

LABOUR STANDARDS AND ECONOMIC INTEGRATION

A, INTRODUCTION AND MAIN FINDINGS

Over the last decade, the process of creating and enlarging regional trading areas (RTAs) has gathered momentum. The EC Single Market, European Free Trade Agreement (EFTA) and North America Free Trade Agreement (NAFTA) are important examples of RTAs in the OECD area. The membership of these RTAs includes countries with different levels of economic development and with different labour standards. The issue arises as to whether some degree of harmonization of labour standards is called for, so as to prevent trade liberalisation stemming from economic integration from eroding working conditions. Governments and firms may indeed be tempted to put pressure on working conditions and social protection in an effort to improve competitiveness in world markets, generating what has been called “social dumping”. This chapter can serve as an introduction to what is a complex and politically sensitive analytical area, one in which empirical work is only beginning.

In this chapter, labour standards are defined as the rules and regulations that govern working conditions (working time, employment stability, workers’ representation rights, minimum wages, health and safety in the workplace, etc.). These rules and regulations can be established through legislation, collective agreements or both. It is important to distinguish labour standards from actual working conditions – the latter are influenced by many factors, including labour standards, productive efficiency, and the degree of exposure to international trade.

The links between labour standards and trade are controversial. Not much evidence exists and it is difficult to design an appropriate framework. More generally, there are various arguments for and against the establishment of social clauses in international trade agreements. To begin with, there is concern that low labour standards may be “unfair” to the extent that they distort international competition [Edgren (1979); Charnovitz (1987); Walwei and Werner (1993)]. The implication is that countries that respect labour standards (presumably developed countries) should make trade liberalisation conditional upon the ratification and enforcement of minimum labour standards by other countries. This has given rise to calls by trade unions and other pressure groups for

the establishment of a “social clause” in the GATT. Then there is the view that labour standards are a potential determinant of economic efficiency [Sengenberger (1991); Castro *et al.* (1992)]. Without international standards, firms will compete by offering poor working conditions. The imposition of a floor to wages and employment protection legislation, it is argued, will create a stable labour relations framework conducive to improved human capital and higher real incomes, and thereby boost world trade. Thus, the establishment of certain labour standards would be justified on long-term efficiency grounds. A third group argues that, on the contrary, exogenously imposed labour standards may produce detrimental output and trade effects [Fields (1990)]. According to this view, working conditions should improve hand in hand with economic development and so policy-makers should focus on outcomes rather than on the regulations and institutional arrangements governing such conditions.

The aim of this chapter is *i)* to discuss the determinants of labour standards and review existing practices in RTAs involving OECD countries; and *ii)* to investigate the possible linkages between labour standards and trade. These linkages can go in both directions: on the one hand, international differences in labour standards may shape trade and foreign direct investment flows; on the other, trade and foreign direct investment can have repercussions on both labour standards and actual working conditions. These linkages can be endogenous, in the sense that they are a spontaneous result of market forces. However, there may also be discrete changes in labour standards, as governments agree to harmonize legislation *before* the forces of economic integration manifest themselves.

The main findings of the chapter are as follows. *First*, some convergence towards fewer government regulations has been recorded in the countries under review (except perhaps in some Southern European countries). Thus, enterprises enjoy increased possibilities of stretching normal working time without having to pay overtime. The scope for flexible contract arrangements has been broadened, while employment protection regulations have become less stringent. The incidence of minimum wages has been reduced through changes in indexation clauses, while in some countries sub-minimum wages for

certain categories of workers have been created or extended. More generally, labour standards are increasingly determined by collective bargaining or through individual contracts and less by administrative regulations. Finally, governments have made some effort to curb the trend rise in social protection expenditures.

Second, despite these pressures on labour standards, there is no compelling evidence that “social dumping” has occurred so far in OECD countries. It is unclear whether increased flexibility is the result of economic integration *per se*, or whether other factors have played an equally or more important role (technological change, high unemployment). More importantly, the chapter shows that there is an association between wages and other working conditions on the one hand, and the level of economic development on the other.

Third, the above results suggest that actual working conditions are largely independent from labour standards, i.e. the determination mechanism (whether by regulations or through market forces).

Fourth, pressures for lower labour standards could have been stronger if impediments to labour mobility within regional trading areas had been suppressed faster: were that the case, investors would have exploited differences in labour standards and social protection, and thus initiated a process of levelling-down. In addition, the unification of exchange rates, such as planned in the Maastricht Treaty, could encourage resort to “social devaluations”. The question of whether labour standards should be harmonized will no doubt be raised again as economic integration deepens. This also means that more empirical work is called for in order to sort out the various hypotheses and causal relationships at work.

The chapter begins with a review of the main types of labour standards, taking the ILO International Conventions as a starting point (Section B). It then examines in depth a selected subset of labour standards that are likely to play an important role in the process of economic integration, and for which quantitative data are readily available (Section C). This subset of labour standards will be compared across countries belonging to the three trading areas, so as to assess whether there has been some convergence during the period of rapid integration. The relationships between labour standards, trade and foreign direct investment flows are then investigated (Section D). Finally, research and policy issues emerging from the analysis are discussed (Section E).

B. INTERNATIONAL LABOUR STANDARDS

There are three main determinants of labour standards. First, policy-makers may take discretionary actions to move labour standards in a certain direction. For example, as will be seen below, in certain Southern Euro-

pean countries, labour standards have been seen as an important dimension of social policies; as a result, the authorities in these countries have taken direct action to improve them. Second, market forces are a key determinant. Historically, labour standards have gone hand in hand with economic development: working conditions improve alongside of real living standards, and these improvements might then be codified in the form of labour standards. This is not surprising since workers are in a much stronger bargaining position when the economy expands. The income elasticity of demand for labour standards may also be greater than unity, especially at low levels of income. On the other hand, economic slack can be expected to be associated with a pause in the improvement of labour standards. Third, technological advances and related changes in management and trade union practices are likely to shape the nature of labour standards. For example, the spread of the new information technologies has facilitated the development of more flexible forms of employment contracts (teleworking, etc.). Moreover, the introduction of new technologies at the workplace often necessitates consultation and co-operation between employers and employees, leading to major changes in working conditions.

1. ILO international labour standards

At present, ILO labour standards embrace numerous aspects of labour markets, ranging from minimum wages and equal pay to health and safety regulations. These standards can be classified into six main categories.

i) *Respect for fundamental human rights*

Convention 87 of 1948 recognises the rights of workers and employers to create and join trade unions or other types of representative organisations. According to other conventions, these rights should apply to public civil servants and private sector workers alike. Conventions 29 of 1930 and 105 of 1957 call for the abolition of any form of forced or compulsory labour. However, they specify the conditions under which some forms of compulsory labour “in the public interest” can be maintained. Finally, various other conventions affirm the principles of equal pay and working conditions. In particular, these stipulate that race and sex should not motivate inequality with regard to pay, occupation or career prospects.

ii) *Protection of wages*

A number of regulations establish the principle of minimum wages and conditions that protect wages. Convention 26 of 1928 specifies one important condition under which workers should be guaranteed a minimum wage, namely in cases where wages are exceptionally

low and collective agreements do not provide for wage floors. In 1970, the convention on minimum wages in developing countries was modified. According to this convention, countries have the obligation to establish a legislated minimum wage and to create a system of inspection and sanctions in case of non-application. Convention 95 of 1949 provides specific guarantees to protect wages. In particular, it prohibits the payment of wages in kind (except in special circumstances).

iii) Employment security

Convention 158 of 1982 sets out conditions under which employment contracts can be terminated, with the aim of providing workers with a minimum level of employment security. The rules cover all workers except those under fixed-term contracts, casual workers and those undergoing probation. However, the convention calls for the imposition of adequate safeguards against the use of fixed-term contracts as a way of obviating employment protection rules. According to the convention, employers should give a valid reason for the termination of contracts, and affected workers should be permitted to defend themselves and appeal against the decision. Moreover, workers should be given either a “reasonable” period of notice, or else financial compensation in lieu of notice, except in cases of serious misconduct. In case of termination of contracts for economic or technological reasons, employers should notify the competent authorities and consult with representatives of the workers concerned. Finally, the convention asserts that redundant workers should be entitled to some form of separation benefit, in the form of severance pay, unemployment benefits or other social security allowances.

iv) Working conditions

Several conventions aim to eliminate child employment. As a general rule, the minimum age for admission to employment should not be less than 15 years, and in case of heavy or dangerous work, 18 years (Convention 138 of 1978). These conventions do permit younger people (aged 13 years and over) to carry out light work, provided it is not harmful to their health and does not prejudice their attendance at school. Other conventions also regulate night work of young persons.

The very first ILO Convention (adopted at the 1919 Conference) established the principle of a maximum 48-hour work week in industry. Moreover, according to the convention, working time may not exceed 8 hours a day. Some exceptions are permitted, provided that total working week does not exceed 48 hours. Conventions 30 and 153 (adopted in 1930 and 1979, respectively) contain similar provisions for services and transport. Finally, Convention 47 of 1935 establishes the principle of a 40-hour work week, “in such a manner that the standard of living of workers is not reduced in consequence”.

Conventions 14 and 106 (of 1921 and 1957, respectively) ask employers to grant a period of rest every week of no less than 24 hours. Convention 132 (adopted in 1970) stipulates that workers should be entitled to a minimum of three weeks’ paid holiday for one year of service.

In several conventions, national administrations are invited to provide appropriate health and safety conditions at the workplace. Convention 155 (1981) provides a detailed list of areas where appropriate measures should be taken. It calls on enterprises to provide workers with adequate information on the risks of their work and, if necessary, training. Laws, regulations or collective agreements should establish appropriate occupational health services (Convention 161 of 1985). Special provisions are made in the case of activities where workers are exposed to radioactivity (Convention 115); when workers risk health problems related to the manipulation of benzene (Convention 136) or other carcinogenic substances (Convention 139); and when the use of machines is dangerous for workers (Convention 119). In addition, Convention 148 calls for measures to protect workers from occupational hazards in the working environment due to air pollution, noise or vibration. Finally, Convention 167 focuses on health and safety regulations in the construction sector.

v) Labour market and social policies

Convention 122 of 1966 encourages countries to pursue policies that will maximise the level of employment. Convention 142 of 1977 encourages countries to adopt a comprehensive system of vocational training, covering as many sectors and individuals as possible. Finally, Convention 117 of 1962 sets out basic aims and standards of social policy. The objective is to improve living standards while ensuring that every person has access to a minimum level of living conditions. The convention also states that wages should be protected and not fall below minimum levels, and that education and training are key instruments to achieve better living standards.

vi) Industrial relations

Convention 154 (1981) establishes measures to promote collective agreements. First, it states that all sectors, employers and groups of workers should be free to engage in collective bargaining. Second, it calls for a progressive extension of collective agreements to cover working conditions. Third, it recommends that governments consult employer organisations and worker groups before adopting any measure that aims at encouraging collective bargaining. Convention 144 (1976) calls for the establishment of tripartite consultative procedures with the aim of improving the application of international labour standards.

2. Ratification of ILO Conventions

Conventions must be ratified by ILO member states before they come into operation. Table 4.1 provides some information on ratifications of key labour standards by various OECD countries. There are wide cross-country differences,⁷ but there are also some similarities for countries that belong to the same RTA. For example, EFTA countries have ratified a large number of conventions, and within the EC area a large number of conventions have been ratified by all member states – the sole exception is the United Kingdom, which has ratified so far only two, relating to health and safety conditions. Portugal and Spain, which are among the poorest EC countries in terms of *per capita* income, have ratified many ILO Conventions. NAFTA countries have ratified comparatively few conventions, but it is noteworthy that Mexico has ratified more than either of its two partner countries.

3. EC regulations and the Social Charter

EC regulations covering labour standards that are legally binding on member countries are few in number. However, since the conclusion of the Single Market Act, the legislative process has gathered momentum. The most important binding regulations that have been adopted so far are the following:

- The EC Directive of 1975, modified by the Directive of 1992, defines procedural rules and guarantees workers' consultation and information rights in case of mass dismissals.
- The EC Directive of 1977 protects workers' rights and working conditions when ownership of a company changes. Workers' representatives have to be informed prior to the change.
- According to a 1991 Directive, employers must inform workers' representatives about the nature of fixed-term employment Contracts. Moreover, according to the directive, all contracts of employment (except indefinite ones) must be in written form.
- Various directives (passed between 1977 and 1989) set out health and safety requirements at the workplace. These call on employers to fulfil a number of specific requirements, while employees are asked to avoid exposure to dangerous work.
- A directive on working time was adopted in November 1993 (by all 12 countries). Accordingly, working-time arrangements must be established by law or through collective agreements. A ceiling of 48 hours is imposed on weekly working time, including overtime. However, the directive permits an averaging of this ceiling over a four-month period (or up to 12 months, if collective agreements so allow). The 48-hour limit may also be exceeded in certain industries and if this is

collectively agreed by the social partners. The directive also provides for a minimum of four weeks' annual paid vacation. Moreover, it regulates rest periods and night and shift work, although derogations are permitted by means of collective or other agreements. Countries are asked to ensure the provisions of the directive are implemented by 1996 (1999 in the case of annual vacation).

In 1988, within the context of the Single Market Act, EC countries agreed on the so-called "social action programme", comprising 80 measures in the area of labour market and social policy. So far, very few of these measures have been adopted, but discussions have intensified with the purpose of accelerating the legislative process. The most far-reaching measures in the programme relate to the free movement of workers and individuals. The aim is to remove most of the administrative obstacles in this area. The creation of minimum job-protection standards for female workers has also been announced. Numerous measures are proposed in the area of working conditions; special emphasis is placed on health and safety (1993 directive) and special arrangements to limit the hours of night workers. Finally, employees' participation and consultation in management decisions are encouraged, but no actual measure has been taken so far.

In 1989, all EC countries (except the United Kingdom) adopted the Social Charter. This establishes a number of general principles, with the goal of harmonizing labour standards. In many areas, it goes beyond the social action programme; indeed, it seems to aim at raising Community-wide labour standards. The Charter calls for the following actions: *i*) equal treatment and free access to employment and social protection in the host country should be guaranteed to all EC workers, irrespective of their country of origin; this implies the elimination of obstacles to the mutual recognition of diplomas and of professional qualifications; *ii*) wages should be sufficiently high to assure a decent standard of living; and *iii*) working conditions must be harmonized through an improvement of working-time regulations, employment contracts and termination procedures. However, it is important to note that the Charter has no legal force, and therefore is not binding upon signatory countries.

4. The NAFTA side-agreement on "labour co-operation"

The NAFTA text is accompanied by several side-agreements negotiated between the parties, one of which deals explicitly with labour laws and standards. This particular side-agreement recognises the right of each partner country to establish its own labour standards and to adopt or modify its labour laws and regulations, but calls for the creation of monitoring and enforcement struc-

Table 4.1. **Ratifications of ILO Conventions pertaining to wages and working conditions**

(situation at 1st January 1991)

	Minimum wage (c. 26)	Wage protection (c. 95)	Child employment (c. 138)	Employment protection (c. 158)	Hours worked			Weekly rest (c. 14)	Paid holiday (c. 132)	Occupational health and safety																																						
					(c. 1)	(c. 14)	(c. 47)			(c. 115)	(c. 119)	(c. 136)	(c. 139)	(c. 148)	(c.155)	(c. 161)	(c. 162)	(c. 167)																														
EC countries																																																
Belgium	X	X	X		X	X		X		X																																						
Denmark						X		X		X		X	X																																			
France	X	X	X	X	X	X		X		X		X		X																																		
Germany	X		X						X		X		X																																			
Greece		X	X		X	X		X		X		X		X																																		
Ireland	X		X			X		X	X																																							
Italy	X	X	X		X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X												
Luxembourg	X		X		X	X		X	X																																							
Netherlands	X	X	X			X		X		X		X																																				
Portugal	X	X			X	X		X	X																																							
Spain	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X											
United Kingdom												X																																				
EFTA countries																																																
Austria	X	X			X																																											
Finland			X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X									
Norway	X	X	X			X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X									
Sweden			X	X		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X									
Switzerland	X					X		X				X		X																																		
North America																																																
Canada	X				X	X		X																																								
Mexico	X	X				X		X				X																																				
United States																																																

Note: The figure in parenthesis indicates the number of the relevant ILO Convention. For more information about the content of the Conventions, see text.

Source: ILO.

tures. A system of dispute settlements between the three countries (Canada, Mexico and the United States) is also to be established.

The main objectives of the side-agreement are to improve working conditions and living standards by promoting certain basic labour principles. Among the latter are the freedom of association and protection of the right to organise, the right to bargain collectively, the right to strike, prohibition of forced labour, labour protection for children, the establishment of minimum wages, overtime pay for all wage-earners (including those not covered by collective agreements), equal pay and employment opportunities, health and safety standards, and protection of migrant workers.

The side-agreement encourages the development of enforcement institutions and regulations, such as the appointment and training of inspectors, the monitoring of compliance with existing laws, the creation of procedures to sanction violations of laws and the establishment of worker-management committees to address labour matters at the workplace. It also states that representative bodies of workers and employers should have appropriate access to tribunals, so as to ensure that laws and collective agreements are enforced.

According to the side-agreement, a commission for labour co-operation comprising a ministerial council and a secretariat will be established. The council is expected to oversee the implementation of the side-agreement and to discuss related issues. The secretariat should assist the council by undertaking studies and preparing background reports, *e.g.* on labour law, its implementation and enforcement, labour market conditions and human resource development.

Each country must establish a National Administrative Office that would provide information to the other two countries and answer public enquiries. When ministers cannot resolve an issue related to the effective enforcement of labour law in the areas of occupational safety and health or other technical labour standards, an Evaluation Committee of Experts (ECE) may be established to compare practices in the three countries. The chair of the ECE will be selected from a roster of experts developed in consultation with the ILO. After the ECE report is considered, if one country detects a persistent pattern of failure on the part of a second country to enforce labour law effectively, Article 27 stipulates that the first country may request consultations with the second. If after 60 days the matter is not resolved between the consulting countries, a special session of the council may be requested. Should the matter remain unresolved after discussions in the council for another 60-day period, the case may be brought "by a two-thirds vote" to an arbitral panel. If the panel establishes that one country has persistently failed to enforce its own rules and regulations regarding labour standards – and if countries do not agree on a set of measures – monetary sanctions may be imposed. In case the monetary sanction is not respected, NAFTA benefits could be suspended.² Therefore, trade

measures may be viewed as the sanction-of-last-resort to constrain a country to enforce its own labour standards.

C. HAVE LABOUR STANDARDS CONVERGED?

Having reviewed the history of international labour standards within RTAs, the rest of the chapter concentrates on a subset of these standards that are likely to influence the integration process in a fundamental way.³ They include regulations and arrangements pertaining to working time, employment contracts, minimum wages and workers' representation rights. "Cross-country differences in these labour standards are likely to be larger than in the case of more basic ones (such as prohibition of forced labour and working conditions for children). Trends in social protection and net wages are also examined.

The aim of this section is to compare this subset of labour standards in countries that are members of RTAs, and to assess whether some convergence in such standards is taking place. There is a discussion of the most important changes in national labour standards that took place over the last decade or so. Finally, estimates for the cost and stringency of labour standards are presented.

1. Working-time standards

Working-time arrangements comprise different elements: normal and maximum number of hours per working day or week; overtime provisions; rest periods; the distribution of working-time during the day, week or year and the associated flexible time arrangements. These elements are regarded as a fundamental dimension of international labour standards, as evidenced by the large number of ILO conventions and EC regulations devoted to working-time issues.

i) Present situation

There are important cross-country differences in approach to the regulation of working time. Some countries have very few regulations: in the United Kingdom, the only explicit provisions concern special categories of workers, while for the majority, working-time limits are given implicitly by health and safety restrictions; in Denmark, legislation covers rest periods and annual leave, whereas working hours are determined by collective agreements; in the United States, working-time regulations are light (they are mainly confined to overtime work), and earlier provisions on daily working time have been abolished. At the other extreme are countries with a tradition of more extensive regulation, such as Belgium, Canada, France, Greece, Portugal and Spain. In a third

group, collective agreements predominate, within the framework of a very general law (often dating from the 1930s).

In most countries, eight hours is the norm for daily work. However, in Denmark, Sweden, Switzerland, the United Kingdom and the United States, the law fixes no particular limits. Weekly working time is normally less than 40 hours in most OECD countries, except in Greece, Portugal, Spain and Switzerland, where it often exceeds 40 hours (Table 4.2). By contrast, rules and regulations governing overtime **work** differ. Overtime is restricted in **all** countries through ceilings and/or the imposition of a pay premium for such **work**; however, overtime pay premiums vary considerably across countries. Likewise, the maximum volume of overtime hours over a period of one

year is very restrictive in countries such as Spain (80 hours), France (130 hours) and Portugal (160 hours), less restrictive in others (the Nordic countries, except Denmark) and lax in others (especially Belgium). Regulations governing holiday entitlements are more uniform: in most countries, 25 to 30 days of annual vacation are granted either through legislation or as a result of collective bargaining. In North America, holiday entitlements are typically less generous than in the other RTAs.

ii) Recent changes

In general, there has been a move towards more flexible working-time arrangements during the latter half

Table 4.2. Working-time arrangements

	Type of regulation ^a (date)		Contractual weekly working hours (situation in early 1990s)	Maximum working hours (excluding overtime) ^b			Pay premium for overtime work ^c
	Law	C.A.		Daily	Weekly	Accounting period ^d	
EC countries							
Belgium	X (1987)		38	12	84	up to 1 year	50
Denmark		X	37 ^e		45	6 months	50
France	X (1982)		39		46	1 year	25
Germany		X J	37		40	3 months to 1 year	25
Greece	X (1990)		40	9	48	6 months	25
Ireland		X	39		39		50
Italy		X	39		48	given by C.A.	25
Netherlands		X (1985) ^g	38	8.5	42.5	1 year	25
Portugal	X (1990)		41		41		75
Spain	X (1986)		40		40 ^h		75
United Kingdom		X	37 to 39 ^e		41	2 months	25
EFTA countries							
Austria	X (1969)	X (since 1985)	38		40	up to 1 year	50
Finland	X (1989)		37.5 ⁱ		48	given by C.A.	50
Norway	X (1987)	X	37.5 ^j	10 ^j	54 ^j	up to 1 year ^j	40
Sweden	X (1987)	X	40		48	up to 1 year	80
Switzerland	X (1988)	X	41.6 ^k		52 ^k	up to 5 months	25
North America							
Canada	X	X	38		40 to 48 ^l		50
United States	X		40		no provisions		50 ^m

a) This can be either a law or a collective agreement (C.A.).

b) Flexible time arrangements may enable work in excess of "normal" working hours during a certain period of time (compensated by lower-than-normal working hours in subsequent periods) without the necessity for the enterprise to provide overtime pay.

c) Pay premium calculated for a hypothetical 2-hours' overtime work, in per cent of pay of a normal hour of work.

d) Period during which average hours actually worked have to be equal to "normal" working hours, under flexible time arrangements.

e) In Denmark and the United Kingdom, there are no general regulations on working hours. For Denmark, the table refers to working-time arrangements for unskilled and female workers, most commonly found in collective agreements. For the United Kingdom, the table refers to a recent arrangement in British Railways.

f) These arrangements apply to plastic and wood industries. Similar agreements have been concluded in insurance, banks, public services, construction and coal-mining. A flexible working-time agreement with more restrictive provisions was reached in the engineering industry in 1990.

g) Refers to a collective agreement for the metal industry.

h) Agreements on flexible working time are not common (except in multinational enterprises established in Spain).

i) Refers to working time for white-collar workers. Most blue-collar workers work 40 hours.

j) The law allows considerable flexibility in the distribution of "normal" working time. Implementation of the law necessitates a written agreement with union representatives.

k) These figures apply to industry. The maximum of 52 hours requires special administrative permission.

l) Depending on the provinces.

m) According to Fair Labor Standards Act.

Sources: IRS, "Working time in Europe". 1991; Wyatt (1991); Mutual Information System of Employment Policies in Europe (MISEP), various issues; Blanpain (1991); and Blanpain, R., *International Encyclopedia for Labour Law and Industrial Relations*, 1991.

Table 4.3. Evolution of regulations on fixed-term contracts

	Purpose of the contract	Maximum duration	Other provisions
<i>EC countries</i>			
Belgium			
Present regulations – 1978	No limitations.	No maximum duration."	Dismissal is unlawful and entails special compensation.
Denmark	<i>No specific legislation.</i>		
France			
Present regulations – 1990	Seasonal work, replacement of another employee or temporary increase in work load.	18 months (24 months under certain circumstances).	Termination benefits equivalent to 5% of gross salary.
Previous regulations – 1986	No limitations.	24 months.	
Previous regulations – 1982	Specific cases.	6 to 12 months (24 months in exceptional cases).	
Germany			
Present regulations – 1985	New employee and former apprentices.	18 months (2 years for new and small enterprises).	Dismissal protection only after 6 months of employment.
Previous regulations	Justifying cause needed (objective grounds).	6 months.	Dismissal protection only after 6 months of employment.
Greece			
Recent regulations – Civil Code	Emergency work, temporary increase in workload.	No maximum duration.	No notice period is required in case of termination.
Ireland			
Present regulations – no special legislation	No limitations.	No maximum duration.	No termination benefits. ^b Maternity protection, holidays and certain social security benefits are generally lower than for indefinite contracts.
Italy			
Present regulations – 1987	Established by collective agreements. ^c	Established by collective agreements.	Special authorisation by Employment Office is needed in case of dismissal.
Previous regulations – 1962	Seasonal work and trainees.	12 months.	
Netherlands			
Present regulations – 1992	No limitations.	There is no statutory maximum duration, but collective agreements may establish one.	Contract can be renewed twice without prior administrative authorisation (if the second contract is less than 6 months).
Previous regulations – Civil Code	No limitations.	There was no statutory maximum duration, but collective agreements could establish one.	After first renewal, the contract could only be terminated with authorisation of labour office.
Portugal			
Present regulations – 1989	Seasonal work, temporary increase in activity, hiring of long-term unemployed, new businesses.	6 months to 3 years.	Termination benefits granted only after a month's probationary period.
Previous regulations – 1976	Restrictive number of cases.	6 months to 3 years.	
Spain			
Present regulations – 1984	Casual work, new activity, implementation of specific tasks, training and employment promotion measures.	3 years.	A bonus of 12 days' pay per year worked is given on termination.
Previous regulations – 1976	Restrictive number of cases.	6 to 9 months.	
United Kingdom			
Present regulations	<i>No specific legislation.</i> ^d		

Table 4.3. Evolution of regulations on fixed-term contracts (Cont.)

	Purpose of the contract	Maximum duration	Other provisions
<i>EFTA countries</i>			
Austria	<i>No specific legislation.^e</i>		
Finland Present regulations – 1970	Temporary or seasonal work.	No maximum duration.	
Norway Present regulations – 1977	Possible in special cases.	No maximum duration.	
Sweden Present regulations – 1974	Possible in special cases.	No maximum duration.	The trade union at the work place has the power to veto the hiring of workers under fixed-term contracts.
Switzerland Present regulations – Code of Obligations	No limitations.	No maximum duration	
<i>North America</i>			
Canada	<i>No specific legislation.</i>		
United States	<i>No specific legislation.</i>		

a) But no renewal is permitted (or only once for workers under age 30).

b) Except when contract lasted for over a year (in case of unfair dismissal) or two years (in case of redundancy).

c) The 1989 collective agreement allows fixed-term contracts for unskilled unemployed persons (all unemployed in southern Italy) and no more than 10% of workforce.

d) Severance pay only after one or two years. Employees on fixed-term contracts of three months or less have no right to guarantee payments, medical suspension pay or statutory sick pay.

e) No maximum duration but the court may question whether a permanent employment relationship exists.

Sources: Wyatt (1991); European Industrial Relations Review (EIRR), Management Centre Europe, *Labour relations in Europe in 1982*; Income Data Services (IDS), *Toms and conditions of Employment*, 1991.

of the 1970s, and especially in the 1980s. This process has been particularly pronounced in many EC countries (excepting the southern ones) and EFTA (such arrangements have long been common in North America). This is best illustrated by the increased number of laws and collective agreements that provide for flexible distribution of working hours (Table 4.2). The possibility of averaging hours over a one-year period is now possible in Belgium, France, Germany, Italy and the Netherlands. Averaging over shorter periods is possible in other EC countries except Greece and Portugal, where legislation appears to adjust slowly. Another illustration of the move towards flexibility is the fact that exceptions to the law, if established in collective agreements, are increasingly permitted. In Sweden, for example, collectively agreed exceptions to every provision of the 1982 Working Hours Act are permitted; in Austria, Belgium and France, the maximum number of hours established by law may be exceeded under certain circumstances.

2. Fixed-term employment standards

The employment contract has long been the main focus of labour legislation. In most countries, the main

aim of contract laws and regulations has been to provide workers with some sort of employment security; the underlying philosophy is that the employee-employer relationship has to be balanced because workers are at a disadvantage with respect to employers. However, there is some evidence that the nature of technological change calls for more flexible forms of employment contract – such as fixed-term contracts – that fall outside the province of traditional employment protection legislation.

i) Present situation

In the majority of countries, fixed-term contracts are governed by specific legislation (Table 4.3). Conditions for employers' use of fixed-term contracts are particularly strict in the case of Italy (where prior authorisation by the Employment Office must be obtained). In Finland, France, Germany, Greece, Italy, Portugal, Spain, and – in particular – Norway and Sweden, the law limits the use of fixed-term contracts to specific cases (in general, casual or seasonal work); sometimes, however, the law is so vague that in practice employers have a large margin of manoeuvre (though not in the case of Germany). There

Table 4.4. **Employment protection regulations: recent changes**

EC countries		
Belgium	1985	The wage ceiling beyond which an additional 3 months' notice period must be given is increased from BF 250 000 (<i>i.e.</i> below the minimum wage) to BF 650 000 (<i>i.e.</i> close to average wage).
Denmark	1986	According to the Co-operation Agreement, companies must provide for retraining courses or job transfers for workers made redundant by the introduction of new technologies.
France	1986	Prior administrative authorisation for collective dismissals is abolished.
	1989	New legislation on collective dismissals introduces provisions for the prevention of dismissals and allows labour authorities to make non-binding suggestions for the elaboration of social plans.
Germany	1985	A ruling of the Federal Labour Court entitles employees who challenge their dismissal to continue in employment until the Court case is decided.
	1993	Statutory notice periods for blue-collar and white-collar workers are equalised by reducing the period for the latter and increasing it for the former. More flexible dismissal procedures for white-collar workers are introduced. Shorter notice periods are granted for small firms.
Greece	1983	Numerical limits for collective dismissals are introduced. Dismissals exceeding the limits are not legal, unless labour authorities give permission.
Ireland	1993	Unfair dismissal rights are extended to certain categories of employees. Unfair dismissal procedures can be engaged even if the employment contract is not established in accordance with the law.
Italy	1986	The concept of justified motive for individual dismissal is introduced. Accordingly, individual dismissals for economic reasons in enterprises with over 35 employees are permitted.
	1989	Constitutional Court extends dismissal rights to workers in small enterprises (less than 16 workers).
	1990	Extension by law of protection against unfair dismissal to small firms and part-time workers.
	1991	A law introduces a maximum of 2 years for the entitlement to <i>cassa integrazione</i> benefits (4 years in exceptional cases). No limits existed previously.
Portugal	1989	Individual dismissal rules are made more flexible: individual dismissal for non-disciplinary reasons is henceforth permitted; disciplinary-dismissal procedures are simplified. In case of unfair dismissal, compensation for the period between dismissal and reinstatement is calculated on basic pay <i>less</i> other earnings (before, the latter was not taken into account). Collective dismissals no longer need administrative permission.
United Kingdom	1988	The period of service to claim unfair dismissal increases to two years.
EFTA countries		
Norway	1990	The temporary lay-off system (so-called <i>permittering</i>) cannot be used for more than 52 weeks within a 18-month period (before, no time limit was imposed).
Sweden	1985	Full severance pay is granted from the first day of lay-off, compared to a 2-week waiting period in previous legislation.
	1993	The "last-in-first-out" rule is modified: henceforth, employers may exempt up to two employees from such a rule.
Switzerland	1988	An amendment to the Code of Obligations, gives a list of cases where the termination of a contract by the employer constitutes a misuse of rights (giving rise to special dismissal compensation). Before, the law was vague, making it difficult for the Court to prove misuse of rights.
North America		
United States	1988	Henceforth, employees in firms with more than 100 workers affected by plant closures must be given 60 days' notice.

Sources: Wyatt (1991); Income Data Services (IDS), *Monthly Report*, various issues; and *OECD Employment Outlook*, July 1993.

are also major cross-country differences in the scope for renewing successive fixed-term contracts. Obviously, in countries where no specific regulations exist (Austria, Denmark, Ireland, the United Kingdom and North America), employers face even less constraints. It is also important to note that social protection entitlements in certain countries (Ireland and the United Kingdom) are significantly less for employees with fixed-term contracts than for regular (permanent) employees.

ii) *Recent changes*

Since the end of the 1970s, most countries have modified their legislation so as to allow a more flexible use of fixed-term contracts (Table 4.3). For example, the coverage of fixed-term contracts has been extended in most European countries. The maximum duration of fixed-term contracts has been lengthened in several countries, in particular Germany. However, the 1990 French law further restricted the use of these contracts. The maximum duration of fixed-term contracts has been increased in all EC countries except those where legislation was already rather permissive. Finally, in most countries the system for calculating termination benefits for fixed-term contracts is the same as it is for indefinite contracts (*i.e.* benefits depend on the length of job tenure). Notable exceptions are Germany, Portugal, Ireland and the United Kingdom, where termination benefits are granted only after a certain period.

3. Employment protection

Employment protection regulations include legislation and rules that govern the individual and collective dismissal of workers. An in-depth discussion of present employment protection regulations can be found in Chapter 3 of the 1993 *Employment Outlook* [OECD (1993)]. In Southern Europe and Ireland, employment protection regulations are typically stringent; North America, Denmark, Norway and the United Kingdom are the countries with the most flexible regulations.

Recent changes in these regulations are presented in Table 4.4. In general, there has been a trend towards relaxing regulations. This is particularly the case in Belgium, France (with the abolition of prior administrative authorisation) and the United Kingdom (where the right to claim unfair dismissal has progressively eroded since the Employment Act of 1979). In Portugal, legislation introduced in 1989 facilitates individual and collective dismissals. In Germany, legislation passed in 1993 reduced dismissal costs for white-collar workers, while also reducing notice periods for dismissal of workers in small firms. In Norway and Sweden, the rigid "last-in, first-out" rules have been modified. In contrast, a trend

towards more stringent employment protection provisions can be observed in Greece, Ireland and (to a lesser extent) Italy.

4. Minimum wages

Social considerations have often led governments to intervene in the wage determination process, using two main instruments: the establishment of a statutory minimum wage, and the extension of minimum wage clauses concluded in collective agreements to enterprises that have not been a party to the original agreements (non-signatory parties).

i) *Present situation*

Table 4.5 shows the main provisions governing minimum wages in the EC, EFTA and North America. Four different systems can be distinguished. First, in France, Greece, the Netherlands, Portugal, Spain and the United States, minimum wages are determined by statutory national provisions. Except in the United States, minimum wages established in collective agreements (which cannot be lower than statutory wages) can be extended to non-signatory parties by a government decision (a practice known as administrative extension).⁵ Second, in Belgium, Germany, Ireland (for most workers), Italy and EFTA countries, minimum wages are set by collective agreements which can be – and in Italy almost always are – binding on non-signatory parties. Third, in Denmark, minimum wages are set by collective agreements, but extension to non-signatory parties is generally not possible. Fourth, in the United Kingdom, since the abolition of the Wages Councils (August 1993), there is no minimum floor, and wages tend to be fixed at the plant or establishment level.

ii) *Recent changes*

It is interesting to note that in recent years there has been a common trend in all countries with a legally binding minimum wage system: they have tended to reduce the minimum wage relative to average wages, while making the system less binding. For example, updating mechanisms have been substantially reformed, with a view to suppressing indexation upon either prices or average wages. In Belgium, the price indexation mechanism was modified in 1983. In Greece, the ATA automatic indexation system (which over the 1980s had caused a substantial reduction in wage differentials) was abolished in 1991. Likewise, in Italy the *scala mobile* was suppressed in 1992 and in the Netherlands indexation was abolished in 1991. Another illustration of this trend is the creation of a sub-minimum differential for young people, which now exists in Belgium, France, the Netherlands, Portugal, Spain and the United States.

Table 4.5. Minimum wages: rules and regulations

A. Present situation	
EC countries	
Belgium	Legally binding national agreements improved by sectoral agreements. Sectoral agreements can be extended to non-signatory parties by decree.
Denmark	Fixed by collective agreement. Extension to non-signatory parties is not possible. Non-signatory employers often apply minimum wages established by collective agreements.
France	National statutory provisions, improved by sectoral agreements. Sectoral agreements can be extended to non-signatory parties by Ministry of Labour.
Germany	Fixed by collective agreements. Collective agreements may be extended to non-signatory parties by Ministerial Order or (under certain circumstances) by the Labour Court.
Greece	Legally binding national agreement (or fixed by government if agreement fails). Collectively agreed minimum wages can be extended to non-signatory parties by Ministry of Labour.
Ireland	Joint Labour Committees (comprising employee and employer representatives, as well as a government representative) are established in industries where pay is traditionally low. Their recommendations regarding minimum wages are binding upon all firms in the industry concerned after approval by the Labour Court in the form of an Employment Regulation Order. In other industries Joint Industrial Councils (comprising unions and employers) determine minimum wages. Employment Regulation Orders are binding upon all firms of the industry concerned. Agreements concluded under the auspices of Joint Industrial Councils can be extended to non-signatory firms.
Italy	Sectoral collective agreements determine minimum pay rates by job category and grade. Agreements are binding on non-signatory employers when extended by authorities.
Netherlands	Statutory national minimum wage, improved by collective agreements. Collective agreements can be extended to non-signatory parties by Ministerial Decree. In practice most industry-wide agreements are extended to cover all employees.
Portugal	Statutory national minimum wage, improved by collective agreements. Collective agreements can in certain cases (notably for young workers and apprentices) reduce the minimum wage below the statutory level. Ministerial extension orders may extend the scope of the agreement to non-signatory parties.
Spain	Statutory national minimum wage, improved by collective agreements. Reduced minimum for workers under age 18. Collective agreements can be extended to non-signatory parties by the Ministry of Labour in two special cases: when specific circumstances impede free bargaining and when socio-economic circumstances necessitate government intervention.
United Kingdom	'There is no pay floor, except for agricultural workers
EFTA countries	
Austria	Established by collective agreements. Administrative extension is possible.
Finland	Established by collective agreements. Agreed minima can be extended to non-signatory parties.
Norway	Established by collective agreements. Administrative extension is possible
Sweden	Established by collective agreements, Administrative extension is possible.
Switzerland	There is no statutory minimum wage. Collective agreements establish pay rates, but companies have freedom to establish their own wage arrangements. Extension by Parliament is possible, but only in cases where it is "urgently necessary" and does not damage concerned companies.
North America	
Canada	Fixed by provincial jurisdiction. Certain occupations may receive subminimal wages. Administrative extension is not possible except in Québec.
United States	Federal and State statutory minimum wages. For certain workers (apprentices) and in certain parts of the country (Puerto Rico), wages may be below the national minimum. Administrative extension is not possible.
B. Recent changes	
Belgium	In 1983 a ceiling to the indexation mechanism was imposed. In 1989 a national collective agreement increased the spread between youth minimum wages and adult (aged over 22) wages.
Denmark	In Spring 1993 a one-year "social dumping" agreement extended minimum pay to foreign firms.
France	In 1986 the system was modified to allow young workers under insertion contracts to be paid 45 to 90% of the national minimum wage.
Greece	In 1991 the automatic indexation mechanism was abolished.
Italy	With the abolition of the <i>scala mobile</i> in 1992, minimum wages are no longer indexed automatically to consumer prices.
Netherlands	In 1991, indexation was abolished. In 1993 a minimum rate for 15-year-old workers was set at 30% of the adult rate.

Table 4.5. **Minimum wages: rules and regulations** (Cont.)

Norway	Legislation of 1994 gives a committee appointed by the government the authority to extend the provisions of national collective agreements to branch or plant-level agreements.
Portugal	Since 1986, the government must consult the social partners before extending an agreement
Spain	In 1994 a sub-minimum wage for young apprentices is introduced.
United Kingdom	In August 1993, Wage Councils were abolished. Wage Councils ensured a minimum pay for about 2.5 million workers (mostly in retail and trade sectors). Wage orders made by the Councils were mandatory.

Sources: Wyatt (1991); Income Data Services (IDS), *European Report*, various issues; and Blanpain, R., *International Encyclopaedia for Labour. Law and Industrial Relations*, 1991.

Finally, in Portugal, according to a reform introduced in 1986, the government must consult social partners before extending an agreement.

5. Employees' representation rights

The free right to associate and to establish representation bodies is guaranteed in all OECD countries. At the workplace level, this right is manifested by the presence of employees' representatives such as union delegates or works councils. These bodies are instrumental to the implementation of labour standards established by way of regulations or collective bargaining. Employees' representatives may also have a say in the determination of certain working conditions in the firm, by way of information, consultation or co-determination procedures.

i) Present situation

Table 4.6 shows the main features of employee representation in selected OECD countries. In Austria, Denmark, Finland, Germany, the Netherlands, Norway and Sweden, works councils enjoy extensive co-determination rights. Workers are heavily involved in the definition of working conditions and hiring/dismissal policy. In the Nordic countries (but not Finland), closed-shop practices are possible. In Belgium and France, regulations have given employees' representatives an important say in working conditions; in France, employers must consult worker representatives when elaborating a social plan in case of collective dismissals. In Southern Europe, Ireland, Switzerland, the United Kingdom and North America, the rights of workers' representatives are much more limited, and often established by collective agreement.

ii) Recent changes

Changes in the regulations pertaining to employees' representation rights have moved in different directions across countries. Following the demise of authoritarian regimes in Greece, Portugal and Spain, workers' rights were significantly enhanced by making works councils a requirement. Even so, co-determination rights remain limited in these three countries. In most others, as shown in Table 4.6, workers have been given more prerogatives, especially in relation to the introduction of new technologies. In the case of France, the so-called "Auroux laws" (1982) expanded the rights of workers' representatives. By contrast, in Sweden a different type of change may be observed: since 1993, unions no longer have the right to veto decisions regarding work contracted out. Finally, in the United Kingdom, union influence at the workplace has been significantly weakened; in particular, the closed-shop principle has practically been abolished and the rights of shop stewards have been reduced.

6. Social protection

OECD Member countries provide extensive social protection in the areas of health, pensions, unemployment benefits and other income support schemes. The role of the social protection net is not just to provide assistance to those in need. It also performs economic objectives; without the net, the social cost of restructuring in the face of ever-changing economic conditions would be very high.⁶

It is beyond the scope of this chapter to compare social protection systems across OECD countries or to assess the current trends. Instead, the approach here is to evaluate the cost of social protection for governments. Table 4.7 shows governments' spending on social protection as a per cent of GDP in countries participating to the three RTAs, over the period 1980-1990. It emerges that social protection expenditure is high in Nordic countries, Benelux and France, and low in North America, Southern

Table 4.6. Forms and role of employees' representation at the workplace

A. Present situation

	Compulsory presence of union delegates ^a	Compulsory presence of works' council ^a	Mandatory representation on management board ^a	Co-determination rights of employees' representative bodies
EC countries				
Belgium	no	yes (> 100)	no	Definition of general criterion for dismissals and working conditions.
Denmark	no	yes (> 35)	yes	Definition of local working conditions.
France	yes (> 50)	yes (> 50)	yes ^b	Elaboration of social plan in case of collective dismissals.
Germany	no	yes (> 5)	yes	Definition of recruitment procedures; local working conditions; collective dismissals.
Greece	yes (> 50)	yes (> 50)	yes (> 50)	Co-determination rights in local working condition matters, only if the trade union agrees (in practice, very unusual).
Ireland	no	no	no	No regulations except for Joint Labour Committees.
Italy	no	no	no	No regulations.
Netherlands	no	yes (> 35)		Definition of recruitment procedures; local working conditions; dismissal policy.
Portugal	yes	compulsory	no ^d	Limited role.
Spain	optional	optional	no	Limited role.
United Kingdom	no	no	no	Limited role.
EFTA countries				
Austria	no	yes (> 5)	yes	Heavy involvement in local working condition matters.
Finland	no	yes (> 30)	yes	Definition of local working conditions; right to delay employers' decision to contract out.
Norway	yes ^e		yes ^e	Definition of local working conditions.
Sweden	yes ^f		yes ^f	Extended rights; priority right of interpretation in co-determination matters.
Switzerland	no ^g	no ^g	no	Limited role.
North America				
Canada	no	no	no	Limited role. ^h
United States	no	no	no	Limited role. ^h

B. Recent changes

EC countries				
Belgium	1984	Works' councils are given consultation rights on changes in working conditions arising from introduction of new technologies.		
Denmark	1986	Workers are given increased powers to reorganise work in view of the introduction of new technology.		
France	1982	Auroux laws enhance the role of works' councils and state that employers have a duty to bargain.		
	1986	Workers may designate a representative at the management board in joint-stock companies.		
	1989	Works' councils must be informed in case of redundancies and introduction of new technologies.		
Germany	1988	Works' councils are given enhanced information rights in case of introduction of new technology.		
Greece	1982	A law recognises trade union rights (before the demise of the military regime in 1974, workers participation was restricted).		
	1988	A law establishes and regulates works' councils.		
Netherlands	1982	Enterprises with more than 35 employees have to establish a works' council (before, this provision applied to enterprises with more than 100 employees).		

Table 4.6. **Forms and role of employees' representation at the workplace (Cont.)**

Portugal	1979	The establishment of works' councils and union delegate is made mandatory (during the pre-1974 regime, the right of free association was not guaranteed).
	1989	Consultation rights of works' councils in case of dismissals are strengthened.
Spain	1980	Works' councils and personnel delegates are legalised (during the pre-1975 regime, workers' rights were restricted).
	1984	Right to paid time off for employees' representatives is provided.
United Kingdom	1980-90	Practical abolition of closed-shop principle and other curbs to unions' power.
	1989	Restriction to the right to paid time off for shop stewards.
EFTA countries		
Finland	1978	A law enhances the role of works' council in the definition of local working conditions. Implementation of this general principle is left to collective negotiation.
	1990	The principle of employees' representation at management board is established.
Norway	1989	Employees' representation at management board is extended to firms with more than 30 employees (previously 50 employees).
Sweden	1985	Strengthening of consultation rights through the introduction of "suggestion schemes".
	1993	Amendments to co-determination law of 1976, including the abolition of unions' right to veto a decision to contract out work, and prohibition of industrial action against small companies.

a) Figure in parenthesis indicates the number of employees in companies beyond which workers' representative bodies are mandatory.

b) Only in joint-stock companies.

c) Only in large companies.

d) Except during the immediate post-revolutionary period, when workers could take over a company if owner abandoned its management responsibilities.

e) Applies to companies covered by the Main Agreement.

f) Unions have the right to establish workers' representative bodies.

g) No special job protection for workers' representatives.

h) Except in firms covered by collective agreements, where closed-shop practices are possible.

Sources: IRS, "Employee participation in Europe", 1990; Blanpain, R., *International Encyclopaedia for Labour Law and Industrial Relations*, 1991; and Income Data Services, *European Report*, various issues.

Table 4.7. **Total public expenditure on social protection**

Per cent of GDP

	1980	1981	1982	1983	1984	1985	1986	19x7	1988	1989	1990
EC countries											
Belgium	25.4	27.4	28.1	28.4	27.9	27.5	27.2	26.6	26.3	55.2	25.2
Denmark	26.0	27.6	28.1	28.0	26.8	26.0	24.8	25.7	27.0	27.8	27.8
France	23.9	25.4	26.5	27.3	27.8	27.9	21.4	27.0	26.7	26.4	26.5
Germany	25.4	26.3	26.6	25.8	25.4	25.2	24.7	25.0	25.1	24.1	23.5
Greece	13.4	14.9	17.9	18.4	19.1	20.1	20.6	20.8	20.4	20.9	..
Ireland	20.6	21.1	22.5	23.5	23.0	23.1	23.3	22.5	21.2	14.6	19.7
Italy	19.8	20.8	21.5	23.0	22.2	22.7	22.5	23.2	23.3	23.7	24.5
Luxembourg	26.0	27.2	26.4	26.0	25.0	25.0	24.4	25.9	25.3	26.6	27.3
Netherlands	27.2	28.4	30.2	30.8	29.7	28.8	28.4	29.0	28.6	27.9	28.8
Portugal	13.6	15.2	14.1	13.6	13.6	13.8	14.3	14.9	15.9	14.9	15.3
Spain	16.8	17.9	18.0	18.7	18.5	19.0	18.4	18.2	18.6	18.8	19.3
United Kingdom	21.3	23.3	23.6	24.0	24.0	24.1	23.9	22.9	21.9	21.3	22.3
EFTA countries											
Austria	23.4	24.2	24.1	24.4	24.4	24.8	25.1	25.4	25.3	25.1	24.5
Finland	21.4	22.1	23.3	24.2	24.6	25.9	26.3	26.7	25.6	25.4	27.1
Norway	21.4	22.0	22.5	23.0	23.0	22.1	24.2	26.2	27.1	28.1	28.7
Sweden	32.4	33.3	33.5	33.8	32.7	32.6	33.9	33.5	34.1	33.3	33.1
North America											
Canada	17.3	17.5	17.1	17.1	17.7	17.4	17.0	17.2	18.8
United States	14.1	11.3	15.0	15.3	14.3	14.3	14.4	14.4	14.4	14.5	14.6

.. Data not available.

Source: OECD Social Protection database

Europe and Ireland, There are large differences across EC countries; those among EFTA countries are smaller.

Trends have also diverged across countries. Within the EC area, the Southern European countries have recorded a significant rise in social protection spending, coming closer to the EC average. In these countries there has been a deliberate policy to expand the welfare state, partly as a result of EC accession. By contrast, in Germany, Ireland and the United Kingdom (since 1985), social protection spending has declined, and in the other EC countries it has remained broadly stable. Concern about the rising cost of social protection (and the associated labour market effects) led governments in these countries to curb the historical trend-increase in social spending. Some convergence may also be observed among EFTA countries. Social expenditure in Finland and Norway (but not in Austria) grew relatively rapidly, catching up to Sweden's share of around 33 per cent of GDP. On the other hand, social expenditure has followed divergent paths in North America, rising in Canada and remaining stable in the United States.

7. After-tax earnings

Real earnings are the most important element of working conditions. To be relevant, international comparisons of real earnings have to take into account cross-country differences in the cost of living and taxation. Thus, Chart 4.1 presents real earnings in purchasing power parities, and after tax (*i.e.* direct taxes and social security contributions are deducted from gross wages).

In the EC and EFTA, there is a large disparity in real earnings thus measured. This reflects differences not only in productivity levels, but also in the cost of social protection and other labour standards, which are deducted from gross wages.⁷ By contrast, there is little difference between Canadian and United States real earnings. Trends in real earnings are also different across countries. Within the EC area, countries with below-average levels of real earnings at the start of the 1980s have recorded above-average rates of growth in real earnings, leading to some convergence across countries. Countries posting particularly brisk growth were Greece, Ireland, Spain and the United Kingdom. As a result, the coefficient of variation of real earnings in EC countries fell by two percentage points during the 1980s. Within EFTA, no particular pattern can be discerned, while in North America further convergence has been recorded. Another interesting finding is that real earnings grew faster in countries where regulations pertaining to labour standards (other than wages) were weakened in the recent past. This suggests that there may be a trade-off between different labour standards, as discussed in Section D.

8. Assessment

The general pattern that emerges is that some convergence towards more flexible rules and arrangements governing labour standards has occurred during the 1980s. An increasing number of laws and collective agreements provide for flexible distribution of working hours; the scope for using flexible forms of employment contracts has been broadened while employment protection regulations have become less stringent; and the incidence of minimum wages has been reduced through changes in indexation clauses, while in certain countries sub-minimum wages for certain groups of workers (notably youths) have been created or extended. More generally, labour standards are increasingly determined by collective bargaining, so that market forces play a more prominent role than in the past. Finally, most governments have made efforts in the 1980s to curb the trend-rise in social protection expenditures.

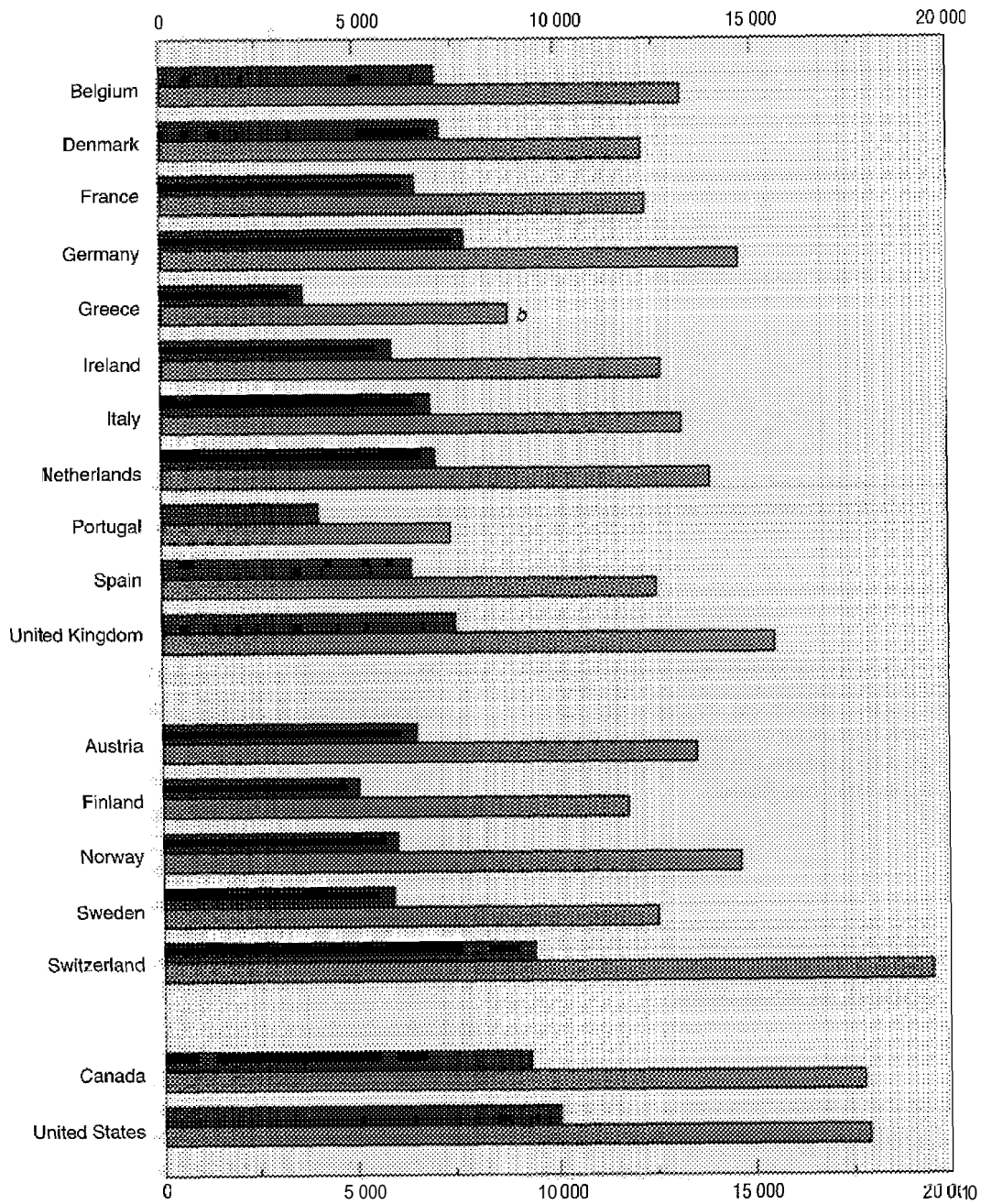
There are, however, some exceptions to this general trend. Following the advent of democratic regimes in the mid-1970s, labour rights were significantly improved in Greece, Portugal and (to a lesser extent) Spain. During the 1980s, labour standards were further improved in Greece and Portugal. In the latter country, this process went hand in hand with entry into the EC as relevant directives were implemented. By contrast, in the case of **Spain**, a relaxation of certain provisions of labour laws has been recorded during the 1980s, in particular since the introduction of temporary employment contracts in 1984. In the three countries, social protection expenditures have risen markedly (as a per cent of GDP) and wages have tended to catch up with the EC average.

Even though in a majority of countries there is a trend towards more flexible arrangements, considerable cross-country differences remain. These are illustrated in Table 4.8, which presents a synthetic index for the stringency of regulations on labour standards. This index represents an attempt to combine Secretariat judgements about the extent to which certain labour standards are determined by government regulations as opposed to more decentralised systems such as collective agreements or individual contracts. It is calculated by adding together partial indices that measure the stringency of government regulations on working time, employment contracts, minimum wages and workers' representation rights.⁸ Partial indices are obtained by attaching a weight to each country's regulations: a value of "2" means that government regulations are strict; "0" means that regulations are either light or non-existent; and "1" designates intermediate situations. It must be emphasized that these weights are based on qualitative information collected in Tables 4.2 to 4.6. Therefore, they involve a large measure of judgement.

In EC and EFTA countries, according to the resulting synthetic index, labour standards appear to be established mainly through government regulations (with the notable exceptions of Denmark, Switzerland and the

Chart 4.1

After-tax earnings^a



a) Take-home pay of a single average production worker in purchasing power parities (in US \$).
 b) 1989 instead of 1992.

Source: OECD, *The Tax/Benefit Position of Production Workers, 1989-1992*, 1993.

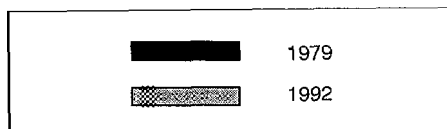


Table 4.8. Indices for labour standards

	Working time	Fixed-term contracts	Employment protection	Minimum wages	Employees representation rights	Synthetic index
EC countries						
Belgium	0	1	1	1	1	4
Denmark	0	0	0	0	2	2
France	1	1	1	2	1	6
Germany	1	1	1	1	2	6
Greece	2	1	2	2	1	8
Ireland	2	0	2	0	0	4
Italy	1	2	2	2	0	7
Netherlands	1	0	1	1	2	5
Portugal	1	1	1	1	0	4
Spain	2	1	2	2	0	7
United Kingdom	0	0	0	0	0	0
EFTA countries						
Austria	1	1	1	0	2	5
Finland	1	1	1	1	1	5
Norway	1	2	1	0	1	5
Sweden	1	2	1	1	2	7
Switzerland	1	1	1	0	0	3
North America						
United States	0	0	0	0	0	0
Canada	1	0	0	1	0	2

Source: Secretariat estimates on the basis of Tables 4.2 to 4.6.

United Kingdom). By contrast, in North America, regulations are rather light. In the following section, the synthetic index will be combined with a measure of the cost of labour standards, so as to analyse the linkages between those standards and economic integration.

D. ASSESSING THE RELATIONSHIP BETWEEN ECONOMIC INTEGRATION AND LABOUR STANDARDS

Regional economic integration is a process whereby goods and factor markets are gradually unified among participating countries. This process involves the removal of barriers to trade, investment and migration among countries that are being integrated. At the same time, formation of an RTA implies the establishment of common rules governing economic relations between these countries and third countries. This section begins by briefly examining the expected relationships between labour standards and economic integration. It then looks at the empirical linkages between labour standards and the level of economic development. Finally, it addresses the issue of whether countries with “lower” labour standards have performed better in terms of trade and foreign direct investment.

1. Benefits and costs resulting from economic integration on labour standards

The removal of internal trade barriers is likely to produce trade creation effects, which have a positive impact on economic welfare. On the other hand, in the case of RTAs, the establishment of a common external trade policy *vis-à-vis* third countries may lead to some trade diversion, which has a detrimental impact. The overall effects of RTAs on the welfare of participating countries will crucially depend on whether trade creation outweighs trade diversion. This is an empirical issue, and there is much literature which seeks to quantify the effects of RTAs such as the EC, EFTA and NAFTA on welfare? However, there is agreement that in general, trade creation dominates in those three cases.¹⁰ Likewise, the liberalisation of both capital movements (particularly foreign direct investment) and labour flows can be expected to lead to trade creation associated with a more efficient allocation of production factors across countries. Trade creation is in turn likely to generate benefits and costs for working conditions.

i) Benefits

In standard neoclassical theory, trade creation can be expected to improve working conditions.¹¹ First, over the long term there is likely to be a positive relationship

between working conditions and the level of economic development [Fields (1990); Park (1993)]. Therefore, to the extent that falling trade barriers and greater economic integration raise welfare, working conditions and labour standards will also improve over time. Second, having some labour standards that are at a low level in one country may fail to improve external competitiveness if others are at a high level. More generally, there is a possibility of a trade-off between different types of labour standards. Hence, large cross-country differences in the nature and stringency of regulations may persist, without posing major problems in terms of competitiveness and external balances. Third, in the short term, movements in exchange rates may compensate for divergent labour standard trends across countries. For example, if one country belonging to an RTA decides to reduce its labour standards in order to attract more capital, exchange rate appreciation pressures (associated with higher capital inflows) are likely to arise, thereby offsetting the positive impact of lower labour standards on external competitiveness. Overall, neoclassical theory would suggest that economic integration has positive effects on working conditions *and* that the latter are independent from labour standards.

ii) Costs

Although RTAs are likely to improve working conditions and welfare for each participating country on the whole, concern has been expressed that the integration process might erode working conditions unless labour standards are imposed, for the following reasons:¹²

- According to conventional theories of trade (which rest in particular on perfect competition assumptions), the benefits of *trade liberalisation* are likely to be shared unevenly among individuals. Wages and other factor prices will approach comparative advantages: the demand for the production factor used more intensively in exports will increase relative to the demand for the scarce production factor; as a result, the price of the scarce production factor will fall in response to trade liberalisation (the so-called Stolper-Samuelson theorem). In a no-trade situation, the scarce production factor enjoys a rent that will tend to be eroded when trade is liberalised.¹³ Therefore, in OECD economies with an abundant supply of skilled labour, integration may lead to a decline in the relative wages and working conditions of unskilled workers.
- The liberalisation of *foreign direct investment flows* may also entail some pressures on working conditions. Investment may indeed flow into countries where the cost of labour is lower and regulations more flexible, thereby provoking downward pressures on costs and conditions in other members of the RTA. This process could lead to “social dumping”, to the extent

that countries participating in RTAs reduce their labour standards in order to attract more investment.

- Likewise, the removal of impediments to international *migration* may generate “social dumping”, especially in the area of social protection. Indeed, there may be some tendency for individuals in “low” labour standard countries to migrate to “high” standard countries so as to benefit from better social protection. Large-scale migration flows could in turn lead to lower benefits in countries where provisions governing social protection are more generous.

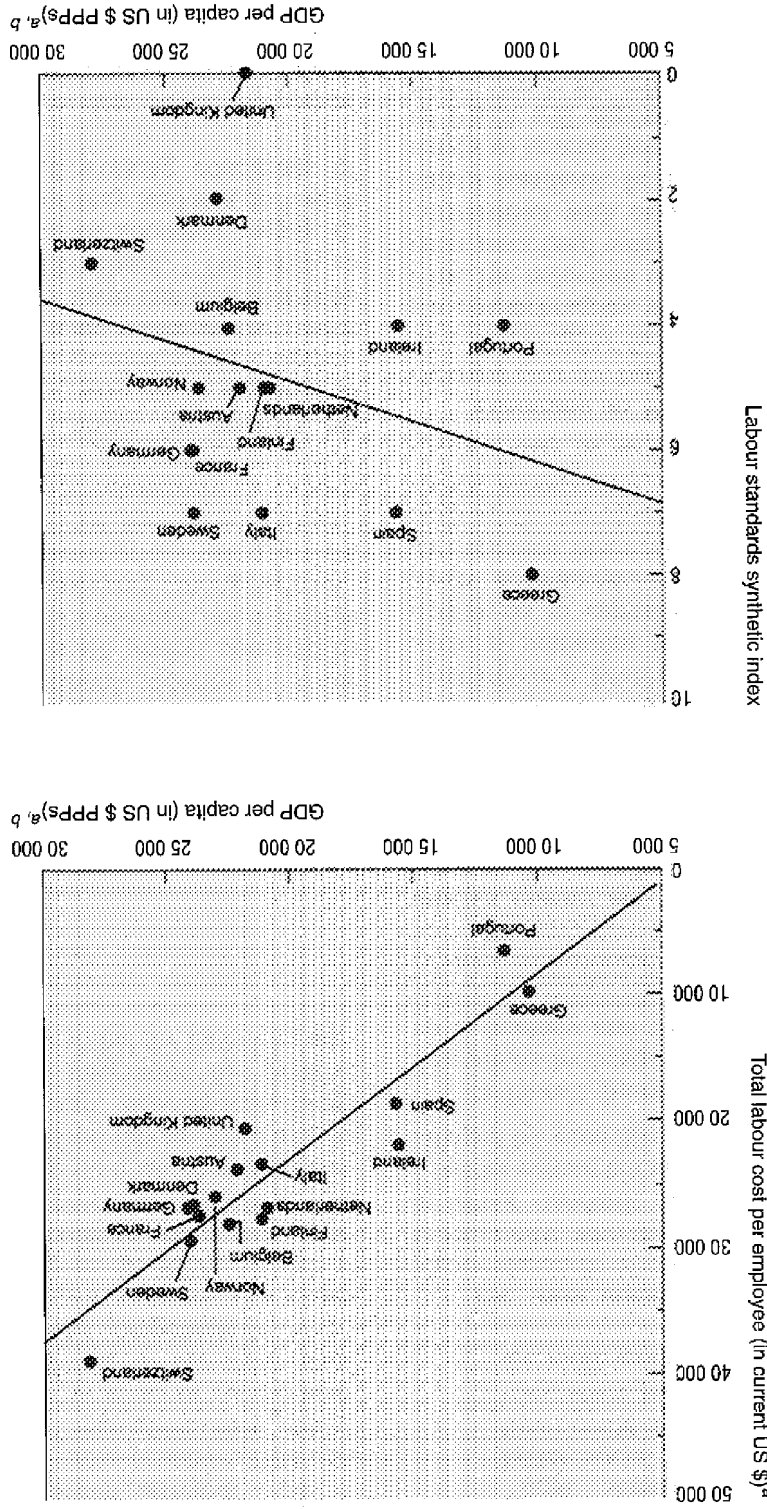
The most comprehensive analysis of the costs to labour standards of economic integration can be found in Piore (1990), who argues that *i*) a legislated improvement in labour standards may raise economic efficiency; and *ii*) under certain circumstances, labour standards could be affected by economic integration.

In Piore’s framework, labour standards are in part determined by business strategies, which in turn depend on technology and the regulatory environment. If technology is relatively labour-intensive and there is an absence of enforced labour regulations, employers will have little incentive to increase productivity and improve product quality and working conditions. This business strategy, the so-called 19th-century “sweatshop”, is the example of a vicious circle whereby low standards are associated with low productivity, low wages and low aggregate demand. By contrast, in capital-intensive industries (characterised by a high level of fixed costs), it is the employers’ interest to comply with certain labour standards (*e.g.* health and safety). Other labour standards such as minimum wages will not be very costly for employers in capital-intensive sectors, as they will be easily accommodated by marginal changes in existing management practices. In this context, a virtuous circle such as the one observed during the 1945-1975 period of higher productivity, higher wages and higher aggregate demand may be set in motion.

According to Piore, the nature of technology has changed over the last two decades. Increasingly, information technologies facilitate the adoption of flexible production techniques, with relatively low fixed costs. Moreover, the reduction in transportation and communication costs associated with technological change has intensified competition with countries having low wages and low labour standards. In his view, these changes lend themselves to several possible business strategies, the choice of which will depend partly on the regulatory environment. One is the utilisation of flexible technologies in a co-operative and often inter-firm network context. The other is a more low-wage “sweatshop” use of technology. A key issue here is whether certain kinds of standards can facilitate the first strategy.

In sum, economic integration may be expected to stimulate economic development and thereby improve

Chart 4.2
Measures of labour standards and economic development



a) Average over the period 1985-1992
 b) GDP per capita is nominal GDP as a ratio of working-age population.
 Sources: OECD Economic Outlook, No. 54, December 1993, and Table 4.8.

working conditions overall, irrespective of the nature and stringency of labour standards. Even so, there is a possibility that stronger international competition could lead some countries to reduce labour standards unduly in an effort to improve external competitiveness. This risk is all the higher when *i*) capital and labour respond strongly to differences in labour standards; and *ii*) exchange rates are fixed or quasi-fixed.

2 Labour standards and the level of economic development

The following paragraphs explore the linkages between labour standards and GDP per head, in order to assess whether labour standards are “unduly” low in some countries participating in RTAs (presumably to attract foreign capital and improve trade performance). Two different indices are used: *i*) the total cost of labour; and *ii*) the synthetic index presented above on the stringency of government regulations on labour standards. The underlying hypothesis is that these two factors are potentially important determinants of trade and investment decisions.

The cost of labour is measured as total labour costs per employed person, in a common currency. This variable comprises net wages, the cost of other working conditions such as overtime premiums and severance pay, and social protection costs. Chart 4.2 shows a strong relationship between the cost of labour and GDP per head (measured in PPPs). This chart shows that no country seems to be off-track. As a consequence, the claim that certain countries exhibit unduly low labour standards (in the sense that costs are lower than the level of economic development would call for) does not appear to be justified on the basis of this relationship. Chart 4.2 also shows that there is little correlation between the Synthetic index for labour standards and GDP per head. This result, combined with the strong correlation between the cost of labour and GDP per head, suggests that cross-country differences in regulations and arrangements on labour standards do not alter supply and demand forces in a fundamental way.

That conclusion is supported by Chart 4.3, which presents more detailed data for EC countries. The chart shows the relationship between GDP per head in EC countries and different components of labour costs, namely net wages, social protection and other labour standards. This decomposition of labour costs can only be made for EC countries, since the data are not available for the other two RTAs. It emerges from the chart that GDP per head is more closely associated with the total cost of labour than with individual components.

3 Effects of labour standards on international trade and capital flows

Various indicators suggest that regional integration has proceeded rapidly among OECD countries over the past two decades. First, an observed rise in *trade flows* (as a share of GDP) is the most typical characteristic of economic integration. Between 1970 and 1990, trade of the three RTAs has markedly increased (Chart 4.4) as a share of GDP. Moreover, there is evidence (not presented in the chart) that trade within the RTAs has increased even more rapidly, leading to a rise in the share of intra-area trade. In the case of EC countries, this process has accelerated since the mid-1980s, probably in association with the conclusion of the **Single Market Act**. A similar trend is observed for the two other RTAs. Second, the increase in *foreign direct investment* flows is steeper, although starting from a low level. Whereas until 1985 foreign direct investment flows between EC countries represented a mere 2 per cent of GDP (or less than a tenth of domestic investment), this ratio has doubled since then. Likewise, investments between Canada and the United States accelerated sharply during the 1980s. Table 4.9 presents data on net foreign direct investment (*i.e.* the difference between inflows and outflows) as a percentage of GDP. During the early 1990s, Portugal was the most important recipient country of foreign direct investment, while the Netherlands was the biggest (net) exporter of capital. Third, economic integration can be expected to lead to a convergence in *productivity* levels, as participating countries have access to the same technology and there are strong pressures for convergence in product and factor prices. Some convergence in productivity levels may indeed be observed over the longer run; but there is no evidence of further convergence over the last decade or so.¹⁴

By contrast, there is little evidence of a rise in *migration* flows between countries participating in RTAs. Thus, the share of residents in EC countries coming from other EC countries has not changed appreciably (Table 4.10). However, the share of the foreign-born population in a number of EC countries and in EFTA has increased from 1987 to 1991. This is largely attributable to migration from non-OECD (especially former COMECON) countries.

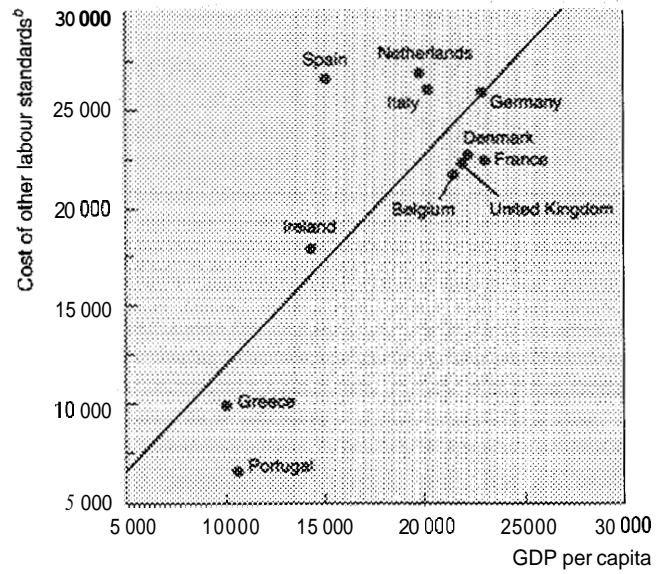
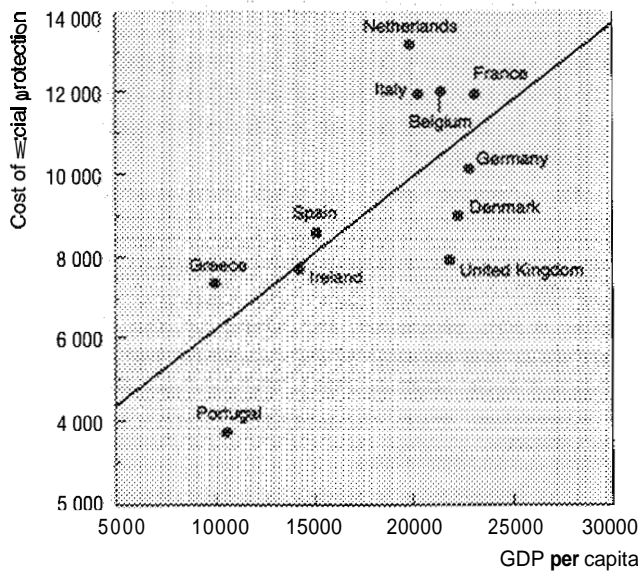
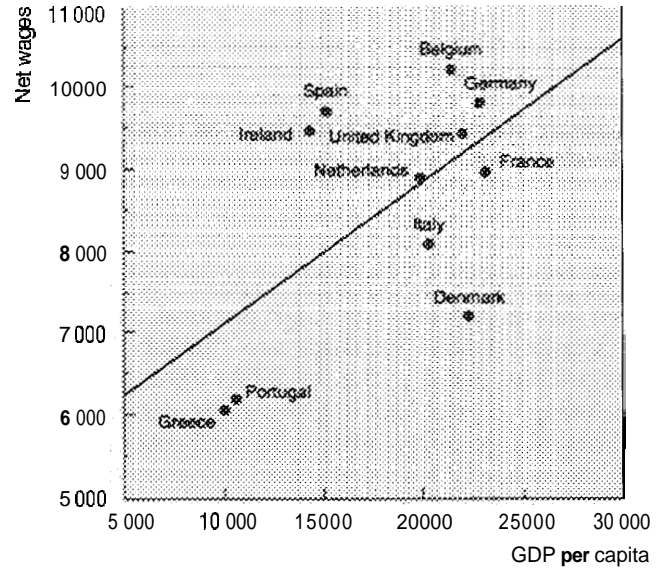
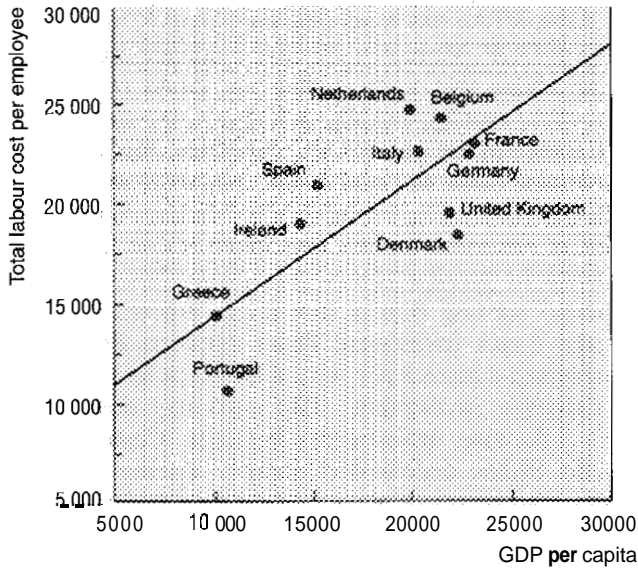
It is interesting to assess whether countries with the lowest labour standard cost and less stringent regulations have performed better in terms of trade and foreign direct investment. Evidence in support of this proposition is not very compelling:

- i*) In the period following the conclusion of the Single Market Act, trade developments in EC countries suggest that there is no correlation between labour standards and *aggregate* trade performance. Indeed, statistical analysis (not presented here) suggests that trade variables are not well correlated with either the cost of labour standards or the synthetic index. On the other

Chart 4.3

Labour costs and GDP per capita^a in EC countries

In US \$ purchasing power parities, 1988

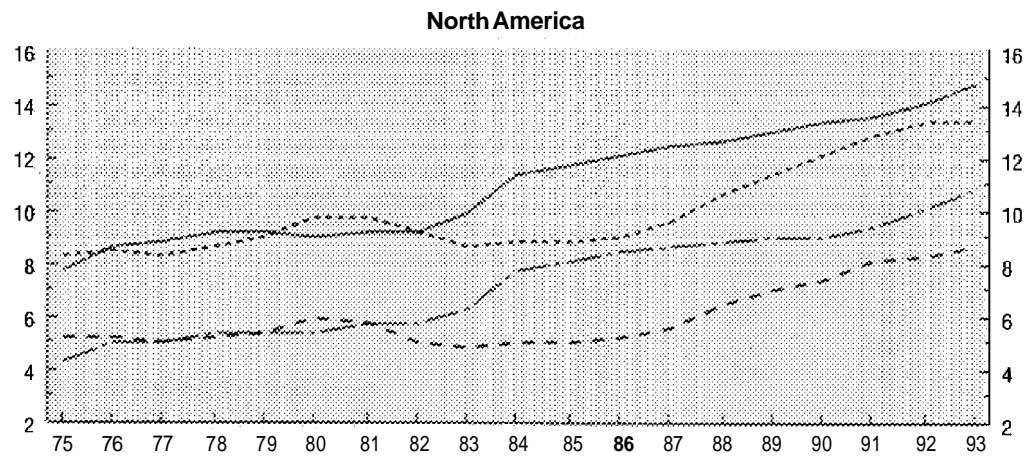
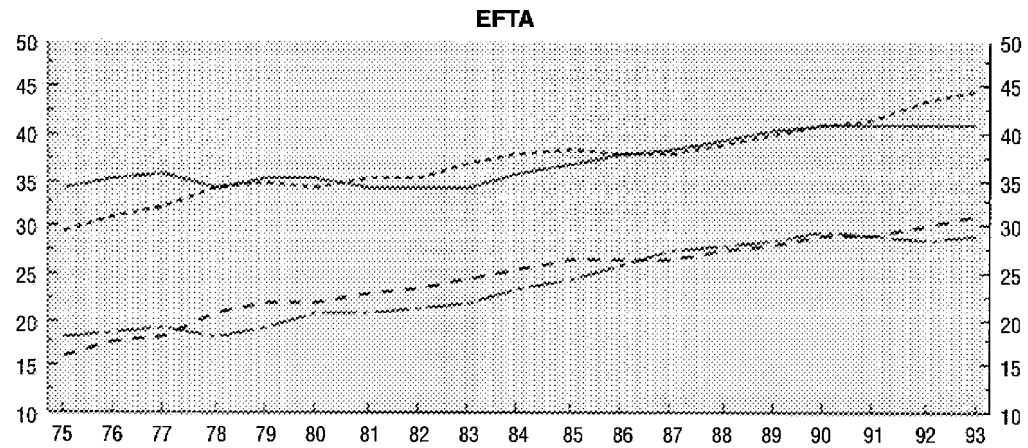
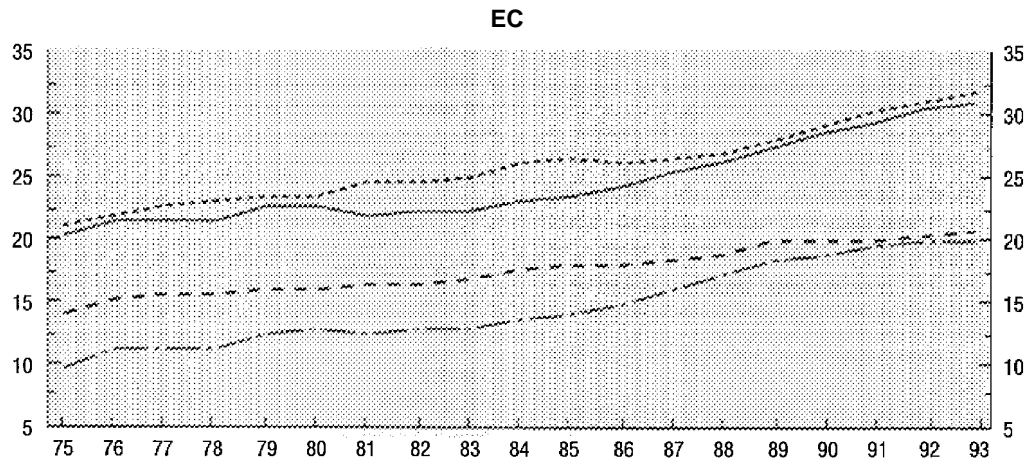


a) GDP per capita is nominal GDP as a ratio of workingage population.
 b) Payment of days not worked.

Sources: OECD Economic Outlook, No. 54, December 1993; Eurostat, Labour Costs, 1988, 1992; OECD Social Protection database; and Table 4.8.

Chart 4.4

Trade integration in the EC, EFTA and North America
As a per cent of GDP, in volume terms



Source: OECD Economic Outlook, No. 54, December 1993.

hand, in certain sectors there is some evidence that domestic output has been displaced by imports from countries where the cost of labour standards is comparatively low (Table 4.11). This is particularly the case for trade in textiles and apparel. It is also noteworthy that in the latter sector, total employment in EC countries declined by 0.75 percentage points per year between 1986 and 1990, and its allocation across countries changed dramatically in favour of countries with low labour cost. This result is consistent with conventional trade theories, whereby labour resources will be allocated according to comparative advantages: each country will specialise in sectors most intensive in the factor of production that is relatively scarce (compared with the other countries). A recent study lends support to the above findings [Liemt (1992)].

ii) As suggested above, the sharp rise in foreign direct investment flows recorded since the mid-1980s is probably one of the most striking developments in the world economy. Chart 4.5 suggests a relationship between foreign direct investment inflows and labour costs. In general, low-cost countries have attracted foreign direct investment, whereas high-cost countries have been the main exporters of capital. However, large deviations from this general relationship

Table 4.9. Net foreign investment flows

Per cent of GDP

	1981-84	1985-90	1991-92
EC countries			
Belgium-Luxembourg	1.1	0.3	0.6
Denmark	-0.1	-0.5	-0.6
France	-0.2	-0.7	-0.5
Germany	-0.4	-0.9	-0.9
Greece	0.6	0.7	0.8
Ireland	1.0	0.3	0.2
Italy	-0.1	-0.0	-0.3
Netherlands	-1.3	-1.4	-2.1
Portugal	0.7	2.3	3.2
Spain	0.8	1.7	1.2
United Kingdom	-1.0	-0.8	0.1
EFTA countries			
Austria	0.1	-0.2	-0.6
Finland	-0.3	-1.5	-0.9
Iceland	0.0	-0.2	0.1
Norway	-0.1	-0.8	-0.8
Sweden	-1.0	-3.4	-0.4
Switzerland	-0.2	-1.9	-0.5
North America			
Canada	-1.1	-0.5	0.2
United States	0.4	0.5	-0.3

Source: OECD, *International Direct Investment Statistics Yearbook*, 1993.

Table 4.10. Migration trends

A. Incidence of foreign population in selected OECD countries		
	Per cent of total population	
	1987	1991
EC countries		
Belgium	8.7	9.2
Denmark	2.7	3.3
France ^a	6.8	6.3
Germany	6.9	7.3
Italy	1.0	1.5
Luxembourg	26.8	29.4
Netherlands	4.0	4.8
Spain	0.9	0.9
United Kingdom	3.2	3.1
EFTA countries		
Austria	3.7	6.6
Finland	0.4	0.7
Norway	2.9	3.5
Sweden	4.8	5.7
Switzerland	14.9	17.1
North America		
Canada ^{a,c}	16.1	15.6
United States ^{b,d}	6.2	7.9
B. Incidence of active population from other EC countries		
	Per cent of active population	
	1987	1991
Belgium	5.4	5.3
Denmark	0.5	0.6
Germany	3.0	2.8
Greece	0.1	0.1
Spain	0.1	0.2
France	2.9	2.8
Ireland	2.2	2.4
Italy
Luxembourg	29.1	30.9
Netherlands	1.3	1.4
Portugal	0.1	0.2
United Kingdom	1.6	1.6

.. Data not available.

a) 1982 and 1990 instead of 1987 and 1991.

b) Persons of foreign origin.

c) 1981 and 1986 instead of 1987 and 1991.

d) 1980 and 1990 instead of 1987 and 1991.

Sources: Eurostat, Labour Force Survey; and OECD, *Trends in International Migration*, SOPEMI, Annual Report 1993, 1994.

have been observed in a number of countries. The chart shows that these deviations may be partly explained by differences in the stringency of labour standard regulations, as captured by the synthetic index. This suggests that foreign direct investment is sensitive to various dimensions of labour standards. For example, for a similar total labour cost, employers may prefer to invest in countries where regulatory constraints (employment protection regulations, working-time provisions, stringency of work-

Table 4.11. **Employment and trade in manufacturing and selected low-wage industries**

	Textile and apparel		Wood and wood products		Total manufacturing	
	Employment ^a	Net exports ^b	Employment ^a	Net exports ^b	Employment ^a	Net exports ^b
Greece	2.2	-12.8	-0.7	-145.0	-0.4	-50.3
Ireland	-5.4	-15.5	4.7	-44.9	0.7	8.8
Portugal	6.7	37.3	-9.9	79.8	3.5	-38.4
Spain	2.2	-44.9	5.8	-67.5	3.3	-39.2
Belgium-Luxembourg	-2.5	5.9	0.8	-21.6	-0.3	5.1
Denmark	2.4	-0.4	3.5	29.2	5.1	10.4
France	-4.7	-15.5	1.0	-23.5	-0.8	-5.9
Germany	-3.3	-25.0	1.7	-25.3	1.0	3.0
Italy ^c	-0.2	20.3	-0.9	22.5	0.4	-1.0
Netherlands	3.2	-1.6	9.1	-38.8	4.5	2.1
United Kingdom	-3.1	-23.6	4.0	-46.0	-0.4	-7.8
EC countries	-0.7	-7.8	1.3	-18.1	0.7	-2.6

a) Average annual growth rate over the period 1986-90.

b) Change in net exports between 1986 and 1990 as a per cent of total trade (exports plus imports) in 1986.

c) Figures for Italy refer to the period 1986-89.

Sources: OECD, *Foreign Trade Statistics*; and OECD, *Labour Force Statistics, 1971-1991*, Part II, 1993.

ers' participation rights, minimum wages) are lax.

iii) However, it is important to note that the presence of flexible regulations does not necessarily point to poor working conditions, as demonstrated by the example of multinational enterprises established in the United Kingdom (see box). That example also suggests that foreign direct investment may help improve local working conditions: foreign multinational companies established in the United Kingdom offer better labour standards than domestic companies, which may lead to beneficial spillover effects.

E. CONCLUSIONS

Economic development in OECD countries has gone hand in hand with the creation of an all-embracing set of labour standards. This chapter has addressed the issue of whether labour standards are threatened by the process of economic integration: some analysts have argued that there is a risk of 'social dumping' (entailing a decline in labour standards) as a result. The chapter shows that there is a trend towards less government regulation in the majority of OECD countries that participate in RTAs. Thus, labour standards are increasingly determined by collective agreements or individual contracts, and the role of market forces has probably been enhanced.

There seem to be three interrelated factors behind this trend. First, liberalisation in the areas of trade and investment has put pressure on certain labour standards.

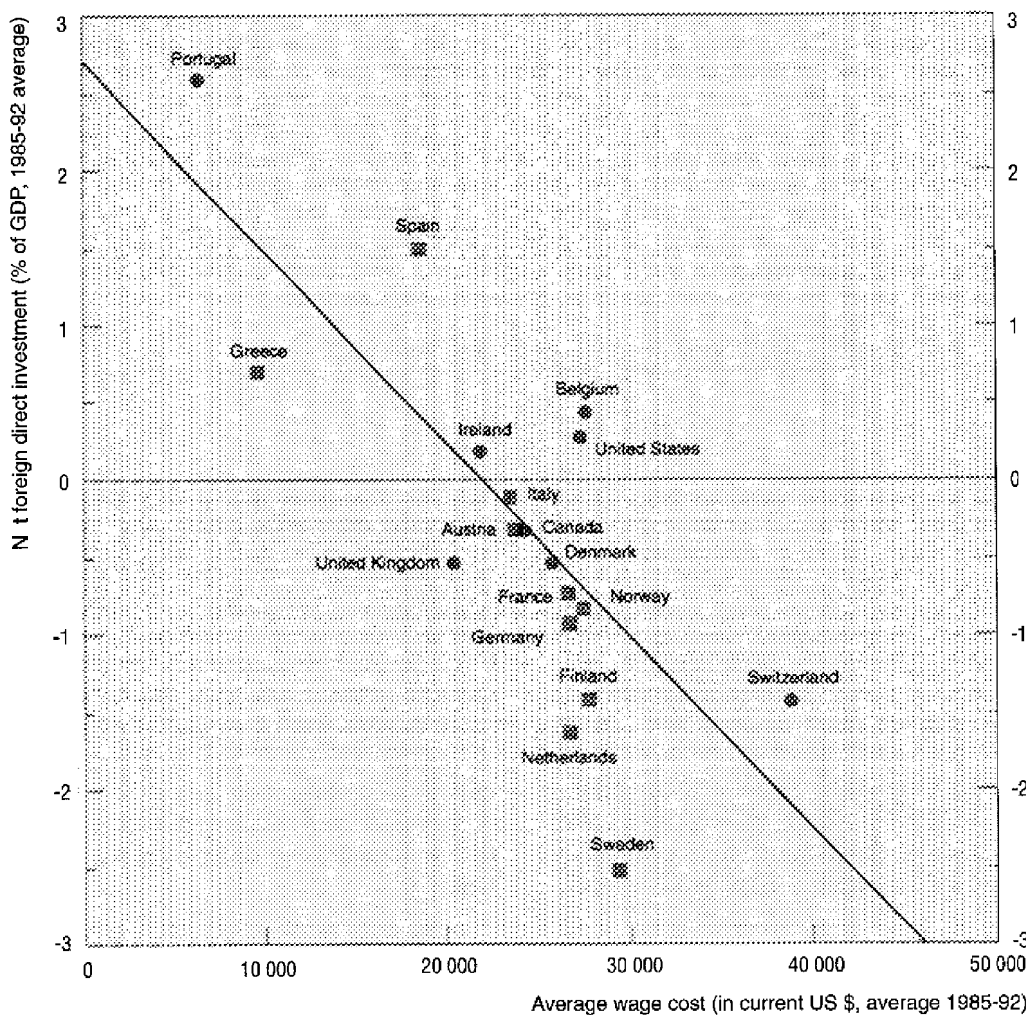
There is some evidence that inflows of foreign direct investment have been larger in countries where labour costs are lower and government regulations on labour standards less stringent. Second, the technological change that OECD economies have been experiencing over the last decade tends to reduce the demand for unskilled labour, while at the same time necessitating a more flexible use of production factors. Third, the belief that certain labour standards have hampered the ability of OECD economies to adapt to shocks has led some economists and policy-makers to call for reform of labour standards in order to render labour markets more flexible.

The chapter shows that the degree of government intervention in the determination of labour standards appears to have little effect on final outcomes, as evidenced by the lack of association between the index for the stringency of regulations on labour standards and per capita GDP and wages. This result suggests that there is no simple, direct association between labour standards and trade performance.

On the basis of these results, it may be argued that labour standards do not have much influence on external competitiveness and trade performance, and thus harmonization of labour standards is not necessary. However, it is too early to reach this conclusion: considerably more empirical work is called for. First, within the EC area, the chapter shows that intra-EC migration flows have not increased much over the last decade. However, if remaining impediments to international migration are lifted, individuals and investors may be inclined to exploit differences in labour standards and social protection, entailing a levelling-down of standards. Second, if exchange rates are unified (as planned in the EC monetary unification treaty), there is a risk that countries may resort to

Chart 4.5

Foreign direct investment and labour standards



- Countries with relatively stringent labour standards:
Austria, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Spain, Sweden
- Countries with relatively flexible labour standards:
Belgium, Canada, Denmark, Ireland, Portugal, Switzerland, United Kingdom, United States

Sources: OECD, *International Direct Investment Statistics Yearbook*, 1993; *OECD Economic Outlook*, No. 54, December 1993; and Table 4.8.

Labour practices of multinational enterprises in the United Kingdom

This box presents a brief overview of labour practices of multinational companies established in the United Kingdom.¹⁵ The basic questions addressed are the following: do labour practices of companies established in such a highly deregulated country differ in a fundamental way from those observed in other European countries more subject to regulation? Do these labour practices differ from those of British companies established in the United Kingdom? The comparison is based on panel data obtained from the U.K. Workplace Industrial Relations Survey for the year 1990.¹⁶

The main results are shown in Table 4.12.

Table 4.12. Labour practices of enterprises established in the United Kingdom, 1990

	Average weekly wage (£)	Wage differential: per cent of full-time employees earning		
		< half average wage	> twice average wage	
Wages				
British nationals	173	11.8	5.6	
British multinationals	190	11.1	5.5	
Foreign multinationals	207	12.1	6.8	
	Fixed-Term contract employees (per cent of total)	Part-time employees (per cent of total)	Turnover ^a	
Employment precarity and turnover				
British nationals	1.2	20.5	1.6	
British multinationals	1.3	16.3	1.0	
Foreign multinationals	2.2	7.8	0.8	
	Coverage of collective bargaining ^b	Incidence of plant-level bargaining ^c	Incidence of industrial unrest ^d	
Industrial relations				
British nationals	73	32	10	
British multinationals	81	37	22	
Foreign multinationals	76	65	23	
	Conditions of employment	Health and Safety	Staff plans	Changes in working methods
Consultation with employees^e				
British nationals	59	69	43	70
British multinationals	68	82	4x	80
Foreign multinationals	71	81	49	76

a) Labour Rows (new hires plus dismissals) in per cent of total employment.

b) Percentage of employees covered by collective bargaining agreements. These figures might diverge from those published elsewhere as large firms are over-represented in this survey.

c) Plant-level agreements in per cent of total agreements (manual workers).

d) Percentage of enterprises experiencing some form of industrial action over the last year.

e) Percentage of enterprises which engage in consultation with employees.

Source: Data supplied by Monika Weber-Fahr on the basis of the *Workplace Industrial Relations Survey*, 1990.

Multinationals established in the United Kingdom offer working conditions similar to those in operation in more regulated European countries. Employment is not particularly unstable (as indicated by the low turnover and dismissal

(continued on next page)

(continued)

rates), information and consultation rights are relatively developed, the use of “precarious” forms of employment contracts is relatively limited, and the coverage of collective bargaining comes close to the standards of continental Europe. On the other hand, enterprise-level bargaining is fairly widespread.

Multinationals established in the United Kingdom pay comparatively high wages (at all levels of occupation and qualifications) and are relatively prone to engage in direct communication with staff representatives and offer rather stable employment conditions by United Kingdom standards. However, pay bargaining is more decentralised, wage differentials are higher, and the incidence of merit pay criteria is more frequent.

Overall, there is no strong evidence that multinationals have sought to exploit the largely deregulated environment of labour markets in the United Kingdom. In general, working practices are not significantly different from those provided in other European countries. This may suggest that large enterprises find it profitable to offer relatively advantageous working conditions. On the other hand, the large incidence of decentralised pay bargaining and merit pay shows that large enterprises are eager to obviate external regulations. An additional conclusion is that labour standards imposed by national authorities or through multi-employer collective bargaining are likely to be more of a binding constraint for small enterprises than for multinational companies.

“social devaluations” to improve competitiveness, to the detriment of other member countries. Third, these pressures are likely to be much stronger in the case of NAFTA, because labour mobility is higher and differences in the level of economic development among participating countries are much more pronounced than in the cases of EC and EFTA.

More generally, it is important to note that the chapter focused on OECD countries, where basic labour rights such as freedom of association, the right to engage in

collective bargaining, prohibition of forced labour and child-work regulations are by and large enforced. It is clear that considerably more analysis is needed to elucidate the relationship between the various dimensions of labour standards and trade worldwide; further empirical work will be carried out by the OECD Secretariat on this issue. Thus, the debate on international labour standards – whether they should be harmonized and at what level, how they should be monitored and enforced – looks set to continue.

NOTES

1. It should be noted, however, that there is probably some gap between ratified conventions and implementation at the national level. For example, Verdier (1993) reports that in France certain provisions of ratified conventions have not been applied.
2. This is true only for Mexico and the United States. In the case of Canada, the panel determination becomes an order of the court, enforceable by the federal court or its provincial equivalent.
3. In the remaining sections of the chapter, labour standards in Mexico will not be discussed owing to a lack of detailed information on present legislation and regulations in that country.
4. This work draws on information collected in particular from the Wyatt Company (1991), Incomes Data Services (1991 and monthly reports, various issues), and Blanpain (1991).
5. In Ireland, workers in industries where union density is typically low are covered by similar provisions.
6. This is best illustrated in the recent experience of Central and Eastern European countries, where creation of an adequate social safety net is seen as a precondition for the success of market-oriented reforms.
7. It is clear that the cross-country correlation between productivity and real wages is much higher on a gross basis (*i.e.* before deducting for the cost of social protection and other labour standards) than on a net basis.
8. Provisions on social protection are not included in the calculation, because trade and investment decisions are likely to be influenced more by the cost of these provisions than by their nature. Government regulations on wages (other than minimum wages), often confined to the possibility of extending collective agreements to non-signatory parties, are also excluded.
9. See Lloyd (1992) for a recent survey of this literature.
10. Nonetheless, some concern has been expressed that in the case of certain sectors such as agriculture, trade diversion may have been significant.
11. For a general discussion of these issues, see Hansson (1983); in the case of the United States, see Tarullo (1992).
12. Lemco and Robson (1993) present a review of the costs and benefits for labour of NAFTA.
13. There are, however, other theories of international trade that lead to more favourable results [see Oliveira-Martins (1994) for a discussion of these theories as well as empirical evidence]. First, in the presence of differentiated products, it is possible that all factors of production may gain from trade (the reverse of the Stolper-Samuelson theorem), especially when there are scale economies at work. Second, if products are not strongly differentiated but economies of scale are large, much depends on the similarity of factor endowments. If the latter are similar, then the reverse of the Stolper-Samuelson theorem may apply. Third, in a situation of different factor endowments, homogeneous products and scale economies, the theorem is likely to apply.
14. This result contrasts with the trend towards convergence in wages. Further empirical analysis should be carried out in order to understand more fully the divergent trends in wages and productivity.
15. A more extensive description of labour practices of multinational companies can be found in Weber-Fahr and Edwards (1993).
16. These data were communicated to the Secretariat by Monika Weber-Fahr.

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