Globalization and Job Loss: Policy Perspectives

The plight of unemployed factory workers has recently taken center stage in the United States. Robert McKersie and Werner Sengenberger turned (again) to the subject of readjustment programs for workers who have lost their jobs, preparing an op-ed piece in support of such programs. On reading this piece, Michael Piore raised some policy questions about the consequences of economic change. The dialogue between these two perspectives is presented here, and if others are interested in joining the discussion, we would like to hear from all comers.

================

Giving Workers a Stake in Economic Change

(Op-Ed piece by W. Sengenberger and R. McKersie)

President Donald Trump successfully campaigned on the goal of "Make America Great Again," vociferously promising to restore jobs to America. While he had some early and well-publicized success with Carrier Corporation and Ford Motor Company, combined with his recent warnings to corporate CEOs, a realistic assessment suggests that it will be difficult for him to make good on his promises. Rather, we believe the focus should be on the millions of American workers who are coping with the dual forces of globalization and technological change. This is where workers require assistance, and this need will only increase. President Trump has drawn attention to this national problem, but he would be wise to look at a portfolio of change possibilities that could help those families, extending well beyond the frail (some would say unlikely) hope of bringing back well-paid manufacturing jobs. Remedies are at hand, if governments and companies commit to meet the challenge with resources and innovative programs.

A number of European countries have done much more, in socially acceptable ways, to help their citizens cope with worker dislocation than has US. Denmark spends nearly two percent of its GDP on active labor market policy measures, including training and retraining, that help unemployed workers return to the workforce. This is about 17 times more than any similar US programs.

Trade adjustment assistance currently in place in the US has been inadequate. The first requirement is to bring key stakeholders together and build agreement on a portfolio of comprehensive programs for dealing with worker displacement. In parts of Europe, trade unions and works councils have played an active role in helping workers search for reemployment beyond the mainstream provisions for the unemployed. The names for the so-called "job transition" schemes are different: *Reconversion Units* in Belgium, *Transfer Companies* in Germany, *Mobility Centers* in the Netherlands, *Labor Foundations* in Austria and *Job Security Councils* in Sweden.

But the objectives and instruments of the schemes are similar: targeted investments for regional development, labor market information systems, worker counseling, skills profiling, occupational reorientation, training, and placement. The costs of the services provided to the participants in the programs are divided in variable proportions between the employer, the national public employment services and the European Social Fund.

President Trump should take an interest in an example from the Netherlands involving the closure of coal mines. The South Limburg region recovered quickly in the 1970s and 1980s, becoming an excellent example of successful adjustment. In coordinated efforts among the national government, the provincial government, municipalities, employers, workers' organizations, and financial and educational institutions, a reorganization plan was hammered out based on the demolition of old industrial sites, the improvement of the physical and educational infrastructure (including the expansion of the Maastricht airport), and the relocation of government departments from The Hague. As a result, the area became more attractive to private firms. Today, South Limburg is a comparatively prosperous region. Its economic activities, previously highly dependent on mining, are more diversified and resilient when facing downturns.

The US has witnessed examples of employers and their unions together committing substantial resources and talent to handling the impact of job loss. In the 1950s and 1960s, the Armour Automation Committee provided a range of services to meatpacking workers who were being displaced as the industry closed its urban plant and shifted production closer to the sources of supply.

The tax code in the US needs to be revised to encourage or require firms to set aside funds to help their workers adjust if and when their jobs move offshore. Companies like Carrier could think of their workforce as an asset, in the same way it views its physical assets. It could take depreciation for this human capital, establish individual accounts for updating skills, and provide redeployment services for workers when their jobs are eliminated.

It is imperative that we move to cushion the impact of dislocation, relocation, off-shoring, and other actions that mean adverse consequences to vulnerable sections of the labor force, especially unskilled and semi-skilled workers, their families, and communities in older manufacturing regions of the country.

================

Response by Michael Piore

I am very skeptical of adjustment assistance as a way of addressing the problem posed by trade, immigration and technological change. In the American context, such policies have not worked and they have been largely used to divert attention from other policies which address the underlying problem. In my own view, adjustment programs after the fact in the United States have not worked, not because we have failed to devote adequate resources to them (although it is certainly true that the resources devoted to adjustment are extremely limited) but because there are institutional obstacles to success, obstacles which the policy proposals do not, and probably cannot, address. Instead we need to find ways of managing the economy and its impact on the distribution of income and employment opportunities directly rather than after the fact through programs of adjustment and redistribution. The underlying problem is imbalance in the distribution of social costs and benefits. The key employment decision makers reap the benefits from trade, immigration and technological change but the costs are born by individuals and communities outside the institutional orbit of those decision makers and in the U.S. at least geographically distinct as well, and hence the substantial costs which these people bear are not taken account in those decisions at all. The result is a pace of change which goes too far, too fast, and frequently in the wrong direction. Finally, we have developed a belief in the inevitability of globalization and technological change which diverts attention from alternative paths to growth and development, both in the individual enterprise and in the economy as a whole. And even when recognized, these alternative paths are not explored because there is no incentive to do so.

The institutional problems faced by the adjustment training programs begin with the fact the schools which train and educate the workers and the businesses that create the displaced workers and have to hire them if they are to be reintegrated into the productive labor force have fundamentally different missions and face different institutional constraints and different incentives. The schools face a hard budget constraint, but they must also bear the fixed costs of an imbedded teaching staff, a developed curriculum, and physical plant and, for vocational training, tools and equipment as well. Business on the other hand, operate in a market which forces them (but also enables them) to adjust skill requirements and equipment whenever the returns are greater than the cost Thus the educational system tends to systematically operate with programs that lag behind the needs of business.

But in addition schools operate with excess capacity in the form of classrooms and equipment that are idle at night and during school vacations and a teaching staff that is always looking to supplement their income with “second jobs” during vacation and at night as well, if they can find them. The result is that the school system is always able to underbid virtually any other institution in the society for special training and retraining programs.

This inherent mismatch between the business and the training programs is only overcome when the employers get directly involved in the training school training and have some incentive to make them work. One such incentive for employer involvement is a very (actually a very, very, very) tight labor market (which is almost never present in regions and/or industries that are heavily hit by trade or technological change). In earlier moments in history such incentives have been created by institutionalized restrictions on lay-offs and discharges leading employers to feel they have to re-train and re-utilize displaced workers in their own establishments. These have often also been coupled with very high levels of severance pay (or experience-rated unemployment insurance). In the decades immediately following world war, union seniority rules imposed restrictions that made layoff and discharge costly and adjustments in the wage structure virtually impossible. The threat of union organization imposed these restrictions even on non-union firms. But in the last several decades, a commitment to a market fundamentalism has led to the weakening and elimination of these restrictions. In a sense, the weakness of employers' incentives to intervene in the educational system and become involved in training is simply an extension of the fact that employers don't bear the social costs of their decisions. And unless we address this basic problem, no amount of resources developed to adjustment assistance is going to solve, or even ameliorate, the problem.

Response by Werner Sengenberger

In my reaction to Piore's comments I shall focus on our proposals where he voices reservations or dissent. Part of my responses will be informed by taking a European perspective and citing European experience, hoping that this will incite some further transatlantic dialogue.

To deal with job displacement and the joblessness resulting from it, Piore suggests that *"we have to find ways of managing the economy and its impact on the distribution of income and employment directly rather than after the fact through programs of adjustment and redistribution."* To be sure, adjustment policies alone will not resolve the problems of worker redundancy. The policies need to be applied in concert with other policies, including macro-economic policies, to prevent unemployment and to diminish the requirements for adjustment. With our article, we did not mean to exclude them or view them as irrelevant.

However, macro-economic policies are not as easy and have proved not to be as effective in today's age of globalization as they were in times of predominantly national markets. In the EU, monetary policies (e.g., the Draghi efforts) have largely failed to generate enough employment in the aggregate, and certainly not for youth, in the majority of the member countries. Expansionary fiscal policies could be more effective (notably through public investments in the physical and social infrastructure), but have not been politically feasible. Fiscal austerity was imposed that affected the Mediterranean countries very negatively.

Even with better "direct" policies of employment generation, I doubt whether in a dynamic economy we will ever be able to prevent redundancy altogether and thus forestall the need to deploy "after the fact" measures of adjustment. Unless we entirely stop foreign trade and technological change, we will not eliminate the requirement for the work force to adjust to structural changes that afflict economic sectors and regions. To give two examples: First, environmental policies aligned with the Paris Agreement on Climate Change require the fairly rapid phasing out of the carbon industry, with major implications for industrial reconversion and adjustments in the workforce in mining regions (our reference to the region of South Limburg illustrates how this can be done in effective and socially responsible ways). Second, if we want to reduce the inequalities of development between developed and developing countries, we need to cease the heavy protectionism (e.g., through subsidies) of the North and come up with fairer trade agreements. Again, this will necessitate major structural and labor-force adjustments, both in the North and the South.

We can easily agree with Piore that trade adjustment assistance (TAA) as practiced in the US has not worked well. In fact, this was one of the reasons for our intervention. But we believe the assistance could be made to work better, provided that an appropriate institutional framework is put in place. In our article, we referred to examples of adjustment in Europe that have been reasonably successful. We have not gone into great detail as to why and under what institutional conditions these examples worked, but this could be done. In the examples we listed, ample public support and trade union and works council consent and cooperation played a significant role. They have reduced the imbalance in the distribution of costs and benefits between workers and employers. It is this imbalance which Piore views as the basic obstacle to workable adjustment programs in the US.

According to the pertinent research results, the reasons for the ineffectiveness of trade adjustment assistance in the US include a lack of funding, a low rate of recipients for Trade Adjustment Allowances (TRA), and insufficient income replacement in case of wage loss. A more basic reason might be an insufficient appreciation of labor as a productive resource, or an "asset," as we say in our article. There may have been both public and private *under-investment* into the productive capacity and an *under-estimation of the innovative potential* of the labor force.

Such under-investment shows up clearly when it comes to training and retraining of workers. Piore refers to the split between general education and the formation of occupational and work place skills in the United States. According to him, employers are committed to work force training exclusively under two preconditions both of which would be absent in the United States. The first one is *"very tight labor markets."* In areas hit by trade and technological change, typically there is surplus labor, hence there is no or little incentive for employers to embark on and invest in adjustment measures. This may be true in the US, but it does not hold for EU countries where adjustment assistance was designed and implemented in crisis-ridden situations as well as in the presence of regional unemployment and under-employment. In some European countries we have seen employers prepared to provide "counter-cyclical" worker training in situations of labor market slack. Their willingness was not an act of benevolence but of self-interest. The firms received sizable financial assistance from national and EU funds, and advisory assistance from the public labor market administrations.

Piore's second prerequisite for making adjustment work is to *restrict layoffs and dismissals*. That would mean that the option of "hire and fire at will" is not available, or restricted, or workforce reduction is costly for the employer. In Europe, there is evidence of the salutary effect of various means of worker protection from dismissal. If an employer is confronted with (a) legal or contractual obligations (under collective bargaining agreements) to give early notice of layoff or dismissal, and (b) has to inform and negotiate with the workers' representatives (resulting in so-called "social plans"); and (c) if the employer must notify public authorities (e.g. the labor market administration) in order for it to prepare measures for re-employment, especially in case of mass dismissal, provide severance payments, and provide the reinstatement of the worker in case of so-called socially unjustified dismissal (each of these provisions is specified in ILO Convention no 158 on "Termination of Employment"); then (d) the employer faces costs for making workers redundant, whether it be direct financial outlays or delays in getting rid of workers. This effect can be "thought provoking" and lead to "creative" solutions. It may encourage considering alternative measures to layoff and discharge. It may entice the employer to redeploy redundant workers *in situ* through technological and product innovations and diversifications, upgrading product quality, reorganization of work, new working time arrangements, widening the skill content of jobs and training workers to meet skill requirements.

Where such so-called "functional flexibility" occurred in Europe, it boosted economic performance and caused employer opposition to restrictions on dismissals to vanish. Statutory or contractual worker protection against dismissal has worked well in some parts of Europe, but not in others. It worked best in countries with public financial and institutional support for worker adjustment, cooperative industrial relations, and a tripartite approach to economic and social policy. Protection from dismissal has not had the desired effect where it was exclusively focused on severance pay, or where such payments were very high (as in the Balkan countries), where unions were weak or absent, and the government was are under pressure (e.g. from the International Monetary Fund) to scale down worker protection regulation, and finally, where the restriction was not accompanied by policies and measures of promotion, e.g. of retraining, that created incentives for seeking innovative enterprise internal solutions to redundancy.

Piore objects to adjustment policies because they represent an "after the fact" approach to job loss. This may be the case, at least at first glance and it is true for some measures, but not necessarily for all of them. Workforce training and retraining undertaken in response to worker redundancy at one point in time may help to avoid new downward adjustments in future instances of worker surplus, whether for cyclical or structural reasons. It may serve as a prophylactic device to deal with future excess labor. For example, during the financial crisis that began in 2008, Germany's GDP declined more than most other EU countries, but the loss of jobs and the rise of unemployment were marginal. Employers in the manufacturing industry did not lay off workers as had occurred in previous economic downturns. Instead, adjustment was accomplished largely through short-time work and idled workers were used for repair and maintenance work as well as re-training and further training. It helped the businesses to retain their experienced workers, to recover more quickly after the crisis, and to stabilize aggregate demand because consumption power was maintained thanks to partial compensation of pay for hours lost. (see: International Institute for Labour Studies : *Germany: A Job-Centered Approach, Studies on Growth with Equity*, ILO, Geneva, 2011, pp. 2-3 and Chapter 8).

Obviously, preventing redundancy is better than trying to cure it. European companies have followed up on this idea by increasingly using better human resource planning and forecasting, and linking it to public labor market policy and the Public Employment Service. It has not prevented job loss, but it has helped make the problem of redundancy less severe as adjustment is spread out over time, more evenly distributed, and handled in more socially acceptable ways (for example, times of excess labor could be used for family holidays, recreation, medical procedures, etc.). For a company to know what measures are available in case there is surplus labor, and what can best be handled through internal and external adjustment, may help the company to mitigate the problem. The same effect can be reached by coordinating human resource planning with production and investment planning. These tools are most prevalent in European countries that have legal provisions and practices for worker co-determination.

Outlook

In his paper on "Technology, Production and Labor," Mike Piore refers to capital controls and the macro- and micro-economic regulation of the labor market and employment in the US in the early decades following WW II. He states that in view of globalization, the policies of that period cannot be reproduced, but the "spirit" of institutional reform in the earlier period is still relevant and can be revived. I like to take up this notion and raise some issues for further debate, also in light of developments in the US that led to the election of President Trump and his plans to close borders for migrants and restrict imports through higher tariffs.

In an international comparison, one may ask whether there is a kind of trade off between the protection of workers in the labor market and their protection in the product market. More specifically, are countries with limited worker protection through social policy arrangements more likely to introduce protectionist trade policies? And vice versa, will adequate worker protection standards make open markets more feasible and acceptable?

As Mike indicates, worker protection policies were prevalent in the US in decades following WW II. The fracture, or the turning point, with regard to economic and social policies, including the dismantling of worker protection schemes, appears to have taken place after the 1960s with the reversal of the previous Bretton Woods regime, the advent of the "hyper neo-liberalism" (D. Rodrick), the Washington Consensus of the international financial institutions, and the spread of financial capitalism. I ask: how much of this paradigmatic shift is related to the growth and spread of transnational corporations, their increased economic and social power (they and their business partners now control 80 percent of international trade), massive FDI, the resulting off-shoring of production and jobs, and the increasing formation of global supply chains? These factors weakened trade unions and their bargaining power to such an extent that worker organizations have not been similarly able to "go international" as capital has done.

Europe experienced some of the same trends but to lesser extremes. Some countries in (continental) Europe (primarily Austria, Belgium, Denmark, Finland, Germany, Netherlands, northern Italy, Norway, Sweden, and Switzerland) adapted reasonably well to globalization. These are the countries that have fairly comprehensive labor standards, including *participation* of workers (through trade unions and works councils), worker *protection* in case of redundancy and social security, and worker *promotion* by way of relatively high public expenditure on active labor market policies. These countries are the most open relative to trade and foreign investment and, with few exceptions, show positive balances of trade and current account. At the same time, they have less-than-average rates of unemployment and underemployment. True, income inequality and poverty have risen in those countries as well, but its magnitude is still much less than in other European countries or in the United States or most other parts of the world.

I do not want to idealize the practices in Europe. It is disconcerting that even the economically and socially better performing countries in Europe are not immune from a backlash against free trade and are not spared from the emergence of right-wing populist, nationalist exclusive or even extremist tendencies (also visible in part of the working class), and one should be concerned about economic disparities, lack of cohesion and signs of political instability. Hence, one may ask whether my narrative of Europe's ability to master the perils that globalization poses to employment, equality, and equity is fully conclusive. Perhaps, the basic issue is this: Are the worrisome symptoms of worker discontent surfacing on both sides of the Atlantic the result of an incomplete and partly erroneous implementation of the incumbent social models (this is what I have believed so far)? Or do those symptoms reflect deeply-rooted shortcomings of the global development model, which call for a fundamental paradigmatic policy shift to alter the speed and nature of change (what Mike suggests)? No matter whether it is one or the other, we are in need of rethinking.