The European Community 1992 program and U.S. workers

A conference on the implications for U.S. workers of the European Community's impending integration brought together experts of all stripes who agreed that the move will have not only an economic, but also a political and social impact

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The European Community's plan to create, by 1992, a single market permitting the free flow of goods, capital, and people among member countries has caught the imagination and interest of many in the United States. Numerous studies and conferences have investigated the potential impact of this plan, called EC 1992, on U.S. companies. Little attention, however, has been given to how U.S. workers are likely to be affected. To help fill this gap, and to raise explicitly some issues of concern to U.S. workers, the Bureau of International Labor Affairs of the U.S. Department of Labor, in conjunction with the Center for Strategic and International Studies, cosponsored a roundtable conference in March 1990 on "EC 1992: Implications for U.S. Workers." This conference brought together leading experts from government, academia, business, and labor to discuss the topic of European economic, political, and social integration and its implications for U.S. workers. This report discusses the major themes that evolved during the conference.[1]

Overview

The conference opened with a review of the major areas of concern for U.S. workers resulting from the EC 1992 program. The importance and interdependence of the economic relationship between the European Community and the United States was emphasized. Each is the other's main trading partner and largest source of direct investments. U.S. exports to the European Community account for nearly a quarter of total U.S. exports and support nearly two million jobs in the United States. Besides internal economic effects, EC 1992 will have international strategic implications: a united Europe will be able to assume more financial and political responsibility in the operation of the global economic system.

The creation of a single market by the European Community is likely to alter the competitive position of firms in member countries relative to U.S. firms in markets throughout the world, but especially in Europe. Both the structure and the volume of U.S. exports and imports will be altered, with some U.S. workers facing job dislocations as a result, while others enjoy increased job opportunities. Estimations of the direction and magnitude of these changes are obviously important to U.S. workers.

Another area of concern is that EC 1992 will make Europe a more attractive place in which to invest, and this could displace some investment that would have been made in the United States. Since investment is a significant factor in determining longrun growth in productivity and living standards, a reduction in investment in U.S. plants and equipment could prove detrimental to U.S. workers.

Still another area of interest in EC 1992 is the proposed "Social Dimension," which, if enacted, could lead to a broader application of worker rights and labor standards across the continent. These changes could directly affect the competi-

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tiveness of European firms, but even more important is their potential for altering U.S. labor standards and benefits by the example they set. The discussion that took place at the conference attempted to ascertain the importance of each of the foregoing three themes.

Aggregate economic effects

In a paper prepared for the conference, Professors Richard Freeman and Lawrence Katz, of both Harvard University and the National Bureau of Economic Research, assessed the overall impact of EC 1992 on U.S. trade and employment. They found that, compared to the rapid "internationalization" of the U.S. economy in the 1970's and 1980's and the massive trade deficits of the 1980's, the impact of EC 1992 on U.S. trade flows and the U.S. labor market is likely to be only minor to moderate. Using estimates presented in the Cecchini Report (prepared for the Commission of the European Communities in 1988) that European Community imports initially would drop 8 to 10 percent as the result of increased intra-European trade, Freeman and Katz projected a similar reduction in U.S. exports to the European Community, which would result in an overall reduction in U.S. exports of 2.4 percent. Based on this projection, they concluded that such a relatively small change would not create any major dislocations of workers in the United States. However, U.S. Department of Commerce estimates show that even a 3-percent decline in U.S. exports could displace up to 200,000 workers. In the long run, EC 1992 is projected to increase the rate of economic growth in Europe as firms benefit from increased efficiencies and economies of scale. There is a wide range of estimates of these longrun growth effects, from negligible increases to increases of up to 35 percent in the present value of the gross domestic product. In the longer run, increased growth in the European Community is likely to result in increased trade with the United States.

Professor Katz discussed his research regarding the effects of international trade on U.S. labor markets. This research supports the conventional wisdom that increased trade is more likely to benefit more educated and highly skilled workers than lower skilled production workers in the manufacturing sector (for example, through increased wages and employment). In addition, workers displaced by increased imports have a more difficult time gaining reemployment than other displaced workers and experience larger earnings losses when they are reemployed. These conclusions tend to support the need for additional help for such workers, perhaps through trade adjustment assistance programs. Recently, several U.S. legislators have proposed a small supplemental tariff to help finance trade adjustment assistance. It was pointed out that the European Community was spending about $6,000 a year per worker for training and retraining and that the United States needs a similar program to maintain a competitive and mobile work force. It was also suggested, by a U.S. trade unionist, that some protection might be justified in the short run, given the large shortrun costs of retraining the work force.

Professor Katz indicated that the U.S. labor market effects that would result from the projected long-term increase in U.S. trade with the European Community would be similar to those that occurred in the 1980's. This conclusion was questioned by some who observed that increased trade with Europe is more likely to affect those U.S. industrial sectors with more highly skilled, high-technology workers than previous increases in trade that have come from newly industrializing economies. However, Professor Katz countered that the recent U.S. import adjustment problems were primarily due to imports from Japan and that the percentage of U.S. imports coming from the newly industrializing economies had actually decreased during the 1980's. An additional reason highly skilled labor may be more affected is that the European Community is promoting the development of high-technology areas, supplemented with massive labor retraining efforts.

The European Community and the United States are each other's main trading partner and largest source of direct investments.

With regard to investment, the recent increases in U.S. direct investments through both acquisitions and plant construction in Europe were noted. However, a similar large flow of European direct investments in the United States was cited as evidence of a balanced relationship. A member of the European Community delegation stated that U.S. investment in Europe was motivated by sound economic reasons and was not "forced investment" resulting from attempts to avoid European Community trade barriers.

It was also suggested that EC 1992 would further hasten the process of corporate globalization. With the European Community and the European Free Trade Association (and, perhaps, Eastern Europe) adopting similar product standards, common European standards could become the global standards. By replacing the United States as the setter of international product standards, European companies would acquire a significant competitive advantage in third-country markets.

The general consensus was that, as a result of EC 1992, the United States will likely face increasingly more competition, but significant changes in aggregate U.S. employment and wages are unlikely. However, some unskilled

U.S. workers may experience a small decline in employment and wages. While projections of economywide effects in the U.S. were small, various directives being proposed by the European Community could have significant impacts on specific U.S. industries and, thus, U.S. workers in those industries. Three U.S. industrial sectors—automobiles, electronics, and mass media and entertainment—that might be affected by European economic integration were discussed in more detail. These sectors were chosen because they typified various potential trade problems, not because they were deemed the sectors most likely to be affected.

Sector studies

Automobiles. The automobile industry is of particular interest, not only because of its significant size (in terms of employment in both the United States and the European Community), but because it is subject to a number of European Community regulations that are potentially discriminatory in nature. These include country-specific policies, laws, and regulations relating to import quotas, technical product standards, domestic content requirements, rules of origin, national government subsidies, and taxes. Also at issue are concerns about price discrimination and dumping.

Currently, many European countries have import quotas on Japanese cars. For example, Italy limits imports from Japan to only 2,500 cars a year. The European Community is planning to replace these national quotas with a community-wide restriction on imports from Japan that will stabilize imports until 1992 and then slowly liberalize them over a subsequent transitional period.

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The main issue of concern to U.S. labor is whether cars assembled in the United States that use some Japanese components are to be included in the European Community's quota on imports from Japan. (That is, would they be treated as U.S. cars and not as Japanese cars?) The panel felt that, as long as imports from the United States were not disruptive to the European Community market, they would be exempt. However, the threat of restraints could limit planned U.S. production, and thus, any proposed Communitywide quota system could effectively discriminate against U.S. exports, even if they were currently exempt from quotas. It was noted that the United States has its own rules of origin covering automobiles in the U.S.–Canada free trade agreement. However, a significant difference was noted between the European practice, which restricts, with quotas and high tariffs, those cars not satisfying the Community's rules of origin, and the U.S. practice, which has no import quotas and subjects such cars only to a small tariff.

Electronics. Workers in the U.S. electronics industry are concerned about developments in the European Community because it is the largest market for U.S. electronics exports and numerous discriminatory trade practices have been proposed and implemented by the Community. The electronics industry includes the manufacture of computers, semiconductors, and related products and has important linkages to many other industrial sectors (especially consumer goods and informational and financial services). Because of its high-tech nature and extensive linkages, a competitive U.S. electronics industry is deemed by many to be necessary for a healthy domestic U.S. economy. In this regard, it is perceived much as the steel industry was in earlier decades. The electronics industry now accounts for about 1 out of every 9 U.S. manufacturing jobs, more than the chemical, automotive, and steel industries combined.

Discussion focused on the semiconductor market and several proposed European Community policies that might adversely affect U.S. employment. Foremost among these are several policies that would have the net effect of requiring U.S. firms to establish plants within the European Community despite current excess capacity in the United States. Three examples were cited in which U.S. manufacturers had decided to build production facilities in Europe—an Intel plant in Ireland, an LSI logic facility in England, and a Texas Instruments DRAM factory in Italy. Japanese firms (for example, Fujitsu, Hitachi, and Mitsubishi) are also building semiconductor wafer fabrication plants in Europe. The specific European policies cited as causing this investment by non-European Community countries include high tariffs—especially a 14-percent tariff on semiconductors—and the conditioning of eligibility for European Community government contracts on high levels of European content. As proposed, wafer fabrication and the diffusion process of semiconductor fabrication must be done in Europe for a semiconductor to be considered European. Increased investment in production facilities in Europe, in turn, could result in excess capacity within the European Community and increase the pressure for additional protection.

The desirability of harmonizing the international rules concerning government procurement, local content, and rules of origin within the General Agreement on Tariffs and Trade (GATT) was also stressed. Some felt that too much attention had been given to the agricultural sector, instead of the more important electronics sector, in the current GATT negotiations. Some fears were expressed that trade relations between the European Community and the United States in semiconduc-

tors might become as contentious as they have become in agriculture.

Some participants expressed a more optimistic view that the European Community would make changes that might lead to liberalization. An example of this kind of change would be the replacement of national research and development efforts (now restricted to member states) with community-sponsored efforts that would also be open to foreign firms according to the principle of national reciprocity. On the other hand, representatives of the European Community expressed the concern that they did not want Japan to do to the European Community what Japan had done to the United States.

Entertainment and mass media. The entertainment and mass media industry includes radio and television programming, motion pictures, and sound recordings. The market for these items borders on the line between goods and services; therefore, it is unclear how existing international trade agreements apply. The service industries are not covered at present by GATT rules, and a major objective of the United States in the current Uruguay round of multilateral trade negotiations is to bring them under the GATT. The panel discussed several possible ways that EC 1992 could adversely affect U.S. employment in the entertainment and mass media industry.

The European broadcast industry has grown strongly in the past and is projected to grow rapidly over the next decade. Currently, the United States provides a significant portion of programming to European Community broadcasters. The European Community, however, has passed a directive which states that broadcasters should reserve at least 50 percent of their programming for European works "where practicable." If adopted strictly, this ruling would be equivalent to setting a quota on non-European Community programming. The objective of such a quota would be to protect the European film and television industry so as to ensure programming that would maintain member countries' cultural heritage. One European participant suggested that this might be a legitimate objective that would justify trade restraints. In response, a U.S. industry spokesperson stated that the primary objective of the directive was economic, and not cultural, protectionism.

The overall conclusion of the panel discussion was that the broadcast directive will not have significant effects on U.S. employment because (1) European production capacity will be strained to keep up with the increased demand from all the new European channels, and sizable imports (and even additional imports from the United States) will be needed to meet this demand; (2) European films and TV programs have not, and are not likely to, become as popular in the United States as U.S. programs are in Europe because there is consumer resistance in the United States to dubbed or subtitled programs; and (3) the large English language market will continue to allow U.S. firms to produce more expensive and higher quality programming than the Europeans will be able to produce.

Some concern was expressed about investments currently being made in Europe by such U.S. firms as Capital Cities/ABC Video, Paramount Pictures, and Fox Television. However, these investments were viewed more as firms participating in a new market and not as a substitution for U.S. investment or U.S.-made programming. Concerns were also expressed that the 50-percent European-content requirement would only be a minimum and that, in the future, it could be set higher at the national level, as was done recently by France. Some stated that a restriction on advertising time, also included in the broadcast directive, could limit the income derived from the sales of U.S. programming.

Concerns were expressed regarding broadcasting that the 50-percent European-content requirement would only be a minimum.

An additional aspect of EC 1992 that may create problems for U.S. competitiveness is the likely adoption by the European Community of high-definition television standards that differ from those in the United States. The European Community has already established a technical format that is not consistent with the formats currently under consideration by the United States. Indeed, a serious degradation in quality results when converting from one format to the other. Thus, U.S.-produced programs could lose some of their appeal in the European market because, after conversion, they would be of inferior technical quality. High-definition television will not become widely used until the mid-1990's, so no immediate impact from this disparity is predicted; however, the impact could be quite significant in the long run. Because adoption of the European standards is not the result of a deliberate attempt to distort trade in a discriminatory fashion, the appropriate U.S. policy response is unclear. The issue, however, does highlight concerns about international standards and the need for the United States to at least consider, and even perhaps adapt to, the standards established by the European Community.

The studies of the automobile, electronics, and entertainment and mass media industries revealed important industry-specific effects stemming from EC 1992 that were not obvious from the aggregate analysis presented earlier. This was of course the reason for choosing those particular industries for special analysis.

The Social Dimension

When EC 1992 was first outlined in a 1985 White Paper, there were no references to labor markets or labor relations. Since that time, concern over these issues has increased, and supplemental legislation dealing with the social dimension of the program has been proposed. Professor Duncan Campbell, of the University of Pennsylvania, reviewed the social dimension of the European Community single market and its potential impact on U.S. workers.

The Social Dimension of EC 1992, as defined in official documents, is broad in scope. Its central core is the Action Program of the Social Charter, which includes proposals for as many as 70 European Community-wide laws in the social field. Among these laws are provisions on the free movement of labor, freedom of association and collective bargaining, health and safety standards and other working conditions, information, consultation and participation, vocational training, and protections for women, minorities, children, the disabled, and the elderly. The Social Dimension also includes additional issues such as funds for disadvantaged regions and the proposed European Company Statute. The latter would allow companies the option of a single act of incorporation that would be valid throughout the European Community, subject to European law and independent of national company law, on the condition that they accept some system of worker participation, information, and consultation.

Although national governments and labor unions continue to be accepted as dominant players in European labor relations, there is considerable controversy about the role of Brussels (the seat of the European Community government) in this process. The debate is part of a larger debate over the role of the European Commmunity Commission in formulating social policy. Is the role of the European Community's Federal bureaucracy simply to monitor member nation-states in the capacity of an intergovernmental organization, or is the bureaucracy to play the role of a centralized government in a federation of states? At the heart of the debate is exactly which issues should be decided at the European Community supranational level and which should be resolved at the individual national government level.

The question arises, Should labor unions be European Community wide and thus more patterned after the AFL-CIO in the United States?

In regard to labor market intervention, the European Community Parliament and the Council of Ministers have been assuming greater responsibility, while the individual national governments have been attempting to deregulate their labor markets and make them more flexible. These developments reflect an attempt to deal with two factors that lie beyond the control of national governments and require supranational regulation: the potential for social dumping (for example, the lowering of national labor standards to the lowest common denominator or the flight of industry from countries with higher labor standards to those with lower labor standards) and the increased power of multinational corporations.

Recent institutional changes in the European Community's decisionmaking procedures are also promoting European Community-wide involvement in the Social Dimension. The first change is the decision to permit a "qualified majority" of member states to pass laws and directives in certain areas, instead of requiring unanimous approval in the Council of Ministers. The second is the increased power of the European Parliament in addressing the Social Dimension. These changes should mitigate any political obstacles that may exist to resolving these issues.

A question was raised as to whether labor unions should be organized by geographic region or by industrial sector and whether the United States was an appropriate model to copy in this regard. Historically, unions in Europe have been regional; but with the impending implementation of EC 1992, the question arises, Should they be European Community wide and thus more patterned after the AFL-CIO in the United States? Obviously, European Community-wide unions would be a more effective restraint on social dumping than would regional unions. In the view of a European trade unionist, national labor federations may be appropriate, as long as exchange rates are flexible. However, national organization is likely to create problems of competitiveness when exchange rates are fixed, as is probable after 1992. This will be especially true if the European Community decides to adopt a common currency. European sentiment was strong for a European Community-wide model formulated along the lines of the German social model or perhaps a model that is a hybrid of the German, Italian, and British models. The U.S. model was not viewed as desirable or relevant to the current European situation. However, some U.S. trade unionists expressed skepticism about the likelihood of a European solution, and a European trade unionist expressed the need for legal guarantees and regulation through the Social Charter.

The consensus that emerged was that, because the United States and the European Community were so different in their overall approaches to labor relations, the United States could not serve as a model for the European Community to follow and that future developments in Europe might not be transferable to the United States. By contrast, the fact that U.S. health and safety regulations were being used as a model for the

European Community was offered as an example—the only one so far, besides statistical economic data collection—of U.S. standards being applied in Europe.

In a move that would please U.S. workers concerned about possible European protectionism, the European labor leaders who were present at the conference stressed their commitment to free trade. These functionaries emphasized their desire for retraining as a way to speed up workers' adjustment to new jobs, instead of protectionism, which would slow down their adjustment. The different reactions of European and U.S. employers to increased competition were also noted: European firms tend to increase their investments in capital machinery so as to improve productivity, while U.S. firms lean toward moving production offshore to lower cost locations.

The conference also attempted to assess how the current liberalization and reform in Eastern Europe and the unification of Germany might affect the 1992 program. It was felt that Eastern Europe, with its openness to foreign capital, educated labor force, and geographical proximity, would become a major competitor with Southern Europe. The potential integration of Eastern Europe with the European Community (either formally or informally) would provide additional markets for European Community output, but would also create additional adjustment costs. It is even possible that the ongoing economic and political restructuring of Eastern Europe would increase resistance to implementing social legislation from the less developed member states of the European Community, because these regions would be under more competitive pressure. However, the general assessment was that "widening" the European Community to include Eastern Europe would not decelerate the "deepening" of the economic and social dimensions within the European Community.

Emerging themes

Several themes emerged from the conference on the implications for U.S. workers of EC 1992. Two related concepts that arose frequently were the globalization of the world economy and the role of national governments in any subsequent restructuring and adjustment. The emergence of the European Community must be viewed as more than just the economic integration of the member nations: it implies not only regional economic integration, but also political and social integration, at least to some extent.

Globalization and integration of the world economy raise issues related to international product standards, the mobility of capital, the role of multinational corporations, and how each of these will affect the competitiveness of nations and their work forces. Increasingly, multinational corporations have located production facilities (a network of suppliers, manufacturers, assemblers, and distributors) worldwide to take into account changes in world economic conditions. In a very real sense, multinational corporations are supranational: what constitutes a U.S. or a German company has become increasingly difficult to say. And along with this development, national governments are finding that it is becoming harder to monitor and regulate multinational enterprises. The interests of multinational corporations are not always in the national (for example, the U.S.) interest; and, in turn, the interests of U.S. businesses are not always the same as the interests of U.S. workers. While industrial enterprises are becoming transnational, labor markets remain national and regionalized, with labor mobility quite limited.

National governments are adopting different strategies to cope with the restructuring and adjustment being brought on by the process of global integration. In Europe, the unification of nation-states—first into an economic and now into a political and social federation—is raising new questions such as the following: How should substantial differences in standards of living among member countries be addressed? How should work be reorganized within the social context so as to achieve higher productivity and wages? Should there be statutory guarantees of workers' rights and labor standards, rather than a reliance on collective bargaining? Should there be federal (central) or local (nation-state) norms? What is the proper role of national governments in the domestic and world economy—interventionist or preserving of states' rights? Whose responsibility is it to help retrain workers, the private sector or the public sector? How are economic and social forces from outside the union to be dealt with? Answers to these and other questions are still being hotly debated within Europe and may be of considerable consequence to workers in both Europe and the United States. □

Footnote

[1] The five papers commissioned for the roundtable conference, including a summary of the discussion after each session, are available in Jorge F. Perez-Lopez, Gregory K. Schoepfle, and John Yochelson, eds., *EC 1992: Implications for U.S. Workers*, CSIS Significant Issues Series (Washington, Center for Strategic and International Studies, 1990). Contributing authors to this volume are Thomas L. Brewer, Duncan C. Campbell, Richard B. Freeman, Lawrence F. Katz, Michael C. Maibach, and Stephen E. Siwek.