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Exclusive – inclusive labour markets

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Ford sewing machinists strike 1969



We want sex.....



Sewing machinist conflict 1969

- **Perfect example of a work-place conflict which was extended into a wider political conflict**
- **Generalization of the fruits of the conflict by means of law: Equal Pay Act 1970**
- **Since then equal treatment regulations by EU directives for part-timers, temporary workers, temp agency workers, nationals and EU-non-nationals, men and women**

Enormous progress in re-regulation of labour markets! But wages have become more unequal since the 70s?

Relocation of conflict for equal pay

Sewing departments in automobile industry outsourced in the 1990s

Demand for equal pay between women in sewing departments and men on assembly line relocated:

- **from company level to industry national or even international level**

Increasing difficulties in achieving equal pay:

- **jurisdiction based on equal pay between comparable jobs within a company**
- **mobilization more difficult: less transparency, more actors and conflicting interests at meso- and macro level**

Structure of presentation

1. Internalisation and homogenisation of employment
2. Fragmentation of employment
3. Concept of inclusive/exclusive LM
4. Fragmentation, equal pay and enforcement - examples from construction, TWA and retail trade in EU-countries
5. Is fragmentation efficient?
6. Conclusions

Internalization and homogenization of employment (1)

- Historical trend towards integration of the production process
- Growth of large scale production – vertical integration - high share of internal value creation
- Linked with the internalization of employment: absorption of precarious and fragmented employment from traditional sectors
- Introduction of new and continuously evolving forms of work organisation and control at workplace to transform work into effort and efficiency

Internalisation and homogenisation of employment (2)

- Homogenisation: 10 and then 8-hour shifts for full-time workers main pillar of work organisation: became second nature to both employees and firms
- Integrated work processes with homogenous core employees: object of studies of Bravermann, Edwards, Friedman et. al.
- Employers' interests: "attempt by employers to reconcile ... two problems – of securing workers' cooperation and a surplus product" (Nolan 1983)

Internalisation and homogenisation of employment (3)

- **Considerable differences in the Standard Employment Relationships (SES) between various national models, especially the level of security, voice and the links to the welfare state**
- **This variety and the historical battles behind good reason to reject functionalist interpretation: SES highly contested institution (Rubery 2007)**
- **Result of social conflicts – „frozen“ compromise**

Fragmentation of employment (1)

Since the 70s two main developments:

- differentiation instead of homogenisation
- reduction of vertical integration of companies

Internal and external fragmentation of employment forms:

- **Internal fragmentation: increasing number of employment forms with the same employers (full-time vs part-time, permanent vs temporary)**
- **External fragmentation: increasing number of different types of service contracts with other companies or individuals (Marchington et. al 2005)**

Fragmentation of employment (2)

External differentiation of employment forms not necessarily linked with fragmentation of the actual work process: often highly integrated work processes with workers from different companies (temp agencies, outsourced services, pseudo-self-employed, posted workers)

Fragmentation of employment (3)

Drivers

1. Cost reduction
2. Risk shifting
3. Weakening labour: unbundling existing compromises between capital and labour
4. Specialisation
5. Also: changing employee preferences

Obviously different impact on workers and also work organisation

Inclusive vs exclusive labour markets (1)

Employment relationships embedded in social institutions: labour law, collective bargaining, product market regulations, welfare state, education and training system etc.

Institutional framework may encourage or discourage redistributive forms of fragmentation of employment

Concept of inclusive/exclusive labour markets may help to understand the importance of different forms of fragmentation of employment

Inclusive vs exclusive labour markets (2)

Inclusive LM institutions extend benefits and rights to all employees - low social inequality

- discouragement of redistributive fragmentation of employment
- less scope for variations in labour standards between companies and sectors

Exclusive labour markets:

- no generalisation of standards achieved by workers with strong bargaining power
- exit options for employers
- vulnerable to outsider competition

Inclusive vs exclusive labour markets (3)

**In/exclusiveness cannot be simply read from legal rules
- as important are compliance and enforcement**

Changes within given institutions: “institutional avoidance” (Applebaum 2010) possible – once used often with cumulative effects

Drivers:

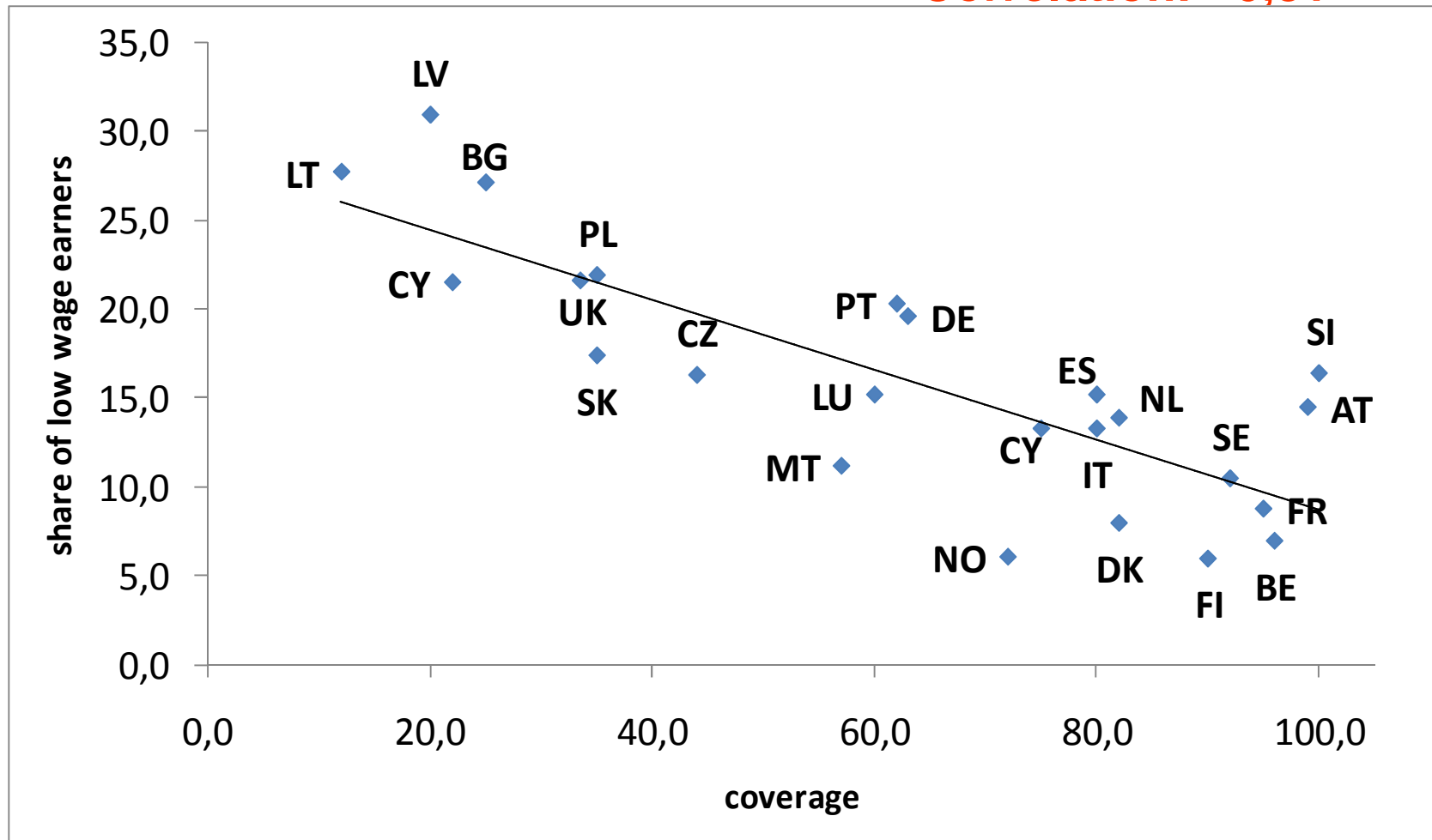
- **Changing labour supply: exploitation of pre-existing social divisions**
- **Increasing cost competition**
- **Changing norms and customary expectations in obligations of employers and state**
- **Weakening of enforcement actors**
- **Failure of institutions to adjust to new conditions (“drift” , “exhaustion” (Streek/Thelen 2005))**

Coverage by labour standards in exclusive vs inclusive labour markets

	Within an establishment	Within an industry	Across industries	Trans-national
Ex-clusive	Not all employees	Only establishments with strong employee bargaining power	Only industries with strong employee bargaining power	Posted workers only in companies with strong bargaining power
In-clusive	All employees	All establishments within an industry	All industries + low wage differentiation between industries	All posted workers

Share of low-wage earners (only full-time) and coverage by collective agreements 2006

Correlation: -0,81



Collective bargaining coverage, employers' organisations and union density 2006

	1-10	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100
France	U							E		Cov
Netherlands			U					E	Cov	
Denmark						E		U	Cov	
Germany			U			E	Cov			
UK			U	Cov, E						
USA	E	U, Cov								

Cov = Bargaining coverage non-standardised;
 E = Employer organisation rate (private sector);
 U = Union density rate

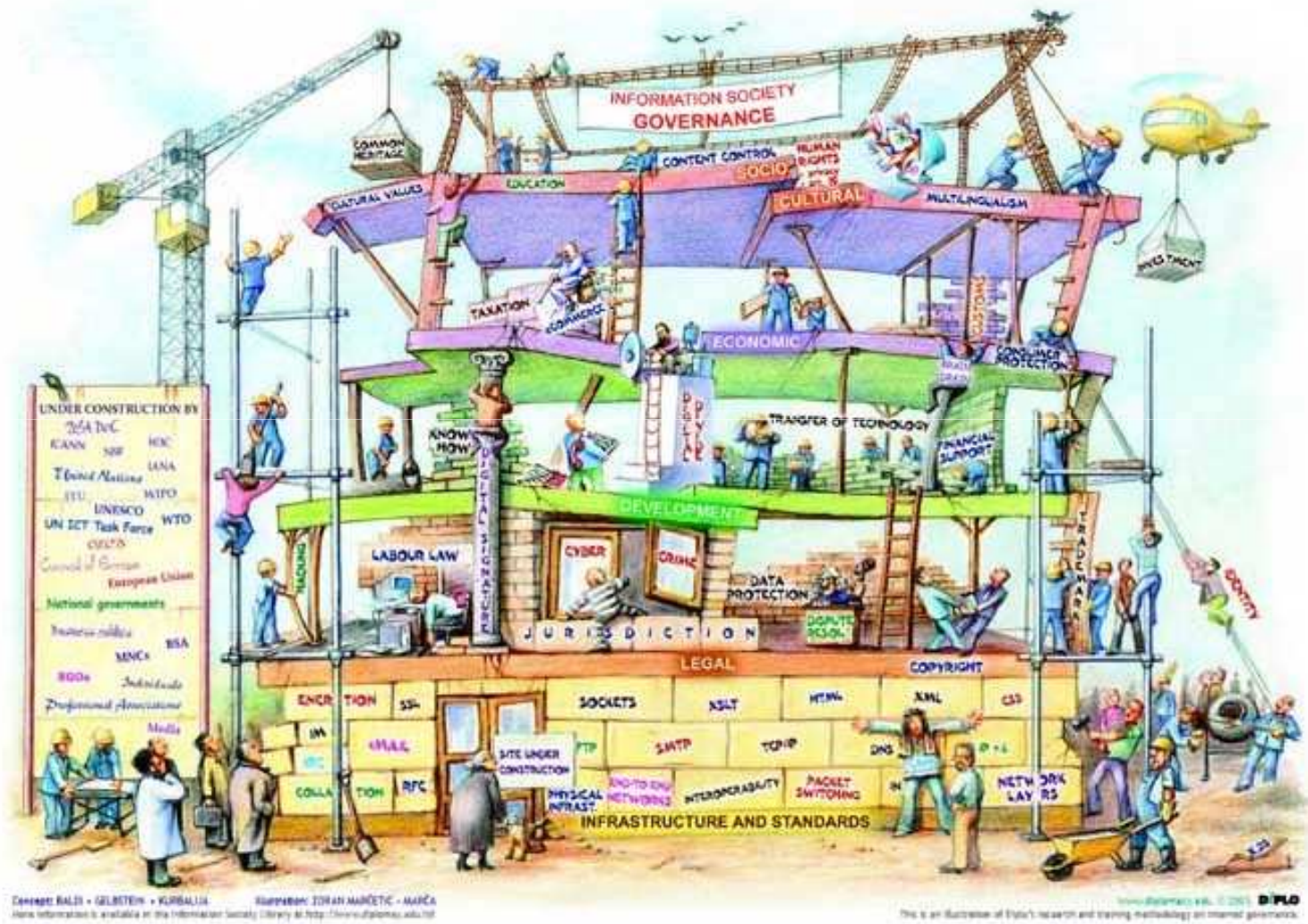
Source: J. Visser 2011, ICTWSS database, own calculations

Fragmentation, equal pay and enforcement

Three examples:

- **Construction industry in DE, FR, NL, UK**
- **Temporary agency work in DE and FR**
- **Retail trade DE, FR**

Construction – Building Chaos



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Construction in DE, FR, NL, UK (1)

Construction unusually risky endeavour - Employers face considerable financial risk (economic cycle, weather, fluctuations in demand between regions)

How can large construction projects been done in an industry with increasing numbers of small firms?

Two types of subcontracting depending on regulations:

**Co-operative subcontracting based on skills:
distinct tasks over which subcontractor has sole responsibility**

**Competitive subcontracting based on low prices:
two or more subcontractors do the same job/
their longevity depends on ability to outcompete
their rivals (Bosch/Philips 2003)**

Construction in DE, FR, NL, UK (2)

Inclusive: NL and FR:

- Whole wage scale extended to all (incl. posted) workers
- NL: high level of enforcement: joint industry commissions/ FR: union cooperation with the labour inspectorate

Exclusive: UK

- high fragmentation through pseudo-self-employment (41.5% in 2008 compared to 15.2% in FR)
- weak role of collective agreements – “Gentlemen’s agreements”
- only MW wage as threshold for posted workers

Construction in DE, FR, NL, UK (3)

Mixed: DE:

- West-DE: high share of workers paid according to collective agreements;
- East-DE- MW going rate - avoidance of coll. Agreements
- problems with enforcement: low density of unions and works councils

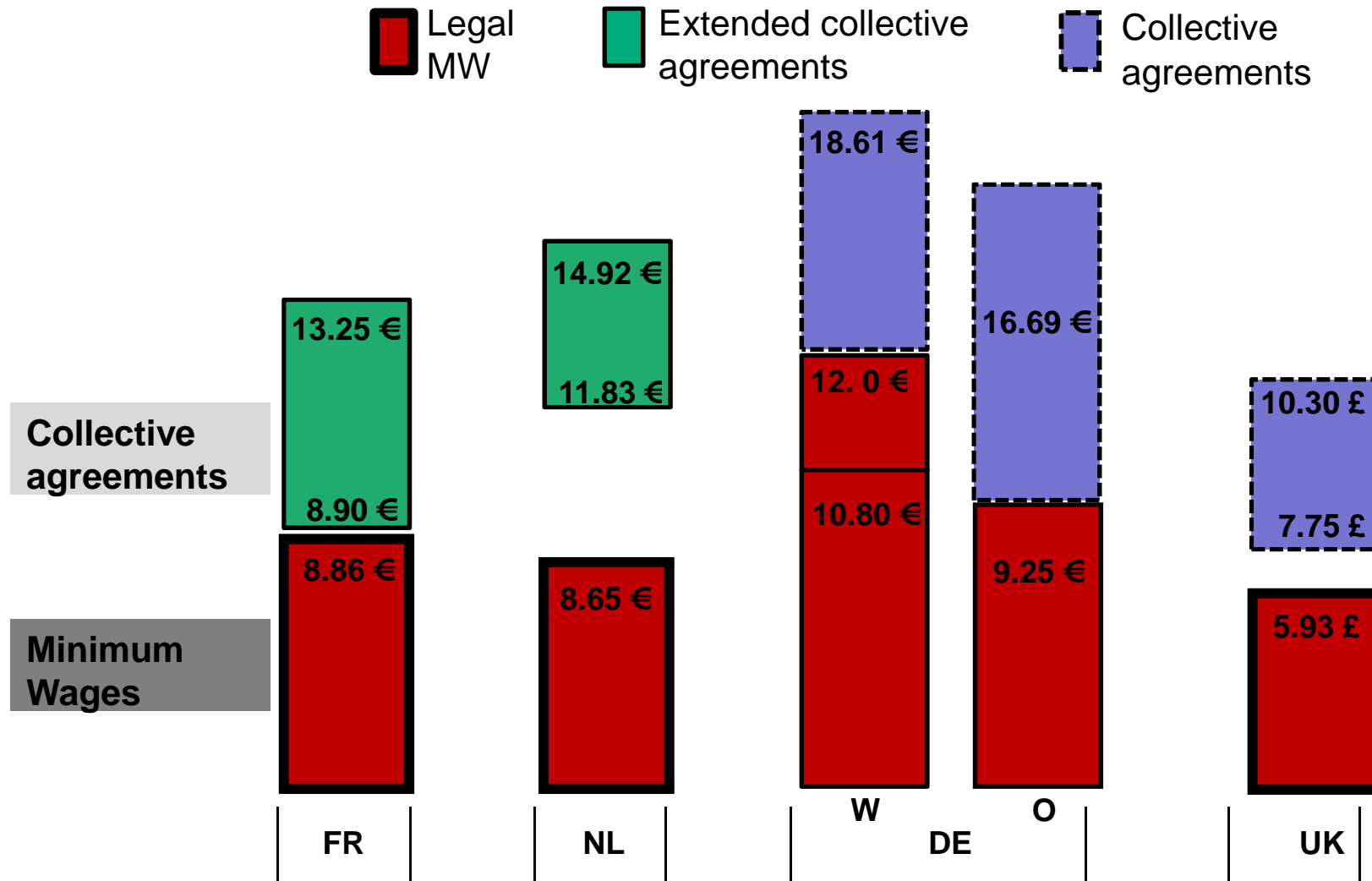
- MW enforced by customs
- difficulties in monitoring working time, fines for foreign companies often not enforced abroad –

Europe common economic but not common legal space

Construction: Enforcement of minimum wages in DE



Wages of construction workers in DE, FR, NL, UK 2010/11



Source: Bosch, Weinkopf, Worthmann, 2011

Construction in DE, FR, NL, UK

Reference wages for equal pay for posted workers

- NL and FR: collective agreements with whole wage scale
- DE: industry minimum wage
- UK: national MW

Main danger from EU: production market deregulation by directives or decisions of European Court of Justice (Laval, Rüffert, Viking)

Draft on third country nationals intra-corporate transfer (COM(2010) 378 final) allows Chinese workers in Poland to be transferred to other EU-countries - but under which employment conditions?

--- I'm a temp - thanks -----



Temp agency work in DE and FR (1)

Inclusive: FR

- Employment stagnating: between 500 – 600 000 since 2000
- Equal pay – reference whole wage scale plus 10% premium for *precarité*, plus 2.15% levy for training funds
- FR equal pay but no seniority pay increases – “permanent new employees” (Ehrel et al. 2005)
- Low wage share in France decreasing from 26% in 1995 to 19% in 2002
- max. assignment 18 months: assignments mainly in manufacturing – main employer interest: flexibility

Temp agency work in DE and FR (2)

Exclusive DE:

- **Deregulation 2003: no time limit on assignments and deviation from equal pay possible by collective agreement**
- **Equal pay regulation undermined: employer-friendly Christian Union signed dumping agreements: 100% coverage, but low wages**
- **Rapid growth from 300 000 in 2003 to 1 million workers in 2011**
- **Low wage share in Germany increased from 55% in 2001 to 67% in 2006, average wage of TWA 50% below average in whole economy**
 - **Assignments mainly in manufacturing: main employers' interest: low wage costs**

In both countries assignments short – equal pay only makes sense from the first day on

Temp agency work in DE and FR (3)

DE: Union campaign for equal pay

- company agreements
- industry agreement (steel)
- political campaign – wide public support

Success only possible if pressure on governments remains high

Insider-outsider problems in some companies: some works councillors in favour of shifting all risks to TWA (mainly in companies with low trade union density)

Retail trade and Equal Pay in 5 countries

Consumer Products
for the Retail Trade



Click to increase
sales, turns and profits.

Retail trade in five countries (1)

Share of low wage workers in retail 2003:

DK 23%, FR 18%, DE 42%, NL 46%, UK 49%

Inclusive: FR: Small share of low wage

Partial exclusion in NL and DK: by youth sub-minimum wages (share of employees < 25 years in DK and NL above 45%, under 29% in FR and DE)

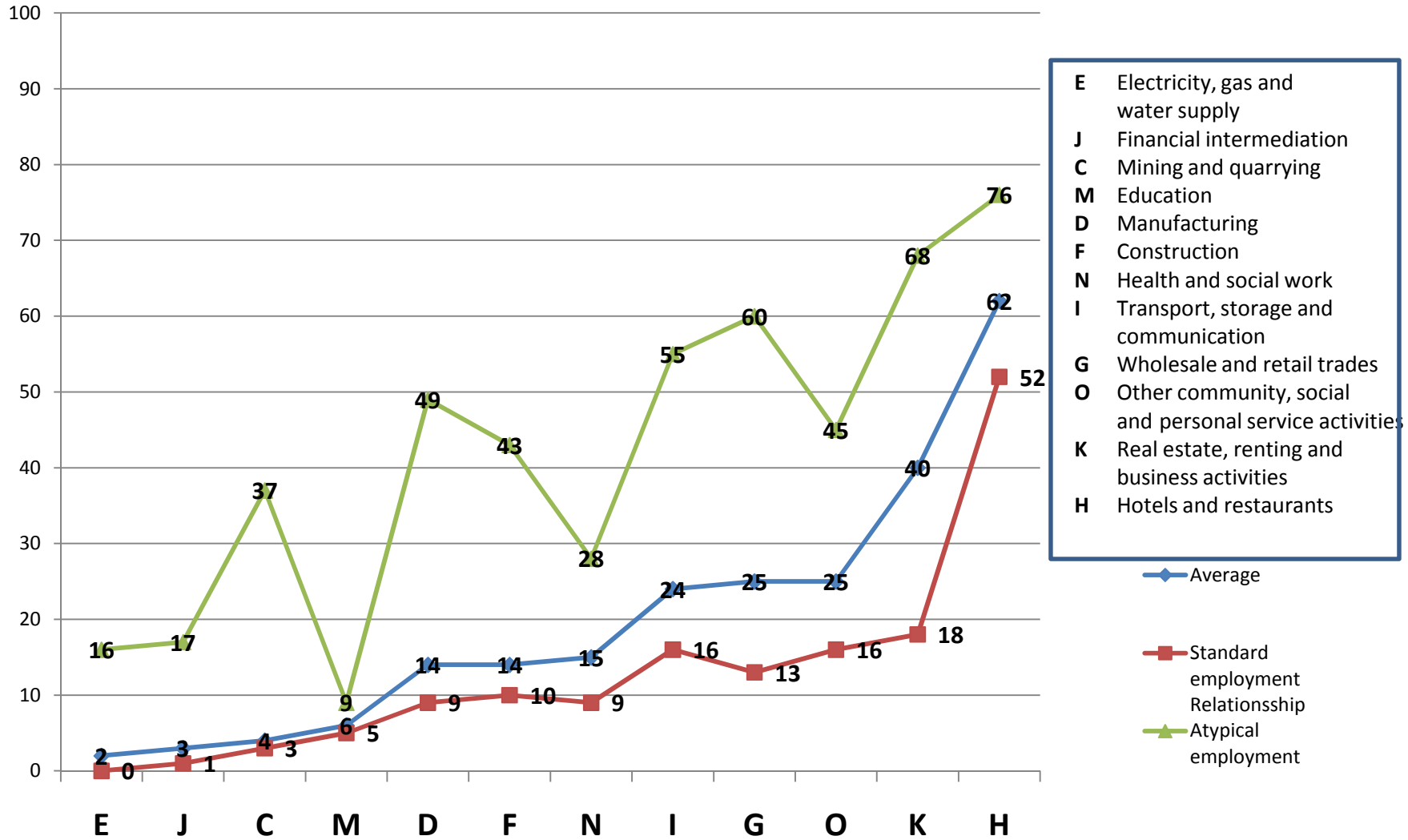
Exclusive: UK: MW below low pay threshold and companies today only "pay a tad above MW"

Retail trade in five countries (2)

DE: Move to exclusive LM since 2000:

- Abolition of extended collective agreement in 2000
- Increasing share of companies paying below collectively agreed rates
- Rapid growth in marginal part-time (mini-jobs – below 400€ per month)
- Equal treatment of mini-jobs required by law but not enforced – widespread open violation of law — high shares of skilled married women (growth in mini-jobs from 3.7 million in 1999 to 7.3 million in 2009)

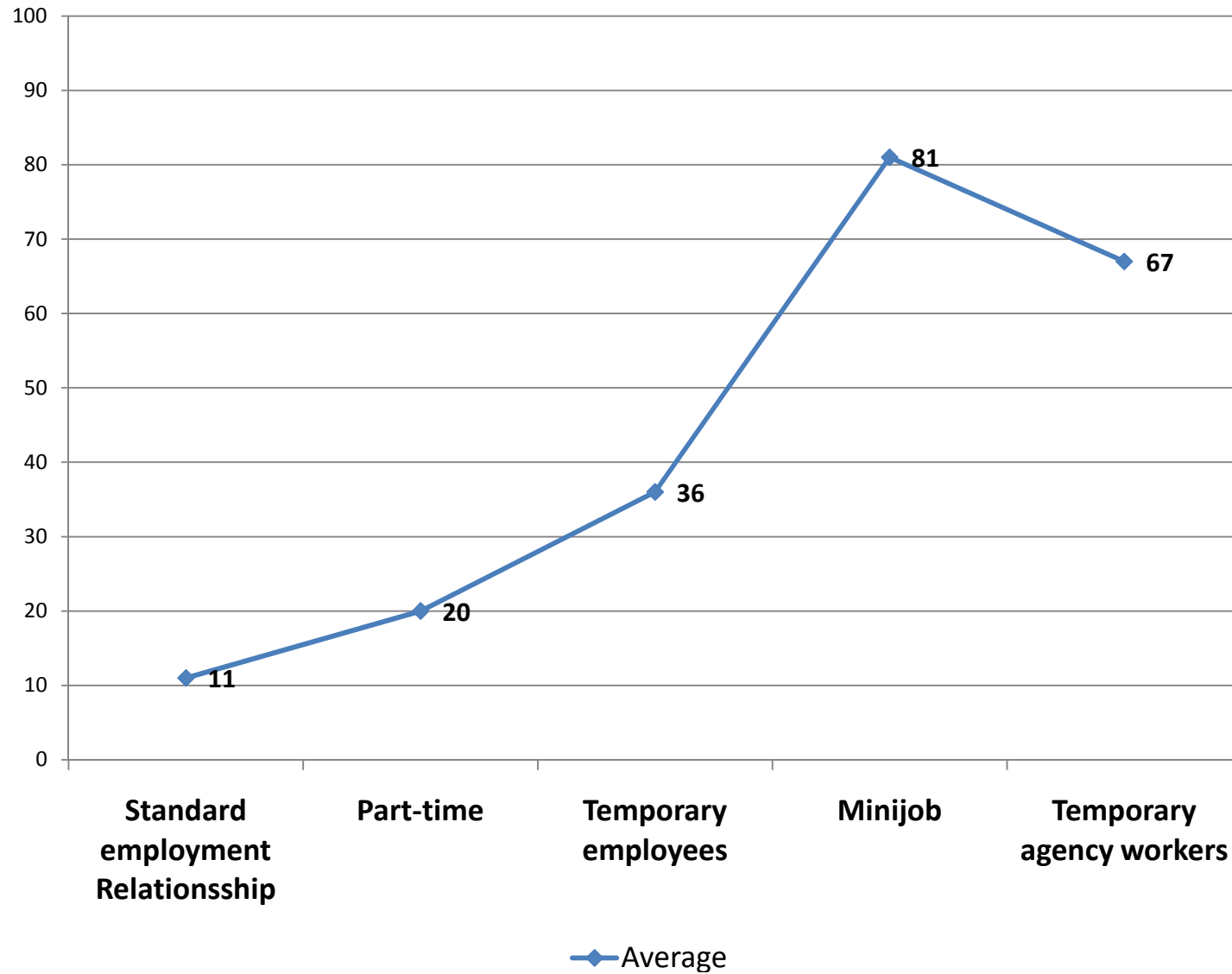
Share of low-wage earners (2/3 of median wage) in different employment forms by sector (Germany 2006)



- E Electricity, gas and water supply
- J Financial intermediation
- C Mining and quarrying
- M Education
- D Manufacturing
- F Construction
- N Health and social work
- I Transport, storage and communication
- G Wholesale and retail trades
- O Other community, social and personal service activities
- K Real estate, renting and business activities
- H Hotels and restaurants

◆ Average
 ■ Standard employment Relationship
 ▲ Atypical employment

Low wage share (2/3 of median hourly wage) in different employment forms (Germany 2006)



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Retail trade in five countries (3)

High acceptance of unequal pay

Social norms accommodate lower pay for

- **young people: transitional, often in addition to grants**
- **women as secondary earners – (mini-jobs - due to subsidies also popular among many women)**

When fragmentation has become endemic – change of policy difficult – need to call into question embedded special interests

German unions could not agree on an equal pay campaign for mini-jobbers – too many special interests

Fragmentation and efficiency (1)

Equal pay campaigns based on norms of fairness and solidarity

For broader political coalition building efficiency arguments necessary

No easy answer: impact of different forms of fragmentation on commitment, skill formation, productivity, transactions costs different may vary between industries and countries

Erratic changes of strategies between out- and insourcing

Fragmentation and efficiency (2)

Anecdotal evidence from case studies:

TWA:

- Less commitment, less training, more supervision needed, low trust and less cooperation with core workers (Marchington et al 2005)
- Compensation through long-term assignments with same workers (permanent temps)

Retail trade:

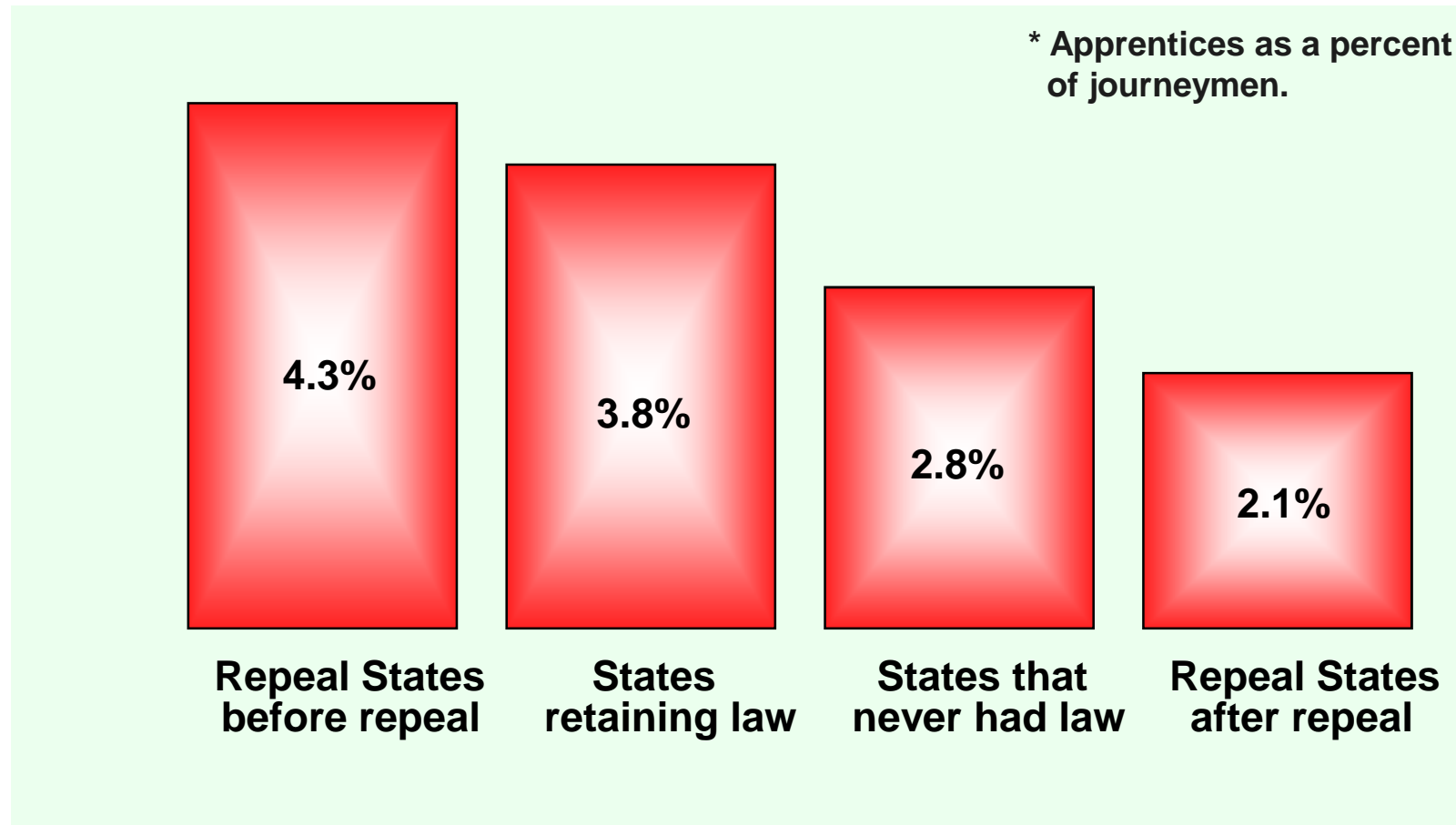
- Compensation provided by full-timers - “anchors in a part-time operation” (Jany-Catrice/Lehndorff 2003, Voss-Dahm 2010)
- DE: many skilled married women available for mini-jobs and low wages

Fragmentation and efficiency (3)

Construction

- **UK: less training, more supervision needed, quality problems (Harvey 2003)**
- **DE: more supervision, quality problems but also compensation: own training centres in Poland for posted workers (Bosch/Zühlke 2000)**
- **US: Clear evidence (with control groups) that prevailing wage laws have positive impact on training, costs, capital intensity etc. (Philips 2003, Azari-Rad et. al 2005)**

Apprenticeship Training Rates and Prevailing Wage Laws by State Legal Policy *



Source: P. Philips: The US: A tale of two cities. In: G. Bosch / P. Philips: Building chaos (Eds.): an international comparison of deregulation in the construction industry. London: Routledge, 2003

Construction costs of public schools

\$ per square foot

	Rural areas			Urban schools		
	Average cost	Standard deviation	Number	Average cost	Standard deviation	Number
Prevailing wage law	98 \$	24 \$	104	114 \$	34 \$	86
No law	96 \$	26 \$	161	114 \$	36 \$	40
Difference statistically significant ?	NO			NO		

Source: Peter Philips, 2001: A comparison of public schools construction costs. University of Utah. S. 3. (http://www.smacna.org/pw_report_2001.pdf)

Conclusions: Equal pay and labour markets (1)

Inclusive labour markets:

- Reference points for equal pay not only minimum wages, but wage scales from collective agreements – “protection of the working middle class”
- However: different degrees of inclusiveness: Depending on inter-industry wage differences – without solidaristic wage policy for example persistent gender gap

Exclusive labour markets:

- Only at company level reference wage company agreement or comparable job – Like in antidiscrimination trials in US
- no generalization across companies – only MW

Conclusions: Equal Pay and Labour markets (2)

Dualistic labour markets with inclusive and exclusive segments:

- exit-options (like TWA, posting and mini-jobs in DE) - self-energizing - dependent on labour supply
- containment of bad practices difficult in deregulated markets: inclusive segments under continuous attack by competitive subcontracting
- insider strategies of unions/works councils only temporary protection – in the long run self-destructive

Conclusions: Enforcement – Neglected problem in research

Efficiency arguments in increasingly competitive markets not sufficient

Control and enforcement of inclusive regulations crucial:

- **Most effective control at the workplace: through union reps or works councils**
- **External control suffers from problems of information, transparency and enforcement of sanctions:**
 - **Control by social partners at industry level (like in construction in NL) effective**
 - **Control by government more effective with easily understandable standards**
 - **Control in transnational LM like posting: problem enforcing sanctions across borders**

Conclusions: Fragmentation and regulation

Product market deregulation

“... product and labour market deregulation can be classified as "substitutes". This has important policy implications for those countries where it may be politically difficult to deregulate the labor market” Fiori et. al 2007, IZA

Instruments: privatization, opening protected markets, public procurement, transnational service markets.....

Product market regulations as important as labour market regulations for reduction of competitive subcontracting