MYTHS AND FACTS ABOUT WORKING LONGER HOURS IN EUROPE:

A NOTE FROM THE ETUC

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Introduction

Since summer 2004, a new fairy tale has been born in Europe. It is the fairy tale that jobs can be created when workers work longer hours. Working longer hours with no additional pay, it is claimed, will improve competitiveness and allow the company to keep the jobs instead of moving them to low wage economies such as Eastern Europe or China.

Here, the Siemens agreement, concluded by its management and IG–Metall at the end of June, has clearly been used as a show case. In return for promised investments in the production of a new generation of mobile phones, 4,000 workers in two Siemens plants have exchanged the 35 hour week for a 40 hour week, while not being paid additional wages. And almost immediately, employer organisations in other European countries, as well as some governments, have been trying to use this agreement to launch a general offensive against established working time rights. From Italy to Scandinavia, from the Netherlands to France, attempts were made to put workers under pressure in this area. Let us immediately note the contradiction: while management claims that longer (and cheaper) working hours will improve the competitive position of the company, workers in other countries are at the same time being urged to do the same. But if all workers in different countries would do so, then the end result would not be an improvement in competitive position.

While the employer's offensive for longer working hours seem to be stalling at the moment, it is imperative that national trade unions are correctly informed on what is happening exactly in other countries' collective bargaining round. Indeed, employers in neighbouring countries tend to engage in 'cherry picking' by only representing those points of foreign collective agreements that suit them best.

The objective of this ETUC note is to provide:

- correct information on what is really happening in some countries concerning longer working hours. The main conclusion to this is: 'not much'. Aside from some isolated companies, there is no general tendency to switch to longer hours. And in those companies where longer working hours do get introduced, employers have to grant important tough concessions (for example: job guarantees).

- analysis of what would be the overall impact on employment in Europe of a generalisation of longer working hours. Such a process can be compared to an inverse 'procession of Echternach'. Working longer hours implies that more demand and production is needed, <u>just to maintain existing employment.</u> And for employment to <u>increase</u>, one would actually need even higher production growth. This section of the paper presents some national simulations (form the Dutch Planbureau and from German Citygroup) that cast serious doubt on the probabilities of securing or even increasing employment through longer working hours.

- examples of alternative collective bargaining strategies. Trade unions and social partners have an important role to play in concluding collective agreements that, instead of blackmailing workers with the threat of delocalisation, help them to address structural change in a positive way Engaging workers in establishing a 'high performance working place', equipping workers with new skills, and helping them to find new jobs are more promising avenues than desperately hanging on to jobs that will anyway come under further pressure in future.

Chapter I:

The myths of working longer hours: What is really happening in Europe?

Myth number 1: Private sector workers in Germany and France are massively returning to a 40 hour week without additional pay

In Volkswagen, Mexico, management appears to have told Mexican workers that all German workers are now working 48 hours a week and that they should also do so in order to regain competitiveness. But is this really the case? Are workers in the German private sector now working massively 40 or even longer hours a week? An overview of recent company agreements allows for the presenting of a more balanced picture:

- At Siemens, the 40 hour week (with 5 unpaid extra hours) is limited to two mobile phone factories which employ 4000 workers. The rest of the 160,000 total work force of Siemens continues to work on a 35 hour basis. Also, the local Siemens agreement is limited in time so that the working time increase is valid for the next two years only.

- The Daimler–Chrysler agreement increased working time (without pay) for 6,000 workers, mainly in the services sector. For these workers, the working week will be gradually increased to 39 hours. However, for older workers (above 54 years), the working week has been reduced to 34.5 hours. Again, the remaining work force of Daimler Chrysler (160,000 workers) is sticking to the 35 hour week.

- At Thomas Cook, the local collective agreement introduces 1.5 additional working hours, again limited for the next one or two years. The agreement also stipulates that workers will receive in 2006/2007 a lump sum of 1,000 euro as compensation, depending on the profit situation.

- Despite incorrect rumors to the contrary, Karstadt, the big German retailer in difficulties, has not increased working time. Instead, it has cut work force and fringe benefits. Karstadt also agreed upon a wage freeze for the coming three years. Here, again ver.di has made a point of it in stipulating that these wage freezes have to be compensated for at the moment the company is distributing profits again.

- The Volkswagen agreement, concluded in November 2004, did increase the flexibility of the existing instrument of working time accounts. This system was introduced in 1993 to cut working time to 28.8 hours a week in order to avoid 30,000 redundancies. Similarly, in times of a complete factory order book, working time could be increased so that periods of slack and periods of good demand cancel each other out. The new agreement increases the maximum upper and lower limits of this system of 'working time accounts' to (plus or minus) 400 hours a year. Overtime premiums will still be paid out when:

- the weekly working time is longer than 35 hours <u>and</u> when the 400 hour limit has been breached.

- working longer than 40 hours a week, irrespective of the 400 hour limit.

The agreement also includes a new possibility for accumulating working time in order to use it for early retirement (saving working time till the end of the career): each employee is allowed to "save" each year up to 66 hours worked and to put it into a working time bank. Although all of these measures increase the flexibility of the working time regime, none of them is about <u>unpaid</u> overtime. Longer working hours are still getting paid the basic hourly wage.

- The agreement concluded at General Motors (Opel Rüsselheim) did not resort to longer working hours at all. Confronted with chronic overcapacity, GM will cut some 10,000 jobs in Germany. Workers will be offered a severance payment as well as the possibility to join a 'transfer company' where they can be re-trained for one year, while receiving 85% of the previous net wage. The 'transfer company' itself is financed by Opel and the federal labour agency. Management does announce to look for reducing the house pay schedule to the wage levels agreed upon in the sectoral agreement in a negotiation round coming up beginning next year.

- On 12 October, IG-Metall concluded an agreement in the textiles sector covering 140,000 workers. This agreement also builds on an existing framework for working time flexibility. Up to now, companies could deviate from the 37 hour week up to 130 hours a year in a time corridor between 34.5 and 39.5 hours a week. This limit is now extended to 156 hours (40 hour working week). Extra hours worked will be remunerated at normal pay rates. No approval from sectoral social partners is necessary to organise this kind of deviation from sectoral working time. However, individual companies can deviate further from the sectoral provisions on the working week (or bonuses and paid holiday), provided social partners at the sectoral level approve of this. A similar clause was introduced in the metal sector agreement and was the basis upon which the Siemens agreement was signed. It should be underlined that IG-Metall is using internally strict criteria to evaluate such company cases, exactly in order to prevent that a flood of company level agreements would nullify the importance of the standards set by the sectoral agreement. Thus, again, it can not be claimed that this agreement automatically implies that the 40 hour week is now the implicit standard for German textiles industry.

- While agreements on longer working hours remain rather limited in the German private sector, the practice is however more widespread in the public sector. Here, regional governments and communities have unilaterally pressed workers to work longer hours (sometimes even up to 42 hours). The pressure to abide by the Stability Pact is driving these governments to cut on the wage bill by lengthening working hours without additional payment. While such practices are giving private firms a wrong signal, working longer hours in the public sector has little to do with competitiveness as such.

Turning to the situation in France and other countries, it appears that cases where the 40 hour week has been re-introduced are up until now very rare:

- In France, the Bosch factory at Vérnicieux increased working time in summer 2004 from 35 to 36 hours without paying the additional worked hour in order to keep the factory from moving to the Czech Republic. Two other cases were also reported around that time in France (Doux, SEB). Potain (a crane and monorail manufacturing company that benefited at the time from the 'loi Robien') will increase working hours from 32.5 to 35 hours from January 2005 on, with additional pay in accordance with the longer hours.

- In Belgium, Siemens- Herentals increased working time with one additional hour, from 37 hours to the mandatory 38 hour week. Additional compensation was limited to 1%. However, at the same time, a system of registration of working hours was introduced, allowing correct measurement and payment of overtime.

- In the Netherlands, Smead (office furniture company) increased working time to 40 hours without additional pay. Workers at the company had been asked individually to sign a request to work longer hours and all but one worker did so. Trade unions intervened however, arguing that workers had been pressured and that the practice was in contradiction with the sectoral agreement. Meanwhile, the Labour court has ruled in favour of the trade unions and the sectoral agreement. Other companies have picked up the idea as well (Philips, ABN-AMRO) but no agreements have been concluded thus far. Other trend setting companies (DSM, KPN, Unliver, and Corus) are not inclined to open discussions with trade unions on this.

- In Austria, the metal sector was also confronted with demands from employers to work longer as well as cheaper. The final agreement, reached early November, only mentions 'simplifying' (not 'eliminating') rules for overtime compensation in a time corridor between 32 and 45 hours. Also, workers in a 4 day working week are now allowed to do 2 extra paid overtime hours.

Most likely because employers' attempts to increase the working week do not really get off the ground, some governments try to lend a helping hand. In France for example, government has staged another attack on the 35 hour week it inherited from the previous administration. French government now wants to reduce compensation for overtime, increase the legal limit on annual overtime from 180 to 220 hours and to link overtime with 'time savings accounts over the life cycle'. In the Netherlands, government has put the 40 hour week on the agenda of collective negotiations for the civil servants' sector.

Myth number.2: Re–introducing the 40 hour week is a 'free lunch' for employers

In arguing that workers in other countries are putting in longer hours without pay, employers conveniently tend to forget that in those (limited) agreements where this is actually the case, the employer side also had to make important concessions. 'Concessional' bargaining is clearly no 'free lunch' for employers.

One important employer's concession that is written down in almost all concerned agreements is to guarantee job security for workers. In some cases, this guarantee even extends for the next seven years! Moreover, this 'job guarantee' is also backed up by concrete engagements to invest in the future of the enterprise:

- Siemens has committed itself to guarantee production and the current employment level at the two concerned sites for at least two years and to invest 30 million euro in new products (third generation mobile phones).

- At Daimler- Chrysler, all 160,000 workers have been given the guarantee that enterprise linked redundancies will be excluded until 2021 and that the two German production sites will remain. Here also, there is a commitment to invest in new products.

- At Volkswagen, 103,000 workers have received a similar job guarantee. In addition, for each of the 6 VW factories detailed product and investment decisions have been taken and the enterprise councils have received the authority to follow this closely up.

- Venissieux: An investment plan allows keeping 190 jobs. The remaining 110 threatened workers will be offered a new job.

In addition, many of these agreements proscribe further rules and obligations for firms:

- Management salaries are also cut. Daimler–Chrysler for example will cut management pay by 10%.

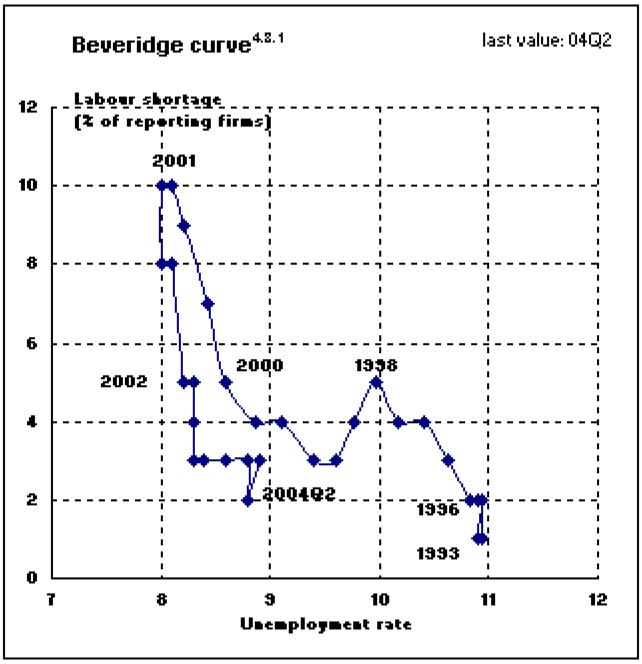
- Agreements include additional training for workers (Daimler-Chrysler: two training days a year; VW: 185 additional training places)

- Siemens signed a separate agreement, acknowledging the validity of the sectoral collective agreement as the basis for regulating working conditions for its entire industrial group.

- The remaining work force at Karstadt see their jobs secured. Shop closures (with exception of 20 smaller shops) are excluded until 2007.

Myth number 3: Europe needs to work longer hours to raise growth and address the shortage of skilled workers

A shortage of skilled workers would indeed be an important drag on European growth. However, one also need to look at the facts. At present, the share of firms that is reporting a lack of skilled labour is limited to 2% in the euro area. The problem now is not a shortage of skilled labour; the problem is that there are simply too few jobs available. Lengthening working hours will only result in even fewer jobs being available.

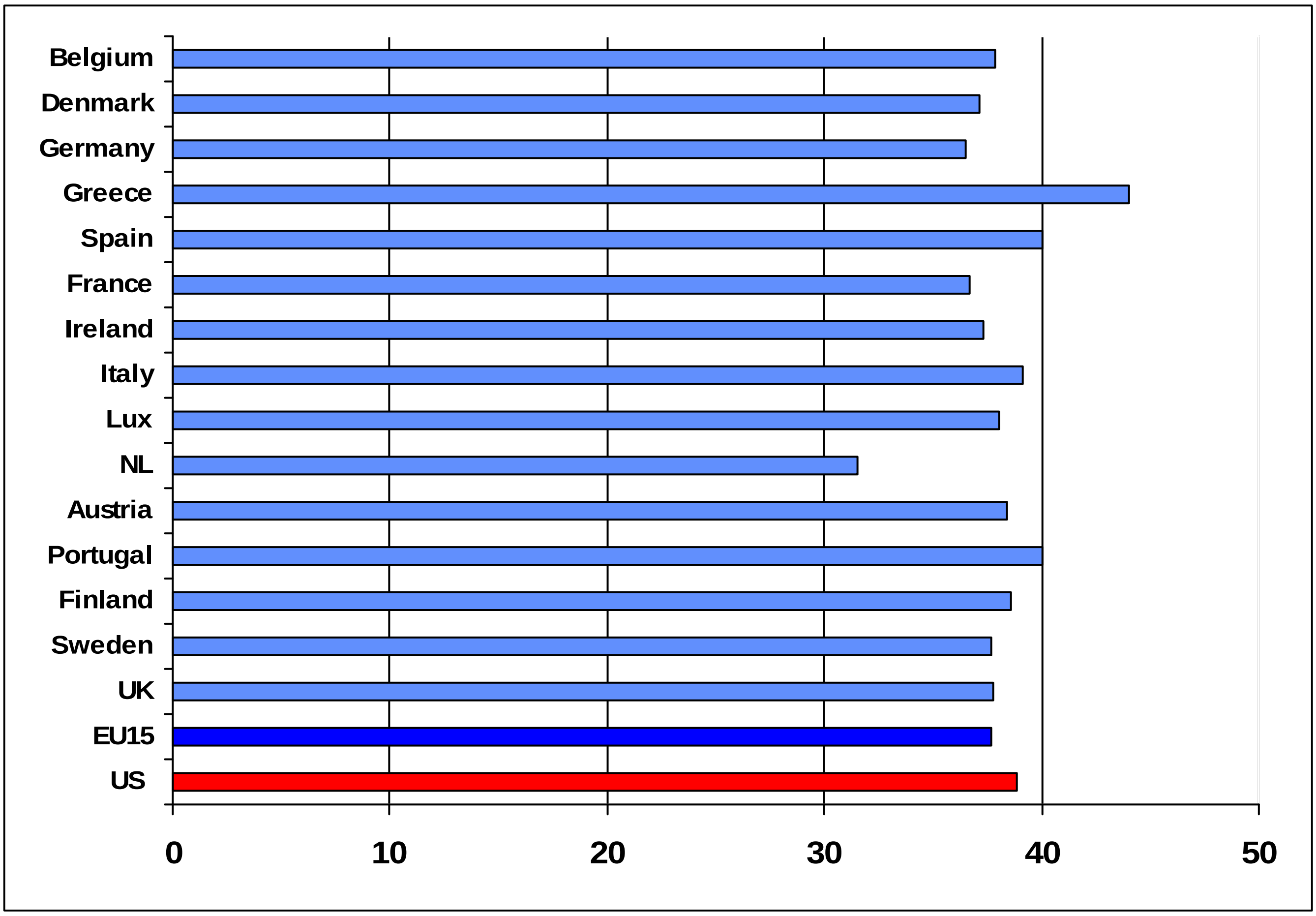


Source: Commission, DG II

Notice that the situation in 2004 contrasts somewhat with that in 2000. In 2000, a year in which the economy was booming and growth was over 3%, about 12% of firms in the euro area were complaining of a shortage of skilled workers. But even that percentage was not that alarmingly high compared to the US, where around that same time not less than 80% (!) of firms were complaining about a lack of labour. In fact, the 12% shortage of skilled labour in Europe was providing incentives for firms and workers to invest in training. Indeed, over these years investments in lifelong learning went up significantly. If growth ever would resume in Europe, creating again millions of jobs, a bottleneck in available labour can be avoided by:

- increasing investment in training and active labour market policies
- using the flexibility in working time that already exists: (paid) overtime is possible in Europe and is already providing flexibility. In times of economic slack, overtime will probably fall. Whereas in times of accelerating production, increasing overtime will provide a first cushion for firms to respond with, proving time to train in newly hired workers.

The following graph provides another stunning picture. Whereas it is frequently argued that the US has a higher income per capita because workers are willing to put in longer hours, there does not seem to be a radical difference between the US and the EU when looking at average hours worked per week. The average (full time plus part time) worker puts in 39 hours a week in the US. In the EU, the average is slightly lower, around 38 hours. The graph also shows that, with the exceptions of Greece and the Netherlands, differences in weekly working time in Europe are not very significant.



Chapter II:

The impact of longer working hours on employment in Europe

What may work for an individual firm does not necessarily lead to good results for the whole of the economy. And what might work for one country does not mean that it will work for the entire European economy. This basic insight is often overlooked in the discussion on the effects of longer working hours.

For an individual firm, cutting the wage bill by lengthening (unpaid) working hours, may result in lower prices, hence higher demand for the firm's products. In turn, higher demand for the individual firm will maintain or even increase employment despite the higher amount of hours worked per employee. However, an important part of this causal chain hinges on the fact that competing firms/economies will not play the same game. Therefore, part of consumer demand that was previously directed to competing firms now shifts to the firm initializing longer working hours. However, if other firms/economies respond by copying the same behaviour, then the total employment outcome will be a disaster. The relative competitive position between firms/economies will not change since all of them are lengthening working hours. Therefore, the incidence of higher demand for products will be severely limited in comparison with the individual enterprise case. In turn, the combination of a limited increase in demand and a substantial increase in hours worked per employer will automatically lead to mass employment retrenching. This will have further 'knock on' effects on household incomes, confidence and aggregate demand, making the economic situation even worse.

This chapter presents some sobering simulations from unsuspected sources which have been carried out in the Netherlands and Germany over the past few months. Surprisingly, these simulations did not have much resonance in the discussion at the European level. The reason is probably that these exercises clearly undermine the case for longer working hours in Europe.

The Dutch 'Centraal Planbureau' on macro effects of longer working hours

Already in April 2004, the Dutch planning agency, at a request from the Dutch employer organisation, estimated the medium and long run effects of lengthening annual working hours by 6%. Initially, the hourly wage is held constant so that longer hours also increase annual pay. However, increased production capacity is initially not being matched by higher demand. The result is that jobs are being lost and unemployment starts to increase. This, in turn, triggers wage moderation so that, after 4 years, employees work 6% longer hours while the nominal hourly wage has fallen by 7.5 % and real hourly wages by 6.6% (see table).

Effects of 6% longer working hours in the Netherlands

	After 4 years	Long term outcome
Nominal hourly wage	-7.5	-11.4
Consumer prices	-0.85	-5
Real hourly wage	-6.7	-6.4
Total hours worked in	3.8	5

economy		
Total employment	-162.000	-78.000
Unemployment rate	+1.3	+0.3
Government balance	0	+1.4
Exports	3	8..4

From these figures, it appears that there are two channels through which longer working hours impact on employment. The direct channel is a negative one: longer working hours implies that the same volume of work is now being done by fewer people, leading to job destruction and higher unemployment. The indirect channel through which positive employment effects appear is driven by wage moderation and competitive disinflation. In the long run, nominal hourly wages even drop by more than 10%.

Notwithstanding this spectacular wage moderation effort, the positive effects on employment resulting from wage moderation are not sufficient to compensate for the negative direct effects of working longer hours on the number of persons employed. After 4 years the number of employed people has fallen by 160,000. And even in long run 'equilibrium' 78,000 remain lost. The only actors to benefit from this are employers (who see their profit share in added value increase somewhat) and, more importantly, government: The public balance improves in the long run by 1.4% of GDP because progressive taxation captures higher annual wages from those workers that remain employed and work 6% longer hours.

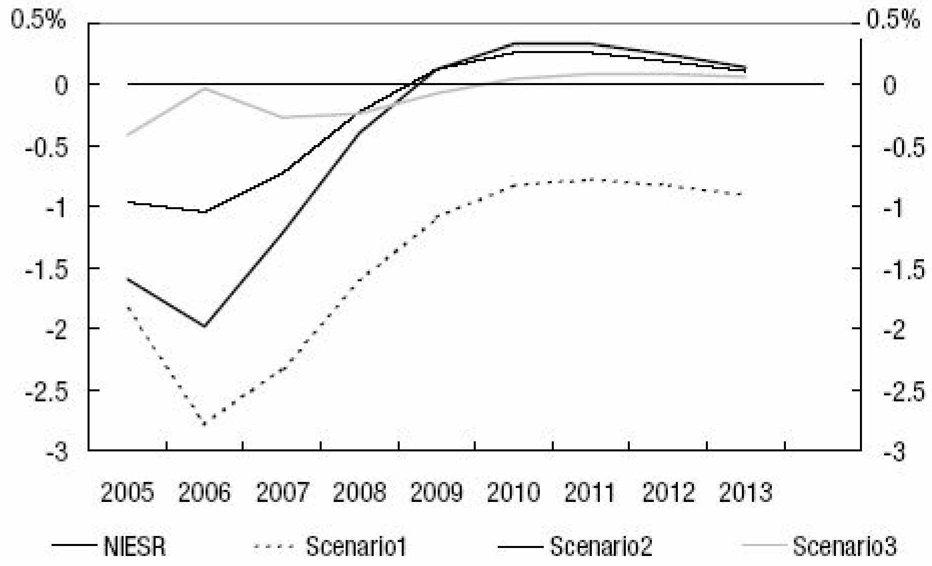
In a nutshell, moderating wages by 10% 'delivers' between 80.000 and 160.000 job cuts. That is not a policy that is credible and convincing! Moreover, note that exports are 'saving the day'. Exports are 3% to 8% higher than would have been the case without wage moderation. In other words, competitive wage cost dumping allows limiting the downfall in employment somewhat. But if several European countries would go down the same road of wage cost dumping, this competitiveness effect will not lend a helping hand and even more jobs will be lost….

Citigroup's study: 'Germany: Does working time matter?'

Citigroup's simulations went for the 'real thing': Raising the working week from 37.8 to 40.4 hours (7% longer working hours) with no extra pay. In this scenario, it is implicitly assumed that policy makers behave as if they were running the economy as a former communist planned economy in which prices (hourly wage) can be manipulated. In this scenario, the wage cut is immediate and unemployment does not need to rise first in order to trigger gradual wage moderation (as was the case in the Dutch simulation exercise). The outcome is however similar and as devastating as the Dutch results. In return for a fall in real hourly wages by 7% or 8%, employment falls by 2% in the first three years and then starts to recover slowly so that 7 years later, in 2010, employment is 0.2% higher than in the base scenario. Again, export demand plays a central role in achieving this employment outcome. Exports are 4% higher than otherwise would have been the case so that also this particular exercise hinges on the assumption that other economies will not implement the same 'beggar-thy-neighbour' policies.

Finally, the Citigroup study implicitly admits that deflation will be very much around the corner. Whereas the basic scenario delivers a medium term inflation rate of 1.2% in Germany, the 'working longer hours' scenario is estimated to depress inflation by 1% in 2006 and 1.5% in 2007. Putting these figures together, inflation would indeed turn in zero inflation in 2006 and deflation in 2006….

Figure 10. Germany — Impact of A 7% Working Time Increase on Employment Compared to Base in Pct., 2005 – 2013



Source: Citigroup Simulation using the NIGEM model.

UK experience: Long working hours as a source of competitive advantage?

It is generally known that the UK has a tradition of long working hours. An average worker in the UK works some 42 hours a week, whereas segments of the working population put in a lot more hours a week than this average figure. Some claim that this is the source of the UK's presumed competitive advantage.

However, research quoted by the TUC (TUC: Building a modern labour market. Interim report October 2004) sheds a different light on this claim. Excessive hours are linked to:

- a higher risk of having a road or industrial accident as well as higher risks to over–exposure to dangerous chemicals and to illnesses such as heart diseases, stress, diabetes and depression. People working over 60 hours have an accident rate of 4.9 per 100 workers, substantially higher than the average.

- A higher incidence of work-related illness. The rate is twice as high for people working over 40 hours compared with those working no more than 30 hours.

- Restricted progress for women in the labour market and an undermined family life.

- Low (hourly) productivity and failure to innovate.

With a working force being more vulnerable to accidents, work related illnesses and sentiments of discrimination and low quality family life, the kind of competitiveness that a culture of long working hours brings is short-lived. A competitive working force is a healthy work force, not a work force that is burned out by too long working hours.

Chapter III:

How to address ‘Business on the move’? Good case examples from collective bargaining in Europe

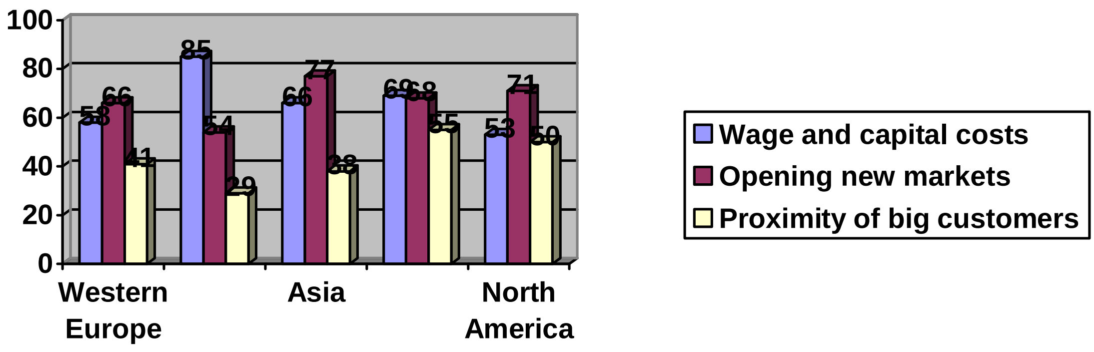
After three to four years of meagre economic growth, workers in many European Member States are feeling insecure to an increasing extent. By threatening workers to move the production site to a low wage economy, this general feeling of insecurity is being abused by some employers to press workers to accept longer working hours and even substantial wage cuts. The argument is pretty straightforward: Wages in other parts of the world are sometimes 80% lower than wages in Western Europe, so the only way to keep jobs here, it is being argued, is to cut wage levels drastically.

Picking the wrong fight may well lead to even more ‘delocalisations’

Unfortunately, this approach by employers of ‘harassing workers’ is like picking the ‘wrong fight’. Europe will never be able to compete with economies where hourly wage costs are only a fraction of the average European wage. Even if we would go as far as cutting wage costs by 10%, this will only marginally reduce the existing wage gap. Moreover, there is a risk that such a strategy would start up a vicious circle. It should be remembered that Europe is still a relatively ‘closed’ economy and that domestic demand is representing around 80% of GDP. So, by cutting wages domestic purchasing power and hence total demand will be undermined seriously. And with insufficient prospects for dynamic aggregate demand developments in (Western) Europe, firms will use the profit margins they accumulate to invest elsewhere in the world where there are indeed prospects of expanding consumer markets. So, cutting wages, by undermining domestic demand on an European scale, firms will indeed invest ‘offshore’ instead of investing in Europe itself.

Indeed, many inquiries about the factors that drive foreign direct investment point to the fact that ‘closeness to consumers and opening new markets’ are more important motives than low wage costs. Following graph illustrates this for German foreign direct investment decisions (Source: DGB Wipo Schnelldienst nr 3/2004 and Fraunhoher Instituts für Systemtechnik und Innovationsforschung 2002).

Motives for foreign direct investment from German firms



Germany also provides an illustration of what may happen when the 'wrong fight' has been picked. Despite popular belief to the contrary, Germany has a very flexible wage formation system and by entering EMU, the degree of flexibility even seems to have increased. Germany, for example, does not have a statutory minimum wage and legal extension of collective bargaining agreements is almost non-existent. The consequence of weak(er) institutional protection for workers' interests is rapid and intense wage moderation when the German economy is not doing well. Whereas in the past German wage increases started to slow down substantially when reacting to an economic crisis, now nominal wages simply don't budge anymore. In 2004 for example, collective bargained wages increased by 1.6% in Germany but effective wage increases were limited to 0.1%. The reason is that opening clauses, allowing wage in individual enterprises to deviate from sectoral agreements, have led to substantial wage cuts in a series of enterprises. With nominal wage growth down to zero (and with real wages falling) it should come as no big surprise that consumption demand in Germany is not picking up. People simply do not have the money to spend anymore. This weighs enormously on German (and European!) GDP growth so that there is a further domino effect. With anaemic internal demand, fierce price competition continues leading firms to look for further possibilities to outsource even more parts of the production process to low wage economies.

Dealing with structural change and relocalisations: A new concept for competitiveness

If cutting workers' purchasing power to keep business in Europe is not the way forward, then what is? A crucial starting point to answer this question is to realise that trade and direct foreign investment are not a one way street. International trade, be it in an European internal or in a global market place, will trigger a process of specialization in which it is inevitable that some jobs will be lost and some plants will be closed. However, the other side of the coin is that, in return, demand for products and services that lower wage economies are less equipped to produce, will increase. This will result in job creation in other parts of the economy. So, some sectors and regions will lose but other stand to gain in this process of a new international division of labour. With global or European trade, there are losers but also winners.

Even the case of trade with a country as China with its extremely low wages (which is to an important extent an artificial 'advantage', due to rude oppression of Chinese workers and trade unions), can illustrate this. Imports of Chinese goods in Europe are now as high as 13% of total imports, pointing to jobs having moved to China (or not being created over here). However, European exports to China are also substantial, reaching 12% of total European exports. This leads to a small deficit in trade with China. However, on its overall trade balance, Europe has a surplus of almost 1% of GDP. European imports from China mainly concern electronics, textiles and toys. In return, China imports telecom equipment, machinery, locomotives and steel from Europe.

Does all of this mean that all is well with free trade and that policy should adopt a 'laissez–faire, laissez passer' attitude and simply free up trade? No, far from that. As noted above, there are winners but also losers in the process of international trade. And the key assignment for European policy makers is to put as many workers as possible on the winning side as well as to compensate those that in the end do lose out.

This approach also provides the basis for a correct concept for a policy of competitiveness. It needs to be understood that competitiveness on a country level is completely different from the concept of competitiveness on a firm level. For an individual enterprise, competitiveness is about making products at low and competitive prices. From the point of view of an economy however, competitiveness is not about producing any product at the cheapest price, it is about specializing into those products and services for which the economy, given its knowledge base and its level of skilled workers, is best placed suited to do so. It is making sure that the economy finds its best place on the ladder of the international division of labour.

Practically, such a policy boils down to the following:

- ***Shaping the economy's competitive advantage and keeping the economy operating close to full potential***. If jobs will be lost in sectors and firms whose products are in direct competition with low wage economies, then policy needs to make sure that there are indeed other jobs available in remaining sectors. This implies industrial and research policies that support the economy in developing sectors and products for which Europe still has a competitive advantage. It is also implies managing the business cycle. It is clear that a process of open trade, when combined with a downturn in the economy is a recipe for disaster. With jobs being lost in the process of freeing up trade and with job creation in other parts of the economy lacking because of economic crisis and low demand, the model of free trade simply does not work. For the model of free trade there need to be full employment policies. Otherwise, the number of winners will be limited and the number of losers extraordinarily big.

- ***Workers on the move***. However, it is not sufficient to create new jobs in those sectors and firms for which Europe does have a competitive edge. A further necessary ingredient is that workers need to move from 'old' industries and sectors to the 'new' ones. And for this to happen, there needs to be massive investment in skills, re-training of workers and lifelong learning. It also means high professional and (sometimes) geographical mobility of workers. All of this can not be left to the functioning of a 'liberal' labour market. Indeed, a 'free' labour market is plagued by important 'market failures': 'Free' labour markets typically under invest in training or only provide further training to those who are already highly skilled. 'Free' labour markets also increase insecurity, thereby leading to the reduced mobility of workers, in some case even to outright refusal of structural change. It is for example by no means a coincidence that the Nordic countries are countries which are on the one hand very open to international trade and on the other hand invest enormously in active labour market policies whilst organising in addition to this a very generous system of unemployment benefits. The example of the Nordic countries shows that for 'structural change' to happen and to be an economic and social success, we need to invest in (and not deregulate) the functioning of the labour market.

- ***Helping individual firms to move upstream***. Not all ‘old’ sectors or firms have to disappear when restructuring the economy. Experience teaches that, if firms in traditional sectors can indeed succeed in upgrading the products they sell or in boosting productivity through new and innovative working practices (in contrast to cutting wages!), the threat of low wage economies’ competition can be staved off. For example, in countries such as Belgium and Denmark, the textile industry has managed to survive the onslaught of European textile companies disappearing towards the East, exactly because the industry invested in new production techniques and new products with high brand/innovative quality. Some of these firms now even manage to export to India and China, without running the danger that local competitors simply copy their products.

Having clarified what we think should be the correct concept for competitiveness, let us return to the core issue under consideration here. Instead of going the ‘dead–end’ road of surrendering to the to the blackmail from employers to cut wages and lengthen working hours, how can collective bargaining practices contribute to helping the economy find its place in a new and evolving international division of labour? The answer to this question can be found in collective bargaining practices in different European Member States. Concrete examples point to the fact that collective bargaining settlements can play a decisive role in providing real opportunities for workers to move from jobs in decline to new jobs. Collective bargaining can also contribute towards helping firms to increase productivity.

Good case collective bargaining examples, helping workers to cope with change

- ***Swedish re-adjustment agreement***: On 24 February 2004, LO–Sweden signed a collective agreement for all 900,000 blue collar workers in the private sector. The core principle of the agreement is that companies are to pay an annual premium into an ‘Employment Security Fund’, which is being managed by LO and the employers’ federations. This Employment Security Fund is to support retrenched workers in their activity of looking for a new job. The Fund can provide job counselling, assisting workers in the search for another job, re-training workers or even engaging them in a complete new area of education and help them in the start-up of a new enterprise.

  Moreover, workers in Sweden have the right, from the moment they receive notice of their planned retrenchment, to follow a stage in another enterprise. During this stage, the retrenching firm is to continue the pay the wage of the worker. In this way, retrenched workers increase their chances of finding another job, while at the same time also enjoying some ‘on the job training’ in another enterprise.

- ***Finland: improving workers’ security during restructuring***. As part of the ‘incomes policy agreement’, social partners in Finland (29 November 2004) reached a national agreement aimed at improving the situation of workers confronted with dismissals. From now on, a plan to promote re-employment of fired workers needs to be agreed upon with workers’ representatives in the firm. Any worker (including temporary workers) with at least three years of tenure will have the right to embark on an individual employment programme. Up to 20 days of the notice period may be used to enter into an employment programme that is managed by local employment authorities and that will support active job seeking and vocational skills development. After the employment contract formally ends, workers who have participated in such an employment programme will enjoy a higher rate of retraining allowance for 185 days. Employers will finance the increased training allowance facility.

- ***Belgium: Sectoral training funds***. In Belgium, sectoral agreements as well as the intersectoral national agreement oblige firms to invest in training of workers. This is organised through (sectoral) training funds, financed by a levy on the wage bill of each individual firm. Certain collective agreements also extend the provision of training to so-called 'risk groups' or even the unemployed as such. In this way, low skilled workers and unemployed have a guaranteed access to training. Also, the 'market failure' of firms tending not to invest in training is partly overcome by collective standards fixed in collective agreements: All firms in the private sector are obliged to invest in the same proportion of the wage bill in workers' training. Similar systems exist in other countries, for example in the Netherlands.

- ***The Netherlands****: working smarter*. Trend productivity growth and the innovation performance of the Dutch economy have been on a downward trend in the last couple of years. In order to address these problems, the Dutch trade unions (FNV Bondgenoten, CNV, De Unie) and an employer organization (AWVN) have made an inventory (May 2004) of show cases where collective bargaining has led to 'social innovation', mostly but not exclusively on company level.

  The starting point of this common approach is that the Netherlands will not win the battle of globalization on the basis of lower wages or working longer/harder. Emerging economies in the world are indeed much better in competing on the basis of low wages and the gap with them is simply too big to bridge. Also, there's a limit to working <u>harder or longer.</u> In contrast, there's always scope to working <u>smarter.</u> However, the market economy, when left to operate under the mechanism of short term profits, will tend to choose the first road and neglect the latter. Here is where collective bargaining/social dialogue enters the picture by providing a discussion platform where employers and workers can reflect and agree to take joint action on measures which provide a sustainable answer to the challenge of international competition.

Summary of the most striking show cases on 'working smarter':

- **Heineken** (beer producer, enterprise collective agreement): Introduced a distinction in two shifts: regular shifts and flexibility shifts. If a flexibility shift is to be worked, the employer has to give two weeks notice in advance, otherwise overtime will be charged. There is also a monthly fixed premium for working shifts. This system is used to adjust the number of hours the firm operates on a weekly basis. The regular number of weekly operating hours can hereby go up from 144 hours to 168 hours or go own to 120 hours. On an annual basis, the average working week needs to be down to 34.8

hours a week. If it is higher, overtime will still need to be paid. If it is lower, then this comes at the expense of the employer.

- **Cleaning services in the transport sector:** Logically, in this sector, trains and busses are cleaned during the night. Permanent night work however brings serious health risks with it and this is noticeable in high absence rates and high staff turnover rates. This, of course, implies additional costs for the employer. Another problem is that the labour law only allows a 28 hour working week for permanent night work, thereby reducing job offers to part time work.

  Social partners on the sectoral level also realized that the permanent night work and the limited availability of full time jobs have given this sector a bad image, making it difficult to attract and keep workers. They have addressed this problem by constructing working time schedules which connect with the margins of the night work. In addition, firms are also responding to the sectoral dialogue by giving workers multiple working stations (partly at night, partly in another cleaning sector in the daytime).

- **Philip Morris Holland**: A number of years ago, the Swedish mother concern wanted to push through a 10% cost savings reduction. Management and trade unions responded to this and provided an alternative. Instead of the proposed pure cost cutting, they introduced the 'uptime bonuses, a system whereby workers get a bonus if they succeed in increasing the number of operating hours of the machines. Since the factory (a very capital intensive one) was standing idle for one third of the week, this has allowed huge cost savings, not on wages but on capital costs.

- **Sector of concrete products.** Here, the employer's federation has taken the lead in mobilising awareness by its members concerning the high costs of sickness related absence of workers. As a consequence, some enterprises of this sector have introduced follow up procedures, leading for example to offering alternative job posts for workers who would otherwise be on long term sickness leave. Also, a large proportion of absenteeism appears to be work related. This is now better documented and can be addressed by ergonomic measures.

- **SCA–Tilburg** (hygienic products). The majority of workers in this enterprise is older than 40/50 years and low skilled. This enterprise therefore faces the prospect that in 10 years time, a major part of staff will leave the firm, thereby also taking professional experience with them. In order to address this problem, the firm and the trade union have negotiated a collective agreement, providing older workers with extra holidays (a kind of part time pension arrangement: workers over 55 for example can work half time at 80% of their salary). These workers are then employed in a 'duo job' (one week, two working days, the other week three working days). At the same time, new (younger) staff is hired, and these workers can then learn the practicalities of the production process from older workers.

In this system, everybody gains. Older workers are able to keep up with this reduced working rhythm and remain highly productive in their part time job, younger workers learn and the firm can benefit from the experience of older workers and the new knowledge of the younger workers. FNV bondgenoten is considering extending this agreement to the sectoral level.

- **Organon** (medicine production): This sector is also sensitive to the market driven need of delivering products to consumer in a faster, more flexible, more reliable way. In reaction to this, the firm has reorganised its packaging and goods flows department by introducing work teams that can organise the work load themselves. Staff of these teams have to be all-rounders: they need to be able to operate a fork lift, have a warehouse and a pharmaceuticals degree. The system also operates with targets and bonuses, formulated at team level.

Germany: IG–Metall sectoral agreement on working hours and innovation

The February 2004 sectoral agreement signed by IG Metall itself highlights how collective bargaining can contribute to the agenda of innovation. Instead of lengthening working hours across the board, the agreement provides a ‘flexible’ approach by targeting in particular firms that are mainly involved in ‘innovative’ activities. In firms where the share of highly skilled workers (defined on the basis of high level wage scales) exceeds 50% of the workforce, up to 50% of the workforce can switch to a 40 hour week (with payment of normal rates of hourly wages!). Firms intensely engaging in research and development, but with less than 50% of workers being paid high wages, could also prolong the working week to 40 hours, but only after agreement with IG–Metall. This kind of ‘flexible’ approach is able to solve in the short run the lack of skilled workers and the upwards wage push that usually follows this kind of labour market bottleneck. In order to avoid firms abusing this system and abstaining from investing in education and training of workers, a time framework of six months was specified.

Conclusion

Cutting wage costs and lengthening working hours to address competition with low wage economies is a strategy Europe as a high wage area cannot possibly win. Moreover, if generalised on an European or country basis, lengthening the working week will cost us many jobs and will push up unemployment significantly in the short run while it will continue to impact negatively on unemployment even in the long run.

Instead, the way forward for Europe is to engage in innovation, to increase productivity and to re-specialize in markets and branches where Europe does have a competitive advantage. Trade unions and collective bargaining can help enormously in helping firms and workers to address this process of structural change. Engaging workers in the process of establishing ‘high performance working places’ as well as equipping workers with new skills and helping them to find new jobs are more promising avenues than sacrificing established worker’s rights to hold on to jobs that will remain under threat anyway.

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