

January 1990

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### Recommended Citation

Charles M. Ludolph, *EC 1992: Human Resources in a Unified Market Implications for U.S.-Canada Competitiveness*, 16 Can.-U.S. L.J. 83 (1990)

Available at: <https://scholarlycommons.law.case.edu/cuslj/vol16/iss/11>

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## EC 1992: Human Resources in a Unified Market Implications for U.S.-Canada Competitiveness

*Charles M. Ludolph\**

### I. INTRODUCTION

I am glad to be here today to share my views on the progress of the integration of the two largest trading areas in the world, the United States and Canada. I am also very pleased to have the opportunity to discuss the role of human resources between these two regions.

While social policy in the European Community ("EC") has had a late start, the EC recently set out a very tough and controversial task for itself in developing a social dimension to EC 1992. This year will be very important for labor policies in Europe. How this program develops will be the center of debate over several controversial issues, such as EC future competitiveness vs. social responsiveness; protectionism vs. free market; and state's rights vs. federalism. This conference is a great forum in which to put these issues on the table.

The factors that resulted in Europe developing its unified market are: the proposals for a unified market; the unified market's effect on human resources; and finally, the ways in which this can affect U.S. and Canadian competitiveness.

By now, all North America knows the rough outline of the eight year program that will create a single market in the EC by 1992. The EC intends to create a legal framework that will guarantee the four freedoms of the EC market: freedom of movement of goods, services, capital and labor. The EC 1992 program was designed in 1985 and is primarily concerned with EC producers and consumers. The idea is to make European producers more competitive in EC markets and in global markets. This can be accomplished by raising the quality of EC merchandise to world competitive levels and legislating systems of standards and quality control. This can also be done by achieving reductions in cost through economies of scale in marketing, production, research and development and promoting innovation, and by legally terminating the internal barriers to free trade. Those involved who formulated EC 1992 realized that some business restructuring, reorganization and failure would occur.

By 1987, a broad consensus agreed that the social dimension of EC 1992 was gravely deficient. Some complained that a unified market in goods could not rely on highly divergent member state labor policies and

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that an EC-wide social policy should be developed. Others complained of the potential for widespread "social dumping," where the search for competitiveness would lead manufacturers to search out EC member states with less disciplined work conditions thereby eroding labor practices.

Before these concerns arose, a social dimension was not developed because it was too difficult to resolve the issue of member states' rights while recognizing the EC's responsibilities to "level the playing field" in all economic aspects among member states. However, the success of the 1992 program for goods and services and its potential to produce "winners and losers" compelled a social dimension.

Europe measures competitiveness relative to the benchmarks of North America and Japan. In the early 1980s, the EC found that compared to North America and Japan, it depended heavily on exporting manufactures and on a wide range of medium technology products. More than other areas, the EC specialized in exporting products with a high enough wage component that it would eventually lose to the lower wage rates of the newly industrialized countries. Compared to North America and Japan, the EC was also behind in the specialization of high tech products.

Internally, the EC was experiencing an increased demand for human resources since its economy was developing into more of a service-based economy and production was becoming more capital intensive. Furthermore, the EC had very high and long term unemployment due to structural imbalances. There was a marked increase in part-time and temporary employment which placed even more demands on human resources. Low and declining birth rates, prevalent in the EC, have also aggravated the labor shortage. There was a distinct increase in the influence of multinationals, and globalization of business which had implications for EC labor and human resources.

The EC also found the following constraints on human resources compared to North America and Japan:

- (1) EC wage increases were higher;
- (2) EC productivity gains were lower;
- (3) EC had fewer technically skilled workers;
- (4) EC had less vocational training available; and
- (5) internal EC barriers limited the economic growth potential and the mobility of labor.

The answer for the EC was to look at a unified market with a social dimension.

In this economic and political context the shape of the social dimension for EC 1992 is obvious, but there were countervailing political factors that constrained such EC-wide proposals. In 1987, there was little indication of a European commitment to human resources. The "social dialogue" was merely UNICE (employers groups) and ETUC (European

Trade Union Groups) making recommendations to member states. By December 1989, the EC did adopt a social charter that attempted to address issues in the European labor markets. The Charter itself was hortatory and left member states to act as implementors, except for areas where EC-wide rules were deemed necessary.

In March 1990, the EC produced an Action Program consisting of forty-seven proposals for EC-wide application. Most will become binding EC laws and the rest will become recommendations and policy statements. The recommendations and policy statements are not as innocent as they sound. For example, the EC Court has ruled that an EC recommendation dealing with labor law must be taken into account by member state employers.

The Action Program covers harmonized EC-wide proposals on training, safety and health as they are affected by working conditions, particularly working time employment and enumeration. The Action Program was developed to add a social dimension to the unified market.

Of the forty-seven proposals, five strike at the heart of employee-management relations and competitiveness. Consequently, these five proposals have produced an enormous amount of controversy. During the rest of 1990 and early 1991, the resolution of these five issues will determine which EC producers will contribute to human resources in the unified market.

Briefly, the five proposals are as follows: First, the EC has proposed to legislate minimum working conditions for short term and part-time employees. To date, this area has been largely undisciplined, and consequently, companies have used this as a means to overcome labor shortages in the EC. Some countries, and EC-organized labor factions, view the prospect of a borderless Europe as accelerating the movement of short term and part-time jobs to EC countries that do not have any controls on that type of employment. Countries that do have controls on short term and part-time employment want the EC to level the playing field.

Second, the EC has proposed new EC-wide discrepancies over subcontracting for labor services across borders, particularly in government procurement. Third, the EC has proposed a law setting out the minimum conditions for a standard employment contract. Fourth, the EC has proposed EC-wide minimum reference points on work week, hours, overtime, holidays and weekends.

Finally, but far from least in controversy, are proposed EC-wide requirements for information, consultation and participation of workers in company management decisions. Two aspects of this proposal are very important. First, the proposal requires employers to notify all workers before any and all decisions, substantially impacting employees, are made. And, second, a minimum or alternative form of worker participation would be required.

Several factors will continue to be regulated at the EC member state level. For example, minimum wage, right to strike, right to join unions, collective bargaining, social security and pensions will not be subject to an EC-wide standard. Member states will remain autonomous in these areas and national differences will most likely persist.

## II. IMPLICATIONS FOR CANADA-U.S. COMPETITIVENESS

Training has become the chief means of restructuring human resources in the EC as the unified market evolves. Essentially, the EC will not have a competitive effect if commercial response is limited by human resource limitations.

Implementation of improved vocational training as it has been proposed should increase European competitiveness. This competitiveness will increase as the adaptation of new job skills evolves in the unified market. The unified market can only compete effectively if full mobility of labor exists. Full mobility of skilled workers and their families, across internal EC borders will become a reality in 1993. Such mobility should positively affect the labor and skill shortage which has inhibited EC producers. Moreover, in a unified market, essentially comprised of states with a low level of discipline on working conditions, EC companies should be able to reduce their wage bill which could put pressure on North American work rules. Full mobility of part-time and short term contractors also can help overcome labor shortages and reduce labor costs.

## III. CONCLUSION

As the 1990 Action Program controversy demonstrated, a unified market could increase pressure for uniform labor standards in Europe. If this happens, labor costs could rise in Europe, thereby helping North American competitiveness. The unified market should ultimately mean EC producers will enjoy economies of scale through such factors as uniform product standards and business laws, both of which will raise their competitiveness. Finally, the EC has announced local content provisions of the EC single market. Public procurement requires fifty percent EC content to assure legal protection for bidding.