies that have shown that since the first Conservative Government in 1979, the country has become more unequal [Gregg and

Machin 1994].

Following on from the above observation, a second criticism of the flexibility argument, is that it fails as a model of competition. Where flexibility measures have been most extensively introduced, the result has been the creation of insiders and outsiders in the labour market. Enterprises given the opportunity to introduce thorough-going market principles into the employment relationship have actually done the reverse and insulated large numbers of workers from the pressure of labour market competition. A common reason for pursuing such a strategy is the recognition that too much competition may disrupt the trust and social relations which codify and stabilise relationships between employers and employees. But creating groups of insider employees impairs the efficiency of key aspects of the labour market system, particularly wage setting. Thus for example even though unemployment may be rising in the economy, core workers may continue to receive pay rises above inflation. In other words, at the macro-level, wages are not responding sufficiently to changes in the level of unemployment with the likelihood that a number of distortions may emerge.

But employers cannot extend privileged insider position to all employees since the cost would be too prohibitive. They therefore tend to use the scope given to them by labour market deregulation to expand the numbers of outsiders. Thus in the wake of flexibility measures, the trend is for an increase in temporary and part-time contracts; hiring and firing; local or enterprise-based wage differentials; and the use of sub-contracted labour. The result is more intensive competition, but largely among these groups of workers already exposed in varying degrees to economic and social exclusion, while core employees remain immune from the dynamics of demand and supply.

Accentuating the gap between insider and outsider employers is a key market failure of the flexibility model. As a result, according to institutionalists it shows why legal interventions may be required in labour markets. In this instance, the extent to which legislation improves the status of disadvantaged, peripheral or excluded workers, especially those with a-typical contracts relative to core employees, it works to compensate for this market failure. Thus if enterprises are constrained to include a-typical employees in their pensions schemes then market efficiency may arise because pension provisions will be more influenced by the situation on external labour markets rather than being completely determined in insulated internal labour markets. Similarly, if the training rights of disadvantaged workers are enhanced then it will be less likely that the seniority and experience of employees will act as another mechanism of exclusion. Employers will be encouraged to repackage a-typical jobs so that they are less precarious and less devoid of skills.

This is a robust and convincing line of argument, but it is not the full story. Consider the issue of part-time workers who represent a large element of the outsiders in employment. In many instances, they are women constrained by multiple pressures into precarious and relatively less advantageous types of jobs. Thus from an equity standpoint, it is reasonable to express a concern about the unbridled and unregulated growth of this form of a-typical work. At the same time, it would be misleading to suggest that the increase in part-time work is totally involuntary. To some extent, there is a certain match between some of the changes in employment forms which employers are trying to bring about and new social preferences on the supply side of the labour market for other forms of work than full-time employment. On this point, a concern is that certain labour market regulatory regimes may over-regulate part-time work thereby closing off employment choices that individuals would like to make or retard important structural and social changes.

Table 7 plots the synthetic index of employment regulation governing part-time employment in the European Union against the proportion of their workforce in such jobs. This table shows that part-time work is the lowest in the countries with the strictest regulation and the highest where the legal rules are the most lax. The clear conclusion from the above analysis is that either extreme of under regulated or over regulated regimes of labour market protection should be avoided. As a result, it seems shortsighted to hold to a strong institutional position

that irrespective of the context, regulatory measures governing employment will have a benign effect.

In practice, as also shown in Table 7, most European economies appear to be moving towards a hybrid formula that balances flexibility with regulation: a trade off between efficiency and equity. Thus for example in 1991 Belgium put in place a new regulatory framework for a-typical work that on the one hand facilitated the greater use of part-time and temporary workers but which on the other hand codified and made more transparent the legal rights of such employees. In particular, the law introduced a range of rules: regulating the amount of overtime that a part-time worker can perform; controlling the variation in hours by part-timers; and giving such employees priority treatment in respect of full-time positions which become vacant in the company in which they work. More recently, the new Balladur government in France has launched a similar initiative. As part of a wide ranging package of labour market policies, the French government introduced a law with the objective of balancing the promotion of new forms of employment with giving those in such work a degree of protection. Thus the law reduces employer social security contributions by 30 per cent in respect of part-time workers whose contracts meet certain requirements including: guaranteed minimum continuous duration of any period of working; the right of part-time workers to priority consideration when a full-time job becomes available; and compliance with equal treatment with full-time workers in terms of working conditions [Teague 1994].

Although it will probably dominate European industrial relations for the rest of the decade, this search for a balance between regulation and flexibility is not going to be straightforward. One problem is that many European countries have uneven patterns of labour market protection: intervention in some areas are more extensive than in others. For instance, in Denmark and the Netherlands regulation of part-time work is quite lax whilst rules governing temporary work are restrictive. Thus it is a formidable challenge for many countries to establish the appropriate level of regulation in all areas of the labour market. The rather ad hoc and uneven approach to the reforms of employment laws so far is not an encouraging sign. Another problem is that attempting to establish a balance between flexibility and regulation in one area may cause disruptions in another. For instance in 1986 Spain introduced a law that made it easier for enterprises to recruit temporary workers. However last year it had to repeal this legislation because it had the effect of strengthening the position of permanent employees in the labour market. A third problem is that it is still underestimated in many European capitals the extent to which establishing hybrid systems of labour market protection will require leaving behind many concepts that have underpinned labour law for half a century and more - concepts like full employment or collective employment rights - and adopting new provisions that are more in line with the new fragmented employment structure.

This analysis suggests that the controversy between Britain and the rest of Europe about labour market regulation is overblown. To a large extent, most of the EU have accepted the need for more flexibility in European labour markets. That is why most do not want to see further labour laws to be introduced under the Social Chapter of the Maastricht Treaty. At the same time, they are not prepared to introduce such measures in a manner that rides rough shod of over the principles of fairness and equity. Thus when British government ministers launch attacks on the over regulated labour markets of their European counterparts, they are engaged for the most part in shadow boxing for domestic political reasons.

A much more far-reaching question, but one which has been overshadowed by the flexibility issue, is whether institutions like trade unions that have played an important role in maintaining fairness in European labour markets can perform such a role for much longer. This is an issue that I cannot explore fully here. Certainly current patterns in west European trade unions are diverse, but almost everywhere they are on the defensive. The extremely adversial trade union systems of Britain and France have suffered the greatest damage, but even in countries with a much more consensual tradition such as Germany have been considerably weakened. These changes are profound for they represent not only the obvious loss of bargaining power, but increasingly, the impairment of the unions as representative agents. They also raise profound questions: if trade unions can no longer perform a protectionist function are there other labour market institutions to take their place? Can legislation alone ensure that equity is maintained in the labour market? These are the questions that industrial relations scholars should be urgently confronting.

CONCLUSIONS

In this lecture I have suggested that institutions play an important role in European labour markets and that in many circumstances are put in place to reduce tensions or distortions that may impair economic performance. At the same time, have I suggested that it is only in a few circumstances that labour market institutions actually succeed in eradicating these distortions. Normally, it is the case that institutions fail to totally suppress negative externalities, overcome market failures or establish efficient trade offs between such things as equity and efficiency. This conclusion indicates that big models that exclaim the virtues of labour market flexibility or coordination should be treated with considerable caution. It

also lends support to a more eclectic and down beat approach to the study of labour market institutions.

This last point has some relevance to the current industrial relations scene in Ireland. At the moment there is a widespread belief that Irish industrial relations is undergoing a radical change, moving away from a variant of the British voluntarist and adversialist system towards a European type arrangement that emphasises consensus and partnership. The durability of the latest round of centralised wage agreements and the willingness of Governments to enact protectionist measures such as the recent legislation that gave part-time workers a range of rights are held up as examples of the new industrial relations climate. In many quarters, there are big expectations that this transition will bring far reaching economic and social benefits. Following the analysis of this lecture, I would caution against such upbeat assessments. First of all, introducing root and branch change into any institutional apparatus governing the labour market can be highly complex and protracted. Certainly such a transformation cannot be easily or quickly secured. Secondly, it seems that many people have made the mistake of believing that there is a European model of industrial relations and have alleviated this into some type of Holy Grail. This view is quite erroneous. To be sure, Ireland needs to move away from the British influences of voluntarism and adversalism but Irish solutions need to be developed for Irish circumstances.

REFERENCES

Alin, K. (1989), Swedish collective bargaining under pressure: inter-union rivalry and incomes policy, *British Journal of Industrial Relations*, Vol.27, No.3.

Becker, G. (1964), *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education*, New York, NBER.

Bishop, J. (1993), The French Mandate to Spend on Training: A Model for the United States?, *Industrial Relations Research Association*, Vol.45.

Boyer, R. (1993), The Economics of Job Protection and Emerging New Capital - Labor Relations in C. Buechtemann (ed), *Employment Security and Labor Market Behaviour*, Ithaca, New York, ILR Press.

Buechtemann, C. and Soloff, D. (1994), Education, Training and the Economy, *Industrial Relations Journal*, Vol.25, No.3.

Bunk, G. (1994), Teaching Competence in Initial and Continuing Vocational Training in the Federal Republic of Germany, *Vocational Training*, Vol.1, No.2.

Calmfors, L. (1993), The Economics of Wage Bargaining: A Survey, *OECD Economic Papers*, Vol.13, December.

Crouch, C. (1993), *Industrial Relations and European State Traditions*, Oxford, Oxford University Press.

Crouch, C. (1994), Beyond Corporatism: The Impact of Company Strategy in R. Hyman and A. Ferner (ed), *New Frontiers in European Industrial Relations*, Oxford, Basil Blackwell.

Dore, R. (1993), Introduction in R. Dore, R. Boyer and Z. Mars (eds), *A Return to Incomes Policy*, London, Frances Pinter.

Elvander, N. (1990), Incomes Policies in the Nordic Countries, *International Labour Review*, Vol.129, No.1.

Finegold, D. and Soskice, D. (1988), The Failure of British Training: Analysis and Prescription, *Oxford Review of Economic Policy*, Vol.4, No.3.

Glyn, A. and Rowthorn, B. (1988), West European Unemployment: Corporatism and Structural Change, *American Economic Review* (Papers and Proceedings), Vol.78, No.5.

Grahl, J. and Teague, P. (1994), Economic Citizenship in the New Europe, *Political Quarterly*, No.4.

Gregg, P. and Machin, S. (1994), Is the UK rise in inequality different? in R. Barnell (ed), *The UK labour market*, Cambridge, Cambridge University Press.

Layard, R. (1990), Getting Agreement that Inflation is like Litter, in P. Philpott, *Trade Unions and the Economy*, Into the 1990's, London, Employment Institute.

Lynch, L. (1994), Payoffs to Alternative Training Strategies at Work, in R. Freeman (ed), *Working Under Different Rules*, London, Sage.

Marsden, D. (1994), Industrial Change, 'Competencies' and Labour Markets, *Vocational Training*, Vol.1, No.1.

Mayhew, K. and Keep, E. (1994), Skilling The Jobless - Time for a New Deal? London, Employment Policy Institute.

Prais, S. et al (1989), Productivity, Education and Training: Britain and Other Countries Compared, London, NIESR.

Rowthorn, R. (1992), Centralisation, Employment and Wage Dispersion, *The Economic Journal*, Vol.102, May.

Sako, M. (1993), Training Practices in Japanese, British and German Firms, *Rivista Internazionale di Scienze Economiche e Commerciali*, Vol.50, No.12.

Solow, R. (1991), *The Labour Market as a Social Institution*, Oxford, Oxford University Press.

Soskice, D. (1990), Wage determination: the changing role of institutions in advanced industrialised economies, *Oxford Review of Economic Policy*, Vol.6, No.4.

Steedman, H. (1994), Assessment, Certification and Recognition of Occupational Skills and Competencies, *Vocational Training*, No.1.

Teague, P. (1994), Between New Keynesianism and Deregulation: employment policy in the European Union, *Journal of European Public Policy*, Vol.1, No.3.

Traxler, F. (1994), Collective Bargaining: Levels and Coverage, *OECD Employment Outlook*.

Womack, J., Jones, O. and Ross, D. (1990), *The Machine That Changed The World*, New York, Rawson Ass.