WORKING PAPER SERIES - 140

INTERNATIONAL ASPECTS OF HUMAN RESOURCE MANAGEMENT

by

Daniel J.B. Mitchell*

*Daniel J.B. Mitchell
Director
Institute of Industrial Relations
U.C.L.A.
Los Angeles, California 90024-1496
(213) 825-4339

and

Professor
Graduate School of Management
U.C.L.A.

DRAFT: September 1987

INSTITUTE OF INDUSTRIAL RELATIONS (Los Angeles)

UNIVERSITY OF CALIFORNIA

LOS ANGELES

CHAPTER 14:

International Aspects

of

Human Resource Management

Draft chapter of "Human Resource Management: An Economic Approach"

r1chap14.hrm

Chapter 14: International Aspects of Human Resource Management

I. An Alternative to the Comparative Approach.

II. A Checklist of Variations from American Practices.

i. Unions and Collective Bargaining.

Unions and Politics.
Union Suppression.
Lack of Exclusive Representation and Contracting.
Systems of Extension.
Systems of Worker Representation.
Internationally Coordinated Bargaining.
Centralization and Incomes Policy.
Employer Attitudes.

ii. Economic Regulation of the Labor Market.

Social Insurance and Other Benefits.
Public Enterprises.
Styles of Regulation.
Labor Standards and the ILO.

iii. Views of the Employer-Employee Relationship.

Job Security.
Pressures for Flexibility.

iv. Information Sources.

III. The International Impact on Domestic HRM.

i. The Economic Analysis of International Trade.

ii. Trends in International Commerce and Labor Costs.

The Importance of Exports and Imports.
Multinational Enterprises.
Exchange Rate Fluctuations.
Labor Costs and Exchange Rates.
Relative Wages in the Long Run.
Protection and Real Wages.
Tariffs, Quotas, and Wage Bargaining.

IV. HRM and International Competitiveness.

i. Trade Adjustment Assistance: Background.

ii. Issues Surrounding Trade Adjustment Assistance.

iii. Employment Security.

iv. Compensation Systems.

v. Productivity: The International Setting.

Absolute Productivity Differentials.
Productivity Catch Up.
Unexplained Slippage.
Alternative HRM Strategies.
HRM and Changes in World Production Patterns.

Chapter 14: International Aspects of Human Resource Management

Although the U.S. has been a major player in world trade and investment since the end of World War II, public awareness of that role was dim until the 1980s. During the 1980s, a substantial increase in the volume of imports, and lagging performance of U.S. exports, raised the level of consciousness substantially. Consequently, much of the discussion of the need to be "competitive" which occurred revolved around competition with other countries.

As is often the case when topics become "hot," short term trends become the focus and apocalyptic visions prevail. It became fashionable to place the blame for America's international problems was laid on deficiencies in management and on the HRM function in particular. This chapter will stress that the foreign sector difficulties of the 1980s were largely the result of forces beyond the control of management. But it will also note that over the long term, HRM cannot be seen as insulated from international pressures.

I. An Alternative to the Comparative Approach.

There are two ways of looking at the HRM aspects of the international economy. One is to compare American HRM practices with those abroad. The insights thus gained have two values.

First, they point to the fact that there are alternatives to standard American HRM practices. In other countries, things are done differently. Thus, those HRM professionals seeking "new" ideas to apply in the U.S. might well find them abroad. Second, international insights are of use to American HRM professionals employed by multinational enterprises who need to know just how HRM matters are normally handled in particular host countries. Failure to understand local customs and expectations could produce unfortunate results.

One approach, therefore, in reviewing the international aspects of HRM is to take the so-called comparative approach. Some HRM texts include a chapter which attempts to take their readers on a world tour, going country by country and describing the key features of HRM practice in each. Others go on a topical tour instead; they take up particular issues, e.g., job security, and then compare in detail how various countries deal with those questions.

Unfortunately, while the traditional comparative approach has great value, it cannot be adequately undertaken in a single chapter. The American system alone has taken up the bulk of this text; how much justice in coverage could be done to HRM practices around the whole world in a few pages? Thus, it is best to leave the comparative approach to separate texts and courses devoted exclusively to that topic.[1]

This chapter instead will first take up those aspects of foreign HRM practice which often differ markedly from the U.S. However, a detailed country-by-country approach is not attempted. Following that discussion, the chapter will turn to the impact of the international sector on U.S. HRM practice.

II. A Checklist of Variations from American Practices.

Economic forces have been stressed throughout this volume as explanations of HRM policy. Although these forces exist universally, the social, legal, and political systems of different countries have produced variegated responses. A nation's stage of economic development is also an important HRM determinant. Clearly, HRM practice in a third-world economy with a semi-literate, impoverished population is going to be quite different from found in a developed economy with a high standard of living.

For American-oriented HRM professionals, three areas of difference in foreign practice are likely to stand out when compared with the U.S. These are: 1) the role of unions and collective bargaining, 2) the degree and style of economic regulation of the labor market, and 3) social expectations about the nature of the employer-employee relationship. A brief discussion of each is provided below as a checklist for American managers who may be embarking on international careers.[2] Listed are HRM areas that need attention because the foreign responses to them cannot be assumed to follow American practices. They are thus potential pitfalls for managers and HRM professionals who have had experience and training only in the U.S. context.

i. Unions and Collective Bargaining.

As has been discussed in earlier chapters, American unions have represented a declining fraction of the U.S. workforce since the mid 1950s. Although dramatic strikes still can provoke newspaper headlines, the degree of public attention to unions and collective bargaining issues has generally waned. Yet at earlier points in American history, especially during the 1930s, union-management relations were an explosive area, eventually triggering substantial government intervention in the form of the Wagner Act of 1935 and its subsequent modifications.

Unions and Politics.

In many countries, union-management relations are still a central arena of social tension and government involvement. Although American unions involve themselves in politics, it is often the case abroad that the local union movement or movements are heavily involved with political parties which may sometimes control the government. Labor parties in Britain, Australia, and the Scandinavian countries are examples. The result may be a governmental climate which actively fosters unions when the labor-affiliated party is in control. Sharp oscillations in public policy towards unions can occur when elections bring in new governments in such countries.

Unions abroad often have a more left-wing orientation than American unions. They may be affiliated with the local Communist Party or other radical groups. But foreign unions may also be linked to religious communities, such as the Catholic Church. Their agenda may encompass wide-reaching economic, political, and social change, not just current relations with particular employers. While there have certainly been radical elements in the American labor movement, on balance there has been a greater focus on workplace issues and lesser attention to social transformation in the U.S. than in many other countries.[3] These differences in orientation can influence the quality of the labor-management climate which HRM professionals must face.

Union Suppression.

In countries where authoritarian regimes prevail, independent unions are often suppressed or discouraged. Membership in -- and employer recognition of -- government-controlled unions may be encouraged or required. A mix of motivations is involved, or at least cited in such circumstances.

The government may hope to prevent independent unions from arising as sources of political opposition. And it may point to alleged needs of economic development -- especially in the case of third-world countries -- as a rational for keeping tight control on union activity. For example, strikes or too-high wages might be said by the authorities to have a potentially adverse effect on exports or on general economic welfare.

Lack of Exclusive Representation and Contracting.

The American/Canadian system of representation by exclusive bargaining agents, and of long-term contracts, is not found elsewhere in the world. In many nations, more than one union may represent a group of workers, sometimes leading to rivalry and competition between the organizations. Craft-based unionization may be more common than in the U.S. in some countries, so that an industrial unit is represented by several occupationally-oriented unions. There may be informal local bargaining through a shop steward representing the different groups, while the national unions engage in company or industry-wide bargaining.

In the U.S./Canadian system, the outcome of successful bargaining is a legally-enforceable written agreement, typically of 2-3 years duration, between the employer and the exclusive representative. Obtaining such an agreement in countries where multiple unions are involved can be more difficult. In any case, American-style long-term agreements are much less common abroad. And contracts will not necessarily have the same legally-enforceable status that they do in the U.S. Agreements effectively come to an end when new unions demands are made.

Systems of Extension.

Unions abroad may directly influence the wages of employers with whom they have no formal relations. In some countries, once settlements are reached between major employers and unions, the agreements are "extended" by law to other employers. The extension system tends to insulate union workers from competition of nonunion employees, since the latter's wage is geared to the union sector through the extension process. Perhaps the most extreme variant of extension is to be found in Australia, where a system of compulsory arbitration through special labor courts sets wages and wage adjustments for almost 9 out of 10 workers, whether or not their firms are organized by unions.

Systems of Worker Representation.

Representation of employees in company decision making is sometimes required by law through elected plant-level "works councils" or through worker representatives on company boards ("co-determination"). In principle, any worker might be elected. Often, however, unions will run slates of candidates for positions of representation. Thus, through works councils or co-determination systems, unions may have an alternative means of interaction with management.

The closest the U.S. has ever come to such an approach was the stimulus given by the federal government to establishment of employee representation plans during World War I. Such arrangements were never mandated, however; just encouraged. During the 1930s, employer-sponsored employee representation systems (so-called "company unions") were outlawed by the Wagner Act.

Thus, the U.S. moved away from any form of employee representation, other than through collective bargaining, while other countries adopted a more mixed approach.[4] Only in the 1980s, with the growth of interest in quality circles and similar arrangements, has alternative representation been discussed in the U.S. And, of course, such arrangements are neither mandated, nor fostered by, American law.

Centralization and Incomes Policy.

Certain countries have evolved systems of highly centralized bargaining in which national pacts are negotiated by top union and employer associations -- sometimes with government involvement -- and then implemented in a widening pattern at the industry, firm, and local plant level. Centralized bargaining has often been linked with attempts by government to hold down wage increases for anti-inflation motivations. These attempts have often been termed "incomes policies" (generally a euphemism for "wages policy"). On occasion they are also known as "social accords," a phrase which generally implies a government-union-employer deal covering areas such as taxation and social insurance as well as anti-inflation wage guidelines.[5]

Centralization means more than just having a central organization of unions such as the AFL-CIO in the U.S. It also implies that the central body has significant authority over its constituent unions. Such authority -- for example, the right to represent them in negotiations -- has never been given to the AFL-CIO by its member unions. It has been argued that foreign centralized union federations, which are needed for incomes policies and accords, are encouraged by economic climates of export dependency. In such climates, the general need to maintain competitiveness focuses attention on overall economic welfare and away from employer-by-employer bargaining.[6]

Internationally Coordinated Bargaining?

At the international level, there have been attempts by unions in different countries to coordinate their negotiations with multinational corporations, a transnational variation on centralization of bargaining.[7] There are a number of "international trade secretariats" -- confederations of national unions in particular industrial sectors -- which in some cases have acted as forums for such coordination. An example is the International Metalworkers' Federation, an organization which covers such industries as automobile production.

In theory, from the union perspective, bargaining strength could be enhanced vis-a-vis a multinational employer if all unions around the world who dealt with it coordinated their demands. The firm would be unable to shift production to non-striking facilities or to low wage plants. But there are very strong practical barriers to such international coordination. After all, union are not always able to coordinate their bargaining effectively <u>within</u> countries. At the international level, there are hurdles to overcome of divergent interests, ideology, legal systems, and language.

Thus, claimed successes in achieving true coordinated international bargaining must be treated with skepticism.[8] Union interests and ideologies may diverge across international boundaries, making coordination very difficult. However, in cases where countries are in close economic union, e.g., the European Common Market, unions may be able to bring pressure on multinational firms operating in more than one of the member states.[9]

Employer Attitudes.

It is often said that in countries where independent unions are permitted, aggressive American-style anti-union campaigns by employers are discouraged by the prevailing social milieu.[10] In countries with a more radical history of unions and politics than the U.S., such anti-union tactics are not adopted, in this view, because employers prefer accommodation to confrontation.[11] These employer attitudes may be changing, but there is still truth to the notion that harsh conflict over union representation rights is generally less visible in other western countries than in the U.S.

Foreign employer attitudes and strategies are not fixed in concrete. Just as the U.S. sometimes looks to foreign HRM practices for ideas, so foreigners sometimes follow U.S. examples. Anti-union resistance by American employers has been noted with interest abroad, and may spill over into other countries. As an example, British unions -- traditionally powerful influences in the workplace -- were placed on the defensive during the 1980s, a period of both conservative government rule and high unemployment.

ii. Economic Regulation of the Labor Market.

There are many types of government regulation of labor market in the U.S. including minimum wage and overtime requirements, mandatory provision of workers' compensation, occupational safety and health rules, etc. Counterparts of such rules exist in most developed countries -- and (on paper at least) -- in many third-world countries.[12] Indeed, the U.S. has pushed less developed countries which enjoy special tariff preferences in the American market to meet certain labor standards.[13] Whether in developed or in third-world countries, however, the forms labor market regulations take, and their extensiveness can vary widely.

Social Insurance and Other Benefits.

Social insurance systems in some countries are more elaborate than in the U.S. Health insurance may be provided through a national medical system, for example. Special monetary allowances for large families may be paid. These arrangements may be linked to the workplace through payroll taxes. And their existence may influence the kinds of voluntary fringe benefits employers offer (just as the U.S. Social Security system influences the design of private American pension plans). Apart from social insurance, certain kinds of benefits, which in the U.S. are left to employer (or employer-union) discretion, are legally mandated in some countries, notably vacations.

Public Enterprises.

Government-owned enterprises are more common in many countries than in the United States. Transportation and utilities are often government run. But government ownership can also be found of mines, petroleum producers, automobile and metal manufacturing plants, broadcasting systems, and financial institutions. Where there is a significant sector of government ownership of commercial enterprises, HRM policies of the government-as-owner/employer may be imitated by private firms.

Thus, state influence on HRM practice can extend beyond formal legal regulation. The government may see itself in its employer role as setting an example for the private sector. Political swings between governments of the right and left may influence both the size of the state-run sector and the degree to which it is used as a pattern setter for HRM practices.

Styles of Regulation.

Even where formal legal regulation applies to the labor market, the method of government-business interaction surrounding enforcement and interpretation is often different abroad as compared with the U.S. At the federal level, the American regulatory model is usually be based on passage of a statute to be enforced by a board, commission, or agency with a system of appeals tribunals. Decisions of the enforcement body are also appealable into the general court system on a variety of grounds, ranging from proper statutory interpretation to constitutionality. The relationship between the regulated and the regulator is supposed to be "arms-length." Cozier relationships are often seen as signs of undue influence by the latter on the former or even as symptoms of outright corruption.

The foreign model of labor market regulation (and economic regulation more generally) is less likely to be arms length. Indeed, it may be seen as a virtue to have close interaction between the regulator and the regulated. Deals and understandings may be reached between unions, employers, and government before new programs are enacted. Litigation and appeals are less common than in the U.S. Foreigners often look with wonder and incomprehension at the American regulatory system with its adversarial, arms-length approach, and its complex interplay of the executive, legislative, and judicial branches of government.

Labor Standards and the ILO.

An influence on government regulation in many countries is the International Labour Organisation (ILO). The ILO was created immediately after World War I as part of a general effort to foster international cooperation. After World War II, the ILO became affiliated with the United Nations. ILO member states are represented in tripartite fashion by union, management, and government delegations. The ILO makes recommendations for labor regulation and passes conventions concerning labor standards which member states may ratify.[14] It has no enforcement powers, but can conduct embarrassing investigations of abuses.

iii. Views of the Employer-Employee Relationship.

Throughout this text, the complex nature of the employer-employee relationship has been stressed. It has been noted that employee expectations of what the relation entails will condition the formation of HRM policies. These expectations, however, vary from society to society. "Lifetime" employment contracts with company-provided housing and social benefits in Japan are an expression of a particular set of expectations in that country. In the American context, Japanese practices are often viewed as excessively paternalistic. Thus, Americans seem to vacillate between praising all things Japanese and publicizing "exposes" of deficiencies in Japanese HRM practices.[15]

<u>Job Security</u>.

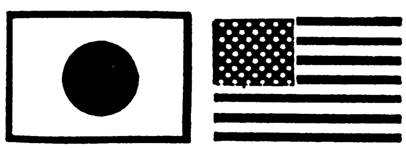
One of the most sensitive issues surrounding the employer-employee relationship is the question of when that relation may be terminated by the employer. An earlier chapter has reviewed

Insert chapter 14

QUALITY
CIRCLE
INSTITUTE

1 DAY SEMINARS
5 DAY FACILITATOR
TRAINING COURSES

The Japanese Concept That Is Sweeping The Nation!



It can work for you, no matter what kind of business or organization in which you are involved!

Open up this brochure and open up a new world of increased quality, productivity and motivation.

the gradual erosion of the "at will" doctrine in the U.S., the legal doctrine that employees may be terminated for good, bad, or no reason at all. But many countries place legal restrictions on both individual terminations and layoffs that go far beyond recent American court interpretations.

Foreign employers may be held to a standard for discharge similar to the "just cause" notion applied by American arbitrators in interpreting union-management agreements. Specialized labor courts abroad may hear appeals from terminated employees who allege that the local version of just cause was not present in their cases.[16] Monetary damages for, or possibly reinstatement of, discharged workers may be ordered by these courts in cases of improper firings.

Restrictions on economic layoffs also can apply. Firms may be required to provide long notices and to award substantial severance pay before layoffs are permitted. Government policy to discourage layoffs may operate through both legal restrictions and through a "frown." That is, employers may be aware that the government would be unhappy about massive layoffs, even if the layoffs are technically legal. Foreign-owned multinational firms must be especially sensitive to the views of host governments-- and local public opinion -- and thus are vulnerable to regulation by frown.

Pressures for Flexibility.

In the face of declining labor demand, an anti-layoff policy can reduce unemployment initially. But it also tends to protect the job of "insiders" (those who already have jobs) at the expense of "outsiders" (new entrants to the labor market) who are seeking work. In addition, employers may be more reluctant to hire permanent workers if such hiring entails a potentially-costly indefinite obligation. Effectively, the job guarantee may act as a "tax" on new hires.

Thus, the result of tough anti-layoff rules may be increased use of contingent workers -- part timers, temporaries -- who do not receive job security guarantees, or through longer hours of "core" workers. Alternatively, there may be more subcontracting of work to small employers or foreign suppliers who are outside the bounds of legal regulation. Increases in "off-the-books" employment, a hidden economy which escapes rules and taxation, may occur as well.

As unemployment rates rose in many countries during the 1980s, concern was heightened about the ability of local employers to adjust to changing patterns of market demand. Often, the debate fell under the general heading of "flexibility" in HRM.[17] Interestingly enough, a political consensus over the desirability of such flexibility often developed, regardless of the political coloration of the government in power. As a result, some restrictions on employer ability to layoff or redeploy resources were relaxed.[16] Governments with a more "liberal" political orientation (using the American definition of that term) were more likely to insist that the needed flexibility should be obtained through retraining of redundant workers (possibly with state subsidy of the training) than were conservative governments.

iv. Information Sources.

It should be evident to the reader that American HRM policies and practices cannot uniformly be transplanted to foreign soil. Successful implementation of HRM policy requires knowledge of the local legal, political, and social system, as well as economic conditions. HRM professionals in large, multinational enterprises keep themselves abreast of national institutions, developments, and economic trends in the countries in which their firms have operations. A variety of data and information sources are readily available as indicated on Figure 1.

Official institutions such as the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organization put out publications providing country-level and comparative reviews of trends relevant to HRM.[17] The U.S.

Figure 1

Selected Sources of International HRM Data

International Labour Office of the International Labour Organisation:

Yearbook of Labour Statistics

Data on wages, employment, unemployment, work stoppages, occupational composition of the workforce, occupational injuries, inflation. Supplemented by the quarterly Bulletin of Labour Statistics.

U.S. Bureau of Labor Statistics:

Monthly Labor Review

Data for selected countries on manufacturing pay, output per hour, and unit labor costs. Labor force data on employment, unemployment, and participation based on American definitions. Historical data appear in the periodic Handbook of Labor Statistics and the Economic Report of the President.

U.S. Department of State Indexes of Living Costs Abroad

Estimates of the cost of living relative to Washington, D.C. in major cities of the world. Data are used to adjust U.S. government employees stationed abroad and could be used to adjust pay of employees stationed abroad by multinational firms.

International Metalworkers' Federation:

The Purchasing Power of Working Time

Wage comparisons in selected metalworking industries in terms of purchasing power.

Other Sources:

Publications of the International Monetary Fund, Organisation for Economic Cooperation and Development, United Nations, and other international organization.

Department of Labor can be a source of useful information. American embassies abroad have commercial and labor attaches who keep up with current events in the HRM area. Foreign embassies and consulates in the U.S. may be helpful.

There are also private reporting services which provide useful information. Noteworthy examples are the quarterly country reports published by the Economist Intelligence Unit. These reports contain general information on economic and political trends, including those affecting the employment relationship In addition, foreign universities may have centers of industrial relations which put out reports on local HRM practices and developments.

III. The International Impact on Domestic HRM.

At an abstract level, it might be argued that the existence of a foreign trade sector has no particular implication for U.S. HRM practice. After all, the presence of a foreign sector just means that there are more markets to sell in, and to buy from. What difference does it make to a firm if the competition is from foreign or domestic sources?

But although competition in the market is similar in its effects, regardless of source, the international sector does have a special impact. First, factor market conditions abroad--

especially those related to the labor market -- may be substantially different from those faced by domestic competitors. In particular, in many parts of the world, wages are only a fraction of American pay levels. Second, the degree of foreign competition which is faced can be importantly influenced by domestic policies -- such as tariffs and quotas. Pure free trade is an abstraction; all countries follow so-called "commercial policies" which influence what they buy, and how much they sell, abroad.

i. The Economic Analysis of International Trade.

There are numerous textbooks available on international trade and it would be inappropriate here to attempt to duplicate their analysis.[20] However, the basic highlights of international economic analysis can be usefully summarized.

1) The economic analysis of international trade usually begins with the assumptions that countries can trade goods (exports and imports), but cannot trade factors of production, i.e., labor and capital. Obviously, these assumptions are oversimplifications. Labor does flow across international borders in the form of legal and illegal immigration. Capital flows internationally, both in the financial sense (the purchase and sale of financial assets such as stocks, bonds, and bank

accounts) and in the real sense (export and import of capital goods such as industrial machinery). Nevertheless, factor mobility -- especially labor mobility -- is much more restricted across national borders than it is within them.

2) Given the factor-immobility assumptions, the pattern or structure of trade is determined by "comparative advantage." In the absence of factor flows, there is no absolute standard of value. What matters, in determining who exports what goods, is the <u>relative</u> cost of production. In a two-good, two-country model, if wheat is relatively cheap in the U.S. as compared with cloth, and if cloth is relatively cheap in the U.K. as compared with wheat, the U.S. will export wheat in exchange for cloth from the U.K. And the U.K. -- as the other party to the transaction -- will export cloth to, and import wheat from -- the U.S.

3) Trade produces potential "benefits" for countries by relaxing a production/consumption constraint. In the absence of trade, anything a country wants to consume must be produced domestically. Trade opens up the possibility of consuming more of some goods than are produced at home (importing). To pay for the deficit of production the country produces more of other goods than

are consumed and exports the balance. Countries can specialize in production according to their international comparative advantage, while consuming in accordance with their internal "tastes."

4) The lifting of the consume-only-what-you-produce constraint changes the pattern of production within countries. Some industries -- those which enjoy a comparative advantage -- find the demand for their products increased. Others -- those with a comparative disadvantage -- face a decline in demand and, possibly, a complete cessation of production.

5) The existence of international investment flows further relaxes the constraints in a dynamic sense. Countries can purchase more than they produce domestically and borrow abroad to finance their trade deficits. That is, they can import a greater value of goods than then export for a time. In exchange, however, they must eventually repay their debts (plus interest) by running an export surplus in a later period.

6) Since the possibility of international investment flows means that countries can run net export surpluses or deficits in any given period, the size of their

foreign trade sector can vary relative to their domestic sector. That is, in periods of net export deficits (value of imports exceeding value of exports), those industries which produce exports or import-competing goods will shrink in size relative to those producing goods and services which cannot be internationally traded, e.g., haircuts. During periods of net export surpluses, the opposite will occur; the foreign trade sector will expand relative to other sectors.

7) By changing the pattern of production, trade has complex effects on internal income distribution. In the short term, wages, employment, and profits in particular industries may be increased or reduced by trade. And in the long run, the general prices of factors of production -- including real wages -- may be altered.

In short, although in some sense a country as a whole may benefit from trade, trade will produce both winners and losers in the economy. Contrary to the popular impression, economic theory does not predict that large subgroups in society -- such as the labor force -- will necessarily benefit from freer trade. Particular interests may or may not benefit, depending on assumptions.[21]

8) Government policies, by modifying trade flows through tariffs, quotas, subsidies, and other devices, can influence the domestic structure of production, and, therefore, the distribution of income and the pattern of employment. Employers and employees are likely to have an economic interest in how the government conducts its trade policies.

ii. Trends in International Commerce and Labor Costs.

To understand the forces surrounding the international market place, the principles of economic analysis must be combined with knowledge of empirical trends and institutions. In that sense, the international setting is no different than the domestic. Thus, in order to provide the necessary background for analyzing the international impact on American HRM practice, some key trends are discussed below.

<u>The Importance of Exports and Imports</u>.

Compared with many countries, the U.S. has a relatively small international sector. Exports of goods and services accounted for less than 9% of American GNP in 1986. The U.S. import-to-GNP ratio was 11%. Some countries, especially smaller nations located within large trading areas, have much higher ratios.

However, the ratio of exports or imports to GNP does not fully measure the importance of trade to an economy. International prices, for example, can spill over into the prices of domestically produced goods. General Motors cannot ignore prices charged by Toyota in setting its own prices. Pricing ability, in turn, is reflected in General Motors' HRM decisions on wages, new hires, and layoffs. Much of manufacturing, mining, and agriculture in the U.S. is affected by international trade, directly or indirectly, because of actual or potential foreign competition. These sectors accounted for about a fourth of GNP in the mid 1980s and about a fifth of all employees. Moreover, other sectors were involved in trade as suppliers to the trading sector or in the transportation and sale of exports and imports.

Multinational Enterprises.

Generally, the post-World War II period has seen a substantial expansion of trade and investment by virtually any measure. Of particular interest has been the growth of "direct investment," i.e., the establishment of subsidiaries of multinational firms around the world, as well as in the United States. U.S.-based nonbank multinational firms employed about 18 million persons in the U.S. in 1985. Foreign-based multinationals employed 2.9 million.[22]

The extension of multinational firms across national boundaries creates a channel of communication of HRM practices and strategies. While national differences in the HRM area are very important -- as stressed in the previous section -- the fact that single corporate entities operate in the face of different national systems creates potential for consideration of alternatives. It is always possible for a country to resist international pressures for conformity and uniformity -- as the U.S. has resisted adoption of the metric system -- but the pressure is present nonetheless.

Although studies of multinational firms generally do not indicate that they automatically import the HRM practices of their "mother" country, over the long run they may act as a transmitter of HRM techniques. Research on multinationals indicates that they often staff jobs which have a heavy "cultural content" -- such as HRM professional positions -- with persons from the host country.[23] But even so, at the most general level, employers around the world face common problems of recruitment, screening, evaluation, training, pay setting, grievance handling, and productivity management. If an HRM approach appears to be effective in one country, there is reason to try that approach elsewhere. Perhaps the most prominent experiment in the U.S. along these lines has been the joint General Motors-Toyota automobile assembly operation in northern California which blended Japanese and American HRM practices.[24]

The existence of multinational firms can sometimes be used by third parties to influence labor practices in foreign countries. Most notable were pressures on U.S.-based multinationals to adopt the "Sullivan Principles" with regard to their treatment of black employees in South Africa. These principles were designed to assure as much opportunity for blacks as possible under the South African apartheid system. By the mid 1980s, however, pressures on American multinational firms had generally shifted toward divestment of South African holdings rather than adherence to the Sullivan Principles.

Host countries may sometimes pressure multinational firms to adopt certain HRM policies as a condition for doing business. All countries expect multinationals to comply with local labor laws and regulations pertaining to the labor market and the employment relationship. However, especially in third-world countries, host governments may encourage the promotion of nationals into key management roles. They may also seek training and skill acquisition for the nonsupervisory workforce.

Exchange Rate Fluctuations.

One of the sharp differences between the domestic and the international setting is the presence of nationally-based monetary systems. American firms, operating within the U.S., utilize a common dollar standard. They have no need to worry about fluctuations of, say, the "California dollar" versus the "Ohio dollar." Only one currency is used in all parts of the U.S. Firms operating across international boundaries, however, face very different monetary conditions.

At the international level, separate currencies are in employed in almost every country. From the end of World War II until the early 1970s, most countries maintained fixed exchange rates relative to one another. The exchange rate between, say, the U.S. dollar and the British pound was not allowed to deviate, except in a very narrow range, from an agreed-upon par value. Changes in the official par values of currencies occurred only at infrequent intervals.

During the fixed exchange rate era, exchange rates were maintained at their official values by government intervention in the currency market. When a country's currency was in excess supply, and therefore tending to depreciate (fall in value) relative to its par value with the dollar, its monetary authorities would buy up the excess supply, using its own dollar reserves or by borrowing dollars externally.[25] Similarly, when a country's currency was in excess demand, and therefore tending to appreciate (rise in value), its monetary authorities would buy up the excess by selling dollars.

Although firms had to consider the possibility of occasional currency value changes, the fixed exchange rate system made trading in the international arena more like domestic trade. If currency values were fixed, then trade could occur almost as if there were one world currency. However, the fixed exchange rate system established after World War II broke down in 1971.[26] An attempt to resuscitate the system ended unsuccessfully in early 1973. Thereafter, no single international exchange rate system has developed. Exchange rates between currencies have generally been much more flexible since the early 1970s than before.

Since the breakdown of fixed exchange rates, some countries have attempted to "peg" their currencies' values to the dollar or another currency unilaterally. Some have followed a policy of pegging their currencies' values relative to a "basket" or average of other currencies, rather than to any one currency. Some have intervened in currency markets in an attempt to smooth out currency fluctuations. And others have left it largely to demand and supply in the currency market to determine their exchange rates; the U.S. has generally followed such a <u>laisser-faire</u> strategy, with occasional episodes of intervention. In all likelihood, these diverse exchange rate policies will continue to characterize the international monetary system indefinitely.[27]

The result of greater exchange rate fluctuations is a complicating of decision making on where to produce, where to invest, and how to evaluate relative national labor costs. Many economists would argue that over long periods of time, the particular exchange rate system in use is irrelevant. According to this view, international trade and investment will be governed eventually by the "fundamentals" of comparative cost. However, the long run may be a long time in coming. In the meantime, exchange rates are likely to be of concern to firms operating in the international market place.

Labor Costs and Exchange Rates.

Perhaps the most dramatic illustration of the importance of exchange rate changes was the experience of the U.S. in the 1980s. The dollar began appreciating relative to other currencies after 1980. Economists have attributed much of this appreciation to federal tax cuts and resulting budget deficits. The federal budget deficit was a form of national dissaving, which resulted in a sucking into the U.S. of net foreign saving. That is, Americans invested less abroad and foreigners invested more in the U.S. Net demand for the dollar (to acquire claims on the U.S.) rose, causing dollar appreciation, thereby putting American exporters and import-competing firms at a substantial disadvantage.

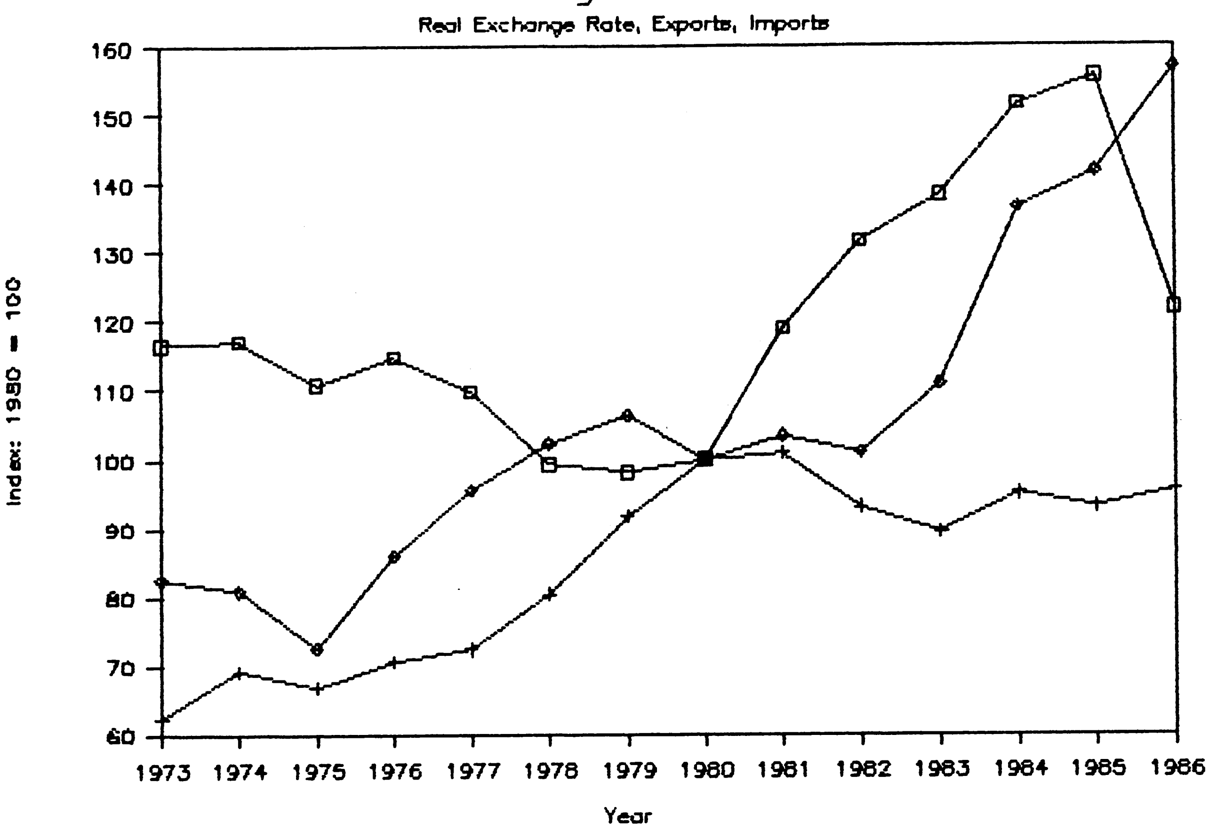
When the dollar appreciated, American export prices -- as seen by foreigners in terms of their currencies -- rose. U.S.

exports became less competitive on world markets and export performance deteriorated. From the American viewpoint, the prices of foreign imports fell -- measured in dollars-- stimulating a switch from American products to foreign supplies. These trends can be seen on Figure 2, which illustrates the movements of real exports, real imports, and the real dollar exchange rate.[28] Although the dollar reversed its upward course in early 1985, it had already sparked an ongoing debate concerning declining U.S. competitiveness and its HRM implications.

Table 1 illustrates the impact of the appreciation of the U.S. dollar on foreign manufacturing wages in nine countries relative to American wages. During 1980-85, American wages on a total compensation basis rose at 5.9% per annum, slower than the rate of wage inflation in eight of the nine countries as measured in their own currencies. In six out of the nine countries, local wages rose faster than U.S. wages in terms of real purchasing power. But the appreciation of the U.S. dollar caused foreign wages, when translated into dollars, to rise more slowly than U.S. wages. In fact, in most cases, foreign wages actually <u>declined</u> in dollar terms.

Wage movements by themselves do not give a complete picture of shifts in competitiveness. Costs other than wages also are relevant, although, of course, such costs also will be influenced

Figure 2



□ Real exchange rate

+ Real exports of goods and services

◇ Real imports of goods and services

Table 1

Exchange Rate Movements and Rates of Pay Change, Manufacturing, 1980-85, Ten Developed Countries

Country	Annualized Rate of Change in: Wages in Local Currency	U.S. Dollar Per Local Currency Unit	Wages in U.S. Dollars	Real Wages[1]
United States	5.9%	--	5.9%	.4%
Canada	7.9	3.2%	4.6	.5
Japan	4.2	1.1	3.1	1.4
Belgium	6.8	15.2	-7.3	-.2
France	12.0	16.3	-3.7	2.2
Germany, West	5.6	10.1	-4.1	1.7
Italy	15.6	17.4	-1.6	1.6
Netherlands	5.2	10.9	-5.1	-1.1
Sweden	9.4	15.3	-5.1	.3
United Kingdom	9.2	12.4	-2.8	1.9

Note: Wages refer to hourly compensation of production workers including wages, benefits, and payroll taxes.

[1]The real wage is the local wage divided by the local consumer price index.

Source: Wage and exchange rate data: Same as Table 3. Consumer price indexes from U.S. Bureau of the Census, <u>Statistical Abstract of the United States, 1987</u> (Washington: GPO, 1987), p. 829.

by exchange rates. Even when the focus is on labor costs, wages must be adjusted for productivity -- as described in an earlier chapter -- to calculate unit labor costs. However, as Table 2 shows, unit labor costs (the ratio of the wage rate to productivity) fell in all but one of the countries listed when measured in U.S. dollars. The dollar appreciation is the principal explanation of this development.

It is clear from Table 1 that the loss of American competitiveness in the early to mid 1980s cannot be attributed to some failure of U.S. HRM practices. Despite all of the breast beating about loss of the American work ethic, lack of labor-management cooperation, top-heavy supervision, and excessive American pay levels, the loss of U.S. competitiveness was due primarily to macroeconomic forces: dollar appreciation and federal budget deficits. To burden American HRM practitioners and practices with the blame for rising import competition, is unfair and misleading. And because of its fallacious nature, such an argument diverts attention from longer range competitive issues which do have HRM implications.[29]

Relative Wages in the Long Run.

One of the long term issues which arises in the international area is the ability of American firms to compete when wages are substantially below U.S. levels in much of the

Table 2

Trends Manufacturing Unit Labor Costs, 1980-85, Ten Developed Countries

Country	Annualized Percent Change in Unit Labor Costs	
	Local Currency	U.S. Dollar
United States	2.1%	2.1%
Canada	5.4	2.1
Japan	-1.1	-2.3
Belgium	1.2	-12.2
France	7.4	-7.7
Germany, West	1.8	-7.6
Italy	11.9	-4.7
Netherlands	.1	-9.7
Sweden	5.5	-8.4
United Kingdom	3.9	-7.6

Note: Figures refer to production workers.

Source: See Table 3.

world. Will American wages be forced down to foreign levels by international competition? This question can be viewed from both an analytical and empirical perspective.

Economic analysis of international trade sees trade in goods and trade in factors of production as potentially equivalent. If labor and capital did flow costlessly across international borders, there would be a tendency for factor prices to equalize around the world. In particular, as labor moved from low wage to high wage countries, the average level of wages would be bid down in the latter and up in the former. Indeed, high wage countries often restrict in-migration to protect the wages of their resident labor forces from such direct competition.

Less obvious is the possibility that even without factor mobility, trade in goods could have much the same equalizing effect. If high wage countries import goods from low wage countries, labor from the low wage countries is "embodied" in the imports. The imports displace labor that might have been used in the high wage country to produce those goods in the absence of the imports. Thus, receiving goods from low wage countries is similar to receiving labor from them, in terms of the impact on the labor market.[30]

Consider, for example, the inflow of cheap Mexican labor into the U.S. Attempts by the U.S. to impede this flow provide a stimulus for firms to set up assembly plants just inside the Mexican border, and then import the assembled products into the U.S. In effect, if the people cannot come to the plant, the plant comes to the people. And if the people cannot be imported, the products that incorporate their labor can be. Of course, the reverse is also true; exports of U.S. goods can be viewed as an embodied export of U.S. labor.

Some data do point to a tendency for foreign and U.S. wages to equalize. Table 3 shows manufacturing wages in the nine countries featured on previous tables as a percentage of U.S. wages. Foreign wages rose relative to American wages during the 1960s and 1970s. Indeed, by 1980, wages in a number of European countries exceeded U.S. levels -- a sign many would argue in hindsight of undervaluation of the U.S. dollar in the late 1970s.[31] The dollar appreciation thereafter brought down foreign wages in dollar terms compared with U.S. wage levels. But even in 1985, at the peak of the dollar appreciation, foreign wages had risen relative to U.S. levels when compared with the 1970 and 1960 data.

Thus, for the developed countries of Table 3, there has been a long term tendency for wages to equalize. However, during most of the period shown, this phenomenon did not come about because real wages in the U.S. were falling towards world levels. American real wages moved generally in line with American

Table 3

Foreign Wages as Percent of American, Manufacturing Sector, 1980-85, Ten Developed Countries

	Total Hourly Compensation as Percent of U.S. Level:			
Country	1960	1970	1980	1985
United States	100%	100%	100%	100%
Canada	80	83	90	85
Japan	10	24	57	49
Belgium	31	49	133	68
France	31	41	92	57
Germany, West	32	56	125	76
Italy	24	42	82	57
Netherlands	26	51	122	70
Sweden	45	70	126	73
United Kingdom	32	36	74	48

Note: Total compensation includes wages, benefits, and payroll taxes. Figures refer to production workers.

Source: Calculated from data appearing in U.S. Bureau of Labor Statistics, Handbook of Labor Statistics, bulletin 2217 (Washington: GPO, 1985), Table 133; Monthly Labor Review, vol. 110 (July 1987), p. 93.

productivity during 1960-80. During those years, the tendency toward wage equalization in the developed world seemed to stem mainly from the faster rate of productivity growth abroad relative to the U.S. The faster foreign productivity growth, in turn, was associated with rising foreign capital/labor ratios.[32]

In the 1980s, as the dollar substantially appreciated, U.S. real wage growth did lag behind productivity. As discussed in a previous chapter, this period was an era of concessionary wage bargaining and a downward shift in American wage norms. Studies of earlier periods suggest that relative wage slippage in trade-impacted industries can result from foreign competition.[33]

However, the wage lag during the period of dollar appreciation was not concentrated in manufacturing -- the center of import competition -- suggesting that product market pressure from the international sector was not the sole explanation. And concession bargaining was not disproportionately found in the trade sector. In fact, trade-sensitive industries were less prone to concessionary wage bargaining than others.[34]

Good wage data are less readily available for third-world countries than for developed countries. However, the picture of world wage convergence with the U.S. among the developed countries does not necessarily apply elsewhere. It is possible for less developed countries to show marked wage growth relative to the U.S. even if they start from low bases. (Note that on Table 3, Japan's relative manufacturing wage went from only 10% of the U.S. level in 1960 to about half the U.S. level by the 1980s). But starting from a low base does mean that wage catch up will take a long time to occur -- if it occurs at all. Some very low wage countries have featured wage growth faster than the U.S.; others have not.

The gaps between U.S. and third-world wages are quite large in absolute terms, as Table 4 illustrates. Obviously, if a firm can obtain its capital abroad at the same cost as in the U.S., and if all non-labor production costs (adjusted for the cost of transportation) are the same as in the U.S., the markedly lower wage in the third world will give production there a clear cost advantage. For certain kinds of "assembly-intensive" products, such as home electronic equipment, lower wages abroad have given the edge to foreign suppliers.

Yet, it is often the case that non-labor costs are not the same abroad as in the U.S. About two thirds of U.S. imports came from <u>developed</u> countries in the mid 1980s -- not from low-wage third-world countries. This fraction <u>increased</u> in the 1980s, despite the well-publicized rise of export-oriented manufacturing in such Pacific Rim countries as Taiwan, Korea, Singapore, and Hong Kong. Thus, the proposition that the U.S. cannot compete unless its wage levels fall to third-world levels is not

Table 4

**Hourly Compensation Relative to the U.S.
in Six Third-World Countries,
Manufacturing, 1975-83**

Country	Hourly Compensation as Percent of U.S.		
	1975	1980	1986
Brazil	14%	14%	12%
Mexico	31	30	11
Hong Kong	12	15	14
South Korea	5	10	11
Singapore	13	15	17
Taiwan	6	10	13

Note: Figures refer to production workers.

Source: U.S. Bureau of Labor Statistics, unpublished data provided to the author.

supported by the U.S. trade pattern. Certain U.S. industries cannot compete, however, and have drastically contracted in employment and production. These are industries where labor costs are the major factor in production cost differentials.

Protection and Real Wages.

While the notion of U.S. wages dropping to third-world levels is not plausible, it is possible that trade could have a retarding effect on real wage growth. Economic theory has long featured models in which trade could lower real wages (and trade restrictions -- such as tariffs and quotas -- could raise them.[35] But while the empirical applicability of such models is uncertain at best, the proposition that protection could raise some people's wages is more definite.

Limits on foreign competition make possible higher domestic prices for protected items than would otherwise prevail. The greater profitability protection permits is not necessarily going to be passed along to workers as higher wages. Protection directly affects the product market, not the labor market, and protected employers will not necessarily see any need for raising pay. However, if workers in a protected industry are represented by a collective bargaining agent, they may be able to obtain some of the "rents" afforded by protection in terms of higher wages.

Indeed, the union involved may be a vocal proponent of the import restricting policy.

Tariffs, Quotas, and Wage Bargaining.

There are two basic kinds of protective devices in use. Tariffs are taxes on imports collected at the time of entry. The tariff/tax raises the landed price of foreign goods, making them less price competitive with domestic substitutes. Quotas, in contrast, place an absolute limit on the number of imported items that will be permitted to enter the domestic market. Once the quota is sold out, domestic suppliers no longer face foreign competition and are therefore free to increase their own prices. Tariffs are administered by the importing country, whose government collects the resulting revenue. Quotas may be administered by the importing country, but are sometimes handled by foreign exporting countries under the terms of "orderly marketing agreements."[36]

Even though tariffs restrict foreign competition, they do not eliminate it. Domestic producers are limited in how much they can raise prices by the potential attraction of more imports. As the domestic price is raised, the alternative foreign price -- even with the added tariff -- looks more and more attractive to consumers. The absolute quantitative restriction under a quota, in contrast, eliminates such competition. Once the quota is exhausted, domestic consumers cannot buy the foreign alternative at any price.

To the extent that unions can bargain for a share of the gains from protection in terms of higher pay, they will prefer quotas to tariffs. The passing along of wage increases into prices will be easier if the volume of foreign sales is absolutely limited. And, indeed, American unions have generally pushed for quota-like quantitative limits on imports rather than tariffs.

Usually, the union motivation in seeking protection is a mix of both pay and employment objectives. The union seeks to prevent job loss of its members from import competition as well as to protect its bargaining position. In principle, job protecting could be done as well by tariffs as by quotas. However, job protection via tariffs is more complex, since foreign sales will be determined by (unknown) demand elasticities and the (uncertain) reaction of domestic pricing to the tariff. Quotas, in contrast, fix the number of foreign units sold, making their effects more definite. Thus, unions are likely to prefer quotas to tariffs, regardless of the mix of their pay vs. employment motivations.

Often unions and management -- even if they have trouble agreeing on other issues -- see eye-to-eye on the need for protection from imports. But this agreement is not always total, nor even present. The firms involved may be multinationals; they may be in a position to import themselves. Or they may be fearful of triggering a trade war between the U.S. and other countries which could hurt their affiliates.[37] Firms are tied to a domestic industry by capital investments; unions and workers have stakes in the industry which have been stressed in previous chapters. Sometimes the tie embodied in the latter stake is stronger than that engendered by past capital investments. Thus, unions may sometimes be stronger advocates of protection for particular products than the firms which make them.

IV. HRM and International Competitiveness.

HRM policies cannot be held accountable for the sharp loss of American competitiveness in the early 1980s, as has already been stressed. The blame for that loss falls on macro-economic policies -- mainly the federal budget deficit -- and on exchange rates. However, over the long run, American HRM practices-- both at the firm level and in terms of public policy -- can influence competitiveness. And, competitiveness, in turn, will ultimately influence the American standard of living.

As economists would be quick to note, under a flexible exchange rate system, exchange rate adjustments will occur to equate supply and demand for the U.S. dollar. Thus, if at the prevailing exchange rate, American exports fall short of imports, and if foreigners are unwilling to hold the resulting increments of claims on the U.S., the exchange value of the dollar will fall until demand and supply for it are again equated.

Thus, equilibrium of a sort is guaranteed, even if U.S. competitiveness declines. However, falling real exchange rates tend to reduce American living standards in two ways. First, such depreciations are usually accompanied by declines in the "terms of trade," the ratio of export prices to import prices.[38] Such terms of trade deteriorations mean that -- with a unit of exports worth less in relative terms -- it takes more American resources to buy a unit of imports. Seen from the viewpoint of the typical employee, this means declining real wages measured in terms of imports and import-competing goods, at least in the short run.

Second, long term declines in U.S. competitiveness are likely to show up as problems for the manufacturing sector. If the manufacturing sector weakens -- both as a source of exports and of import-competing goods -- the U.S. overall pattern of production will shift toward agriculture and primary products (to pay for imports and interest on America's net debt to foreigners). Manufacturing employment opportunities will be reduced and employment will thus tilt toward the lower-wage sectors of the economy.

Deterioration of the U.S. trade balance during the first half of the 1980s contributed to such developments -- although it was not the only cause. Were such a process to continue indefinitely, it would act as a long-term retardant on real wage growth and -- therefore -- on overall living standards. Rising anger over foreign competition and import displacement could trigger a protectionist move in Congress. Sliding American competitiveness on world markets could thus have unfortunate consequences in the area of international relations and foreign policy, as well as on the domestic economy.

i. Trade Adjustment Assistance: Background.

Even in the best of circumstances, some industries will be losers in the international market place. As already noted, there are certain industries in which labor costs are the main element of cost competition. Third-world countries, with labor costs ranging from a tenth to a third of American levels, are going to have an advantage in such cases that will be very hard to overcome. Some U.S. workers will be displaced as a result.

The U.S. has had a program of trade adjustment assistance (TAA) for workers and firms injured by foreign competition since the early 1960s. Originally, this program -- adopted when U.S. manufacturing was heavily export oriented -- was enacted to obtain labor support for wide ranging trade legislation. The Trade Expansion Act of 1962, a bill strongly supported by the Kennedy administration, provided for Presidential negotiation of tariff reductions with the recently-formed European Common Market and with other countries. At the time, the AFL-CIO generally supported the bill, but needed a provision to assist those affiliates experiencing import problems.[39]

Under the Trade Expansion Act, the worker component of trade adjustment assistance was supposed to provide supplements to unemployment compensation and funds for retraining to displaced workers who could show that their displacement was due to imports. The imports, in turn, had to be attributable to a concession, e.g., a tariff reduction, made by the U.S. However, proving the cause-and-effect relationships proved exceedingly difficult and no TAA petitions were approved until the early 1970s.[40]

Congress again considered the adjustment assistance issue in 1974. At that time, the President again sought legislative authority to negotiate with foreign countries for further reductions in international trade barriers. By then, imports were perceived as a threat to important elements of manufacturing, and -- in particular -- by organized labor which had heavy concentrations of members in that sector. A liberalized TAA program was included in the authorization bill, mainly in the hope of blunting labor's opposition, rather than of gaining its support.[41]

The new TAA provision eased the requirements for proving cause-and-effect links between imports and displacement, and dropped the requirement that the imports had to be due to a trade concession by the U.S. As a result, a substantial increase in approvals of petitions for TAA occurred. TAA became a major factor in government policy toward displaced workers by the early 1980s.

In fiscal year 1980, almost 685,000 workers were certified by the U.S. Department of Labor as eligible for benefits at a cost of over $1.6 billion.[42] But thereafter, substantial restrictions were placed on the program by the Reagan administration, which initially hoped to do away with TAA entirely. Congress balked at a complete elimination, and the program was kept alive until the mid 1980s, when it was again expanded. Legislation enacted in early 1986 extended the program through 1991.

ii. Issues Surrounding Trade Adjustment Assistance.

TAA raises an issue of equity. Under its provisions, a worker displaced by foreign competition is eligible for special government assistance.[43] But an identical worker displaced by domestic competition is not.[44] This peculiarity results from the political motivation of TAA; it has been viewed as a device to foster adoption by Congress of trade liberalizing bills -- or to fend off protectionist legislation. In effect, it has been a tool to "buy off" opposition to trade liberalization from adversely affected groups.

Usually, the political motivation behind TAA has not been stated so baldly. Arguments have been made that since "society" has determined that a liberal trade policy is generally beneficial, a kind of social contract is established whereby those who are hurt -- so that others may gain -- should be compensated. It has also been noted that trade-dislocated workers tend to be older than average with low levels of education and skill. They have been characterized as having greater difficulties in finding new employment after displacement than other workers.[45] Thus, trade-displaced workers have been portrayed as more deserving of assistance than others.

If -- despite these rationales -- TAA is viewed primarily as a political device, concerns about its actual effectiveness in aiding the displaced are not likely to receive substantial attention. And, indeed, TAA -- as actually implemented -- has been criticized as featuring slow processing of applications and delays in providing training to those who receive eligibility certifications. Even when the program was at its height, it was found lacking in actually helping displaced workers to readjust and in targeting those workers who most needed assistance.[46]

TAA has also been criticized for weakening, rather than strengthening, the motivation for trade-displaced workers to adjust to available opportunities. By extending unemployment insurance benefit payments, it is said, TAA creates an incentive to delay the inevitable. One suggestion has been to condition TAA on receipt of a new job, and then make the payment according to a formula which compensates for any reduction of wages which has occurred.[47] Such a system would not preclude provision of a training or mobility allowance to assist in finding employment. However, particularly during periods of high unemployment, Congress may be reluctant to eliminate ongoing income support payments from TAA.

iii. Employment Security.

One criticism of American business practices in the face of international competition is that U.S. firms are too quick to retreat. Consider the comments of economist Lester C. Thurow, dean of the Sloan School of Management at M.I.T.:

> "Every country has a comparative advantage -- the thing it does best. The problem is to figure out where one's comparative advantage lies. So among all of the things that America does, what does it do best? The answer is very simple. What American firms do best is go out of business. When it comes to going out of business, they

are the best in the world. No one goes out of business faster or with less regret, than American firms."[48]

Thurow argues that in other countries, employers are less free to lay off workers, either by law or custom. Going out of a line of business because of foreign competition involves costly payments to employees or costly placement of them in other jobs. As a result, they continue seeking competitive strategies rather than retreat from the field. Thurow views Japanese firms as taking an offensive strategy; they seek to regain leadership in markets in which they are slipping or threatening to slip. He sees European firms as adopting defensive postures, seeking to hold on to their market shares, but not necessarily striving for leadership.

American firms, Thurow suggests, face relatively low costs of layoff. Even if employees have economic stakes in their jobs, the implicit contracts involved are not legally enforceable. Moreover, Thurow argues, American firms know that their European and Japanese competitors are unlikely to drop out of a market because of their employment commitments. This knowledge makes it all the more likely that the American firm will withdraw. Finally, Thurow proposes, if for some reason the current management of an American firm is reluctant to abandon a market, "takeover artists" will assume control of the firm and do the job for them, probably ridding themselves of the incumbent managers along the way.

How valid is the Thurow critique? Experts would undoubtedly want to make many qualifications, and would consider Thurow position overstated or incomplete. Foreign firms do not literally protect every job. Moreover, the economic slump of the early 1980s, and subsequent employment stagnation in Europe, triggered a greater willingness to "restructure" industry abroad than had previous existed.[49]

However, the asymmetric reaction of the U.S. balance of trade to the appreciation and then depreciation of the dollar is supportive of Thurow's view. When the dollar appreciated after 1980, the U.S. trade balance quickly and markedly deteriorated (as would be expected); imports increased substantially relative to exports. But when the dollar depreciated after early 1985, the reverse did not occur; the U.S. trade balance did not quickly and markedly improve. It appeared that U.S. firms were not standing by, ready to recoup lost markets, when the opportunity reappeared.

The interrelationship between a company's policies regarding the HRM area and its basic business strategy is highlighted by the Thurow proposition. Internal policies with regard to employment security constrain and condition the degree to which the firm is tied to particular lines of production. The more employment security is offered, the more labor becomes like a fixed cost. The more labor is like a fixed cost, the cheaper it is to continue production -- even in the face of adverse market conditions. Using labor that would otherwise remain idle on the payroll involves a very low marginal cost.

iv. Compensation Systems.

In an earlier chapter, it was noted that the form of compensation can be an important element in defining the employer-employee relationship. A flexible compensation arrangement, such as profit sharing, can make it easier for firms to provide employment security in the face of fluctuating product market conditions. If the expansion of the international market place poses more uncertainty for firms, then consideration of the compensation system is clearly warranted.

Share arrangements shift some of the risks of the product market into the labor market, i.e., on to the employees. A willingness to remain in the product market -- even in the event of adverse competitive conditions -- becomes less costly for the firm. That willingness is linked to job security. Share systems recognize that although the employees have an investment stake in the firm, the value of their stake, like that of ordinary investors, depends on the economic conditions facing the firm. There is evidence that where capital market de-regulation occurs, and a greater focus is placed on short-term profitability, wage flexibility is forced to increase.[50]

Considerable western interest has been expressed in the Japanese semi-annual bonus payment system for employees. As illustrated on Table 5, Japan has exhibited very low unemployment rates, even in recession, and relatively little fluctuation in unemployment. It has been argued that the bonus system -- which has elements of profit sharing -- permits Japanese firms (and therefore the Japanese economy) to absorb external demand shocks more easily than firms elsewhere.[51]

Japan is not the only country to show a low unemployment rate on Table 5, however. Sweden, a country which does not have a Japanese-style bonus system, also stands out. Both Sweden and Japan have relative homogeneous labor forces, a factor which helps keep the absolute level of unemployment down. Sweden has had a long history of welfare state programs aimed at holding down unemployment through retraining, subsidies to encourage mobility, etc.

The countries which show the worst record in the 1980s are certain western European countries which seemed unable to pull themselves out of the slump which began in the early years of the decade. These are the countries with official and semi-official restrictions on layoffs, but without flexible compensation

Table 5

Civilian Unemployment Rates in Nine Developed Countries, 1979-86

Country	Rate of Unemployment		
	1979	1982	1986
United States	5.8%	9.7%	7.0%
Canada	7.4	11.0	9.6
Japan	2.1	2.4	2.8
France	6.0	8.3	10.7
Germany, West	3.0	5.9	7.6
Italy	4.4	5.4	6.2
Netherlands	5.3	11.3	n.a.
Sweden	2.1	3.1	2.7
United Kingdom	5.4	11.8	11.5

Note: Unemployment data have been adjusted to American definitions.

Source: <u>Monthly Labor Review</u>, vol. 110 (July 1987), p. 92.

systems and without Swedish-style adjustment programs. As has already been noted, <u>external</u> restrictions on the right to layoff can translate into reluctance to hire, especially in an uncertain economy.

A system of self-imposed reluctance to layoff, combined with a flexible, share-type pay system seems less likely to restrict hiring than the western European model. Workers have a stake in the firm, which is recognized, but the value of that stake is not rigidly set and reflects prevailing economic circumstances. The entrepreneurial element of compensation is in keeping with an aggressive stance in the product market rather than a defensive posture or a willingness to drop out in hard times.

v. Productivity: The International Setting.

Productivity is a key variable in determining competitiveness. In absolute terms, a productivity advantage can offset the cost disadvantage of a higher wage, by bringing down unit labor costs. And in terms of trends, higher rates of productivity improvement can make possible rising real wages without eroding a country's competitive position.

Absolute Productivity Differentials.

It is extremely difficult to obtain data on absolute productivity differentials by industrial sector across countries. A very crude all-sector measure is simply GNP per employee.[52] In the early 1980s, GNP per employee in northern Europe was about 75-90% of the American level. British and Italian GNP per employee were about two thirds and one half of the U.S. level, respectively. Japan's performance was similar to Britain's. South Korea's GNP per employee was about one sixth the American level.

Thus, in absolute terms, the U.S. has been able to offset its higher wages -- compared with other countries -- with higher productivity. But its ability to enjoy such an offset has fallen over the long term, as other nations catch up in productivity levels. As Table 6 shows, the U.S.'s rate of productivity growth in manufacturing has been slower than those of its developed competitors. Thus, absolute differentials have narrowed.

Productivity Catch Up.

That there should be a catch up in productivity is not surprising. Before World War II, American productivity was substantially higher than that of other developed countries, due to heavier capitalization and the application of the most modern

Table 6

Trends in Manufacturing Output Per Hour in Ten Developed Countries, 1960-85

Country	Annualized Percent Change in Output Per Hour			
	1960-73	1973-79	1979-85	1960-85
United States	3.2%	1.4%	3.1%	2.7%
Canada	4.7	2.2	1.7	3.4
Japan	10.3	5.5	5.7	8.0
Belgium	6.9	6.2	5.7	6.5
France	6.5	5.0	3.8	5.5
Germany, West	5.8	4.3	3.2	4.8
Italy	7.3	3.3	3.7	5.5
Netherlands	7.4	5.5	4.4	6.2
Sweden	6.4	2.6	3.3	4.7
United Kingdom	4.3	1.2	4.2	3.5

Source: Monthly Labor Review, vol. 110 (July 1987), p. 93.

technology. For example, a study of American vs. British productivity as of the late 1930s revealed that U.S. output per worker was more than twice the British level in such products as radio equipment, automobiles, glass containers, and paper. It was 1.4 - 2 times higher in cotton goods, cigarettes, hosiery, footwear, and beer production.[53] Damage to European and Japanese industrial plants during World War II added to the American productivity advantage.

But the effects of wartime damage were not permanent. The damage was eventually repaired, and newer-vintage capital equipment (embodying the latest technological advances) replaced what was lost in the war. Rates of investment abroad moved foreign capital-to-labor ratios up towards American levels. And, even though the U.S. emerged in the postwar period as a principal source of technological innovation, the technology could be-- and was -- transmitted to other countries.

Of the ten countries shown on Table 6, the U.S. exhibited the slowest productivity growth rate during the quarter century beginning in 1960. Even during the 1980s, when the rising dollar and international competition might have been expected to put special pressure on the U.S. to improve its productivity performance, it stayed at the bottom of the ranking. Although U.S. productivity in manufacturing rose relative to the American service sector (which was not as directly affected by foreign competition), it did not outpace its competitors abroad.

Unexplained Slippage.

Issues related to U.S. productivity performance have already been discussed in an earlier chapter. All countries, not just the U.S., experienced a productivity slowdown after 1973. It appears that the slowdown abroad -- as in the U.S. -- cannot be fully explained by measuring changes in capital and labor inputs. However, the available evidence suggests that in the U.S., the unexplained element in the slowdown was larger than those of western Europe and Japan.[54]

It would be unfair -- especially since the cause of the slowdown is not fully known -- to blame HRM practices in the U.S. for the American slippage since 1973. But, on the other hand, the possibility of improvements in HRM as a way of accelerating the American productivity trend, relative to other countries, ought not to be neglected. The most positive approach is to look at the record of past productivity performance as both a challenge to HRM professionals and an opportunity.

Alternative HRM Strategies.

Competition from the foreign sector is going to be a continuing factor in transforming the American industrial scene. In theory, the U.S. could insulate itself from the external economy through tariffs, quotas, and similar arrangements. But although there may be swings in the degree of protection afforded to U.S. firms, there is little likelihood that the U.S. will simply opt out of international competition. Thus, just as firms are forced by foreign competition to re-examine their strategies in marketing, production, and product development, so must they re-consider their HRM policies.

The possibility of fostering a longer-term, although more flexible, linkage with employees has been stressed in previous sections. Not only must there be greater pay flexibility involved in such a relationship; there needs also to be greater flexibility in the use of employees. One model of flexibility in employee deployment is simply to hire and fire employees as different needs arise. Such a system, however, for reasons stressed in an earlier chapter, is likely to produce disincentives for job-related investments in training. An alternative model features job security, flexible pay, and generalized training on the job, aimed at producing multi-skilled workers who can be redeployed as market demands change.[55]

HRM and Changes in World Production Patterns.

There is no single answer for all industries. In some cases, the hire/fire model, combined with use of temporaries, part-timers, and other loosely-linked employees may prove to be the best approach, from the employer viewpoint. These will be industries in which a heavy training commitment is not required for production. Note, however, that such industries are likely to be characterized by low wage and low skill workers.

Industries of that variety, if they are exposed to international trade, are extremely vulnerable to low wage competition from developing countries. In the U.S., such industries will at best be import-competing, not export leaders. At worst, even with the flexibility inherent in a hire/fire approach, they may nevertheless be uneconomic. Thus, the search for HRM innovations which foster international competitiveness is unlikely to produce fruitful results in these sectors.

Studies of American trade patterns suggest that among the sources of U.S. comparative advantage is the relative "abundance" of skilled workers in the U.S. When compared with its imports, American exports have historically been more intensive in the usage of skilled labor and less intensive in the usage of unskilled labor.[56] However, the biggest contrast in labor utilization is not between U.S. exports and imports, but between the trade sector (both exports and imports) and the rest of the economy. Because of the manufacturing orientation of trade, it is more using of production workers and of production-related professionals (e.g., engineers) and less using of service-sector oriented occupations such as clericals.

It is industries with trade-linked occupations that have the most to gain from considering alternatives to the hire/fire model, particularly those which are not inherently dependent on low wage, unskilled workers. One argument, identified with Michael J. Piore and Charles F. Sabel about the future of world industrial development is that mass production industries will give way to so-called "flexible specialization."[57] There will be more custom-designed products, according to this view, facilitated by computer technology and (re)programmable machines. The driving force behind this shift, Piore and Sabel argue, is that in the developed world, rising prosperity in the post-World War II era has saturated the market for mass produced consumer goods. The successful competitor, therefore, is the one who finds market niches, and who continues to innovate in product development and design.

What are the implications of such a shift in the mode of production for HRM? One is a need for flexible pay arrangements, as discussed above, since a firm constantly turning out new and revised products cannot count on continuous prosperity. A second is a need for broadly skilled workers, capable of shifting job tasks and collaborating with technicians.[58] But an open question is the optimum scale of production under flexible specialization. If custom production means smaller firms, the ability of any one firm to pay for the overhead entailed in an active HRM function is reduced. In effect, therefore, the HRM function must itself become more productive, performing its role with less bureaucracy and cost.

FOOTNOTES

1. See, for example, Hervey Juris, Mark Thompson, and Wilbur Daniels, Industrial Relations in a Decade of Economic Change (Madison, Wisc.: Industrial Relations Research Association, 1985).

2. Because foreign private enterprises generally are not permitted to operate in communist countries -- or operate only under very limited conditions -- HRM aspects of such countries are not reviewed. For references, see Lucie Cheng and Siwei Cheng, "Human Resource Management in the People's Republic of China" in Eric G. Flamholtz and T.K. Das, eds., Human Resource Management and Productivity, volume II, International Perspectives (Los Angeles: UCLA Institute of Industrial Relations, 1985), pp. 97-116; I.B. Helburn and John C. Shearer, "Human Resources and Industrial Relations in China: A Time of Ferment," Industrial and Labor Relations Review, vol. 38 (October 1984), pp. 3-15; Emily Clark Brown, Soviet Trade Unions and Labor Relations (Cambridge, Mass.: Harvard University Press, 1966); Arcadius Kahan and Blair A. Ruble, eds., Industrial Labor in the U.S.S.R. (New York: Pergamon Press, 1979); Ichak Adizes, Industrial Democracy: Yugoslav Style; The Effect of Decentralization on Organizational Behavior (New York: Free Press, 1971).

3. The differences between the American labor movement and those abroad with regard to political orientation are sufficiently marked that scholars refer to American "exceptionalism," in effect labeling the U.S. case as an aberration.

4. Henry P. Guzda, "Industrial Democracy: Made in the U.S.A.," Monthly Labor Review, vol. 107 (May 1984), pp. 26-33.

5. Robert J. Flanagan, David Soskice, Lloyd Ulman, Unionism, Economic Stabilization, and Incomes Policies: European Experience (Washington: Brookings Institution, 1983).

6. Michael Wallerstein, "Union Centralization and Trade Dependence: The Origins of Democratic Corporatism," working paper no. 126, Institute of Industrial Relations, UCLA, July 1987.

7. Daniel J.B. Mitchell, Essays on Labor and International Trade (Los Angeles: UCLA Institute of Industrial Relations, 1970), chapter 4.

8. Herbert R. Northrup and Richard L. Rowan, "Multinational Collective Bargaining Activity: The Factual Record in Chemicals, Glass, and Rubber Tires, Part I and II" Columbia Journal of World Business, vol. 9 (Spring 1974 and Summer 1974), pp. 112-124 and 49-63, respectively; Herbert R. Northrup, "Why Multinational

Bargaining Neither Exists Nor is Desirable," Labor Law Journal, vol. 29 (June 1978), pp. 330-342.

9. Jacques Rojot, International Collective Bargaining: An Analysis and Case Study for Europe (Deventer, Holland: Kluwer, 1978).

10. Jack Barbash, Discussion of "U.S. Industrial Relations in Transition: A Summary Report" in Barbara D. Dennis, ed., Proceedings of the Thirty-Seventh Annual Meeting, Industrial Relations Research Association, December 28-30, 1984 (Madison, Wisc.: IRRA, 1985), pp. 292-293.

11. Lloyd Ulman, "Who Wanted Collective Bargaining in the First Place?" in Barbara D. Dennis, ed., Proceedings of the Thirty-Ninth Annual Meeting, Industrial Relations Research Association, December 28-30, 1986 (Madison, Wisc.: IRRA, 1987), pp. 1-13.

12. Third-world countries often are unable or unwilling to enforce the labor standards legislation they enact. Smaller employers may operate outside the standards, while larger, visible (often foreign-owned) enterprises comply. See Rafael Alburquerque, "Minimum Wage Administration in Latin America," Comparative Labor Law, vol. 6 (Winter 1984), pp. 57-66.

13. The motivation behind this pressure was to blunt criticism of labor exploitation as a source of trade advantage. See Steve Charnovitz, "Fair Labor Standards and International Trade," Journal of World Trade Law, vol. 20 (January-February 1986), pp. 61-78.

14. The U.S. does not ratify ILO conventions although, with a brief exceptions, it has been an ILO member since 1934.

15. James N. Ellenberger, "Japanese Management: Myth or Magic," American Federationist, vol. 89 (April-June 1982), pp. 3-12; Satoshi Kamata, Japan in the Passing Lane: An Insider's Account of Life in a Japanese Auto Factory (New York: Pantheon Books, 1982). The latter was reviewed in Time as a "powerful indictment" of Japanese HRM practices. ("Bleak House," Time, February 14, 1983, p. 62).

16. Benjamin Aaron, ed., Labor Courts and Grievance Settlement in Western Europe (Berkeley, Calif.: University of California Press, 1971); Jack Stieber, "Protection Against Unfair Dismissal: A Comparative View," Comparative Labor Law, vol. 3 (Spring 1980), pp. 229-240.

17. Organisation for Economic Cooperation and Development, Flexibility in the Labor Market: The Current Debate (Paris: OECD, 1986); Guy Standing, "Labor Surplus and Labor Flexibility: A European Perspective" in Howard Rosen, ed., Job Generation: U.S.

and European Perspectives (Salt Lake City: National Council on Employment Policy, 1986), pp. 23-55.

18. Martin Vranken, "Deregulating the Employment Relationship: Current Trends in Europe," Comparative Labor Law, vol. 7 (Winter 1986), pp. 143-165.

19. The OECD has its headquarters in Paris, and the ILO in Geneva. However, both organizations have sales representatives in Washington, D.C. University libraries are likely to carry both OECD and ILO publications.

20. See, for example, Peter H. Lindert, International Economics, eighth edition (Homewood, Ill.: Irwin, 1986).

21. James C. Hartigan and Edward Tower, "Trade Policy and the American Income Distribution," Review of Economics and Statistics, vol. 64 (May 1982), pp. 261-270.

22. Ned G. Howenstine, "U.S. Affiliates of Foreign Companies: Operations in 1985," Survey of Current Business, vol. 67 (May 1987), p. 42; Barbara F. Brereton, "U.S. Multinational Companies: Operations in 1985," Survey of Current Business, vol. 67 (June 1987), p. 30.

23. R. Hal Mason, Robert R. Miller, and Dale R. Weigel, International Business, second edition (New York: John Wiley & Sons, 1981), pp. 416-417.

24. U.S. Bureau of Labor-Management Relations and Cooperative Programs of the U.S. Department of Labor, New United Motor Manufacturing, Inc., and the United Automobile Workers: Partners in Training, labor-management cooperation brief no. 10, March 1987.

25. The International Monetary Fund (IMF) was created after World War II as a financial intermediary whereby countries with balance of payments surpluses could -- through complicated mechanisms-- lend to deficit countries. The IMF has been modified since its original creation and it now plays a somewhat different role in international monetary affairs. In addition, other means of borrowing reserves were developed in the post World War II period.

26. The reasons for the breakdown are complex and need not be developed here. However, in essence, fixed exchange rate systems require a great deal of international cooperation and coordination of domestic economic policies. Otherwise, currency values are threatened by chronic excess demand or supply. The U.S. dollar was in chronic excess supply during the late 1960s and early 1970s and the Nixon administration was unwilling to

apply the painful domestic austerity policies that would have been necessary to maintain the fixed exchange rate system.

27. The journal International Financial Statistics carries a monthly listing of national currency policies.

28. Real exports and imports are the values of exports and imports of goods and services, as reported in the national income accounts, divided by the relevant price deflators. The real exchange rate refers to a Federal Reserve Board index of exchange rates of ten major currencies with the U.S. dollar. It is adjusted to take account of relative inflation in the U.S. and the other countries. To understand this adjustment, suppose that the dollar appreciates 10% relative to another country's currency, the impact on U.S. competitiveness can only be measured if the rate of inflation there relative to the U.S. is known. Suppose that prices in the U.S. rise by 4% and prices in the foreign country rise by 6%. Then, as an approximation, the real appreciation of the dollar was actually only 8% [10% - (6%-4%)]. That is, American prices seen by the foreign buyer rose by the 10% appreciation plus the 4% inflation for a total of 14%. However, the foreigner must compare the 14% dollar price increase with the 6% home price rise. The difference is a net relative price shift of 8% in favor of foreign suppliers.

29. For more analysis of these issues, see Robert Z. Lawrence and Robert E. Litan, "The Protectionist Prescription: Errors in Diagnosis and Cure," and Paul R. Krugman and Richard E. Baldwin, "The Persistence of the U.S. Trade Deficit," Brookings Papers on Economic Activity (1:1987), pp.289-310, and 1-43, respectively.

30. Readers who have studied international trade will recognize that the text is alluding to the Samuelson factor-price equalization theorem. This theorem, which originally evolved out of the so-called Heckscher-Ohlin model of international trade, is discussed in Lindert, International Economics, op. cit., chapter 4.

31. Rising inflation in the U.S. in the late 1970s may have led currency transactors to fear a continuous erosion in the value of the dollar compared with other currencies. The marked slowdown in inflation in the 1980s proved these fears to be incorrect.

32. Daniel J.B. Mitchell, "International Convergence with U.S. Wage Levels" in Barbara D. Dennis, ed., Proceedings of the Thirty-Sixth Annual Meeting, Industrial Relations Research Association, December 28-30, 1983, pp. 247-255.

33. Ann C. Orr and James A. Orr, "Employment Adjustments in Import-Sensitive Manufacturing Industries, 1960-1980" in Barbara D. Dennis, ed., Proceedings of the Thirty-Sixth Annual Meeting, Industrial Relations Research Association, December 28-30, 1983

(Madison, Wisc.: IRRA, 1984), pp. 230-238.

34. Daniel J.B. Mitchell, "Alternative Explanations of Union Wage Concessions," California Management Review, vol. 29 (Fall 1986), pp. 95-108.

35. Wolfgang F. Stolper and Paul A. Samuelson, "Protection and Real Wages," Review of Economic Studies, vol. 9 (November 1941), pp. 333-357.

36. Foreign countries may agree to limit their own exports under threat of harsher measures by the importing country. They may also be in a position to collect some "rents" domestically by agreeing to the arrangement. The restriction of export sales can have a monopolistic effect, raising the price of those units they are permitted to sell. Thus, although the number of units sold is reduced by the orderly marketing agreement, the mark up per unit can be increased. A prominent example of an orderly marketing agreement was a restriction of automobile exports to the U.S. agreed to by Japan under American pressure in the early 1980s.

37. A "trade war" is a situation in which countries retaliate against one another by imposing trade barriers such as tariffs.

38. There is no theoretical requirement that depreciation lead to a decline in the terms of trade. However, this association is an empirical regularity. If U.S. import prices are viewed as determined largely by foreign costs, and U.S. export prices as determined largely by domestic costs, it is easy to see why depreciation of the dollar (the raising of foreign costs in terms of dollars) would cause the American terms of trade to deteriorate.

39. Daniel J.B. Mitchell, "Labor and the Tariff Question," Industrial Relations, vol. 9 (May 1970), pp. 268-276.

40. A special temporary TAA program was adopted for the automobile industry in the mid 1960s after a U.S.-Canadian agreement established free trade in new cars between the two countries. This program, unlike the more general TAA version, did pay benefits in the late 1960s.

41. The history of TAA is discussed in Daniel J.B. Mitchell, Labor Issues of American Trade and Investment (Baltimore: Johns Hopkins University Press, 1976), chapter 3.

42. U.S. Congress, Office of Technology Assessment, Trade Adjustment Assistance: New Ideas for an Old Program, Special Report (Washington: GPO, 1987), p. 25.

43. The TAA program which was extended in 1986 provides for 78 weeks of payments at the same rate as state unemployment insurance. Typically, unemployment insurance is provided for only 26 weeks, so that TAA gives workers up to an extra year of benefits. They also become eligible for retraining programs.

44. Charles R. Frank, Jr., Foreign Trade and Domestic Aid (Washington: Brookings Institution, 1977), chapter 10.

45. American Enterprise Institute for Public Policy Research, Reauthorization of Trade Adjustment Assistance (Washington: AEI, 1983), chapter 4; Malcolm D. Bale, "Adjustment Assistance: Dealing with Import-Displaced Workers" in Walter Adams et al, Tariffs, Quotas & Trade: The Politics of Protection (San Francisco: Institute for Contemporary Studies, 1978), pp. 149-161.

46. U.S. General Accounting Office, Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find a Job Can Save Millions, HRD-80-11 (Washington: GAO, 1980).

47. Robert Z. Lawrence, Can America Compete? (Washington: Brookings Institution, 1984), pp. 131-133.

48. Lester C. Thurow, "Take the Money and Run: U.S. Firms Are Best at Going Out of Business," Los Angeles Times, Part 4, August 16, 1987, p. 3.

49. William Schweke and David R. Jones, "European Job Creation in the Wake of Plant Closings and Layoffs," Monthly Labor Review, vol. 109 (October 1986), pp. 18-22.

50. Richard S. Belous, "Flexibility and American Labour Markets: The Evidence and Implications," working paper no. 14, World Employment Programme Research, International Labour Office, June 1987.

51. Richard B. Freeman and Martin L. Weitzman, "Bonuses and Employment in Japan," working paper no. 1878, National Bureau of Economic Research, April 1986; Takatoshi Ito and Martin L. Weitzman, "Lessons to be Learnt from Japan," Financial Times, January 21, 1987, p. 17.

52. Many difficulties arise with this measure. Value added in government is defined as the labor cost. Thus, government productivity cannot be measured. International comparisons will be distorted by differences in the size of the government sector across countries. And the usual difficulties of exchange rate fluctuations arise. The estimates in the text are based on GNP estimates (divided by civilian employment) in 1983 in terms of 1982 U.S. dollars converted at 1982 exchange rates. Source for GNP data is U.S. Bureau of the Census, Statistical Abstract of

the United States: 1987 (Washington: GPO, 1987), p. 824. Employment data are from Monthly Labor Review, vol. 110 (July 1987), p. 92. For South Korea, employment data are from International Labour Office, Yearbook of Labour Statistics: 1986 (Geneva: ILO, 1986), p. 344.

53. G.D.A. MacDougall, "British and American Exports: A Study Suggested by the Theory of Comparative Costs," Economic Journal, vol. 61 (December 1951), pp. 697-724,

54. Angus Maddison, "Growth and Slowdown in Advanced Capitalist Economies: Techniques of Quantitative Assessment," Journal of Economic Literature, vol. 25 (June 1987), pp. 649-698, especially p. 676.

55. There is some evidence that U.S. nonsupervisory workers receive less job training than those in Japan. See Richard M. Cyert and David C. Mowery, eds., Technology and Employment: Innovation and Growth in the U.S. Economy (Washington: National Academy Press, 1987), p. 141.

56. Data on the 1950s through 1970s can be found in Daniel J.B. Mitchell, "The Occupational Structure of U.S. Exports and Imports," Quarterly Review of Economics and Business, vol. 10 (Winter 1970), pp. 17-30; Daniel J.B. Mitchell, "Recent Changes in the Labor Content of U.S. International Trade," Industrial and Labor Relations Review, vol. 28 (April 1975), pp. 355-375; and Lindert, International Economics, op. cit., p. 78.

57. Michael J. Piore and Charles F. Sabel, The Second Industrial Divide: Possibilities for Prosperity (New York: Basic Books, 1984).

58. Piore and Sable, The Second Industrial Divide, op. cit., pp. 271, 273.