

Value chain restructuring in Europe in a global economy

Ursula Huws and Simone Dahlmann, WLRI
Jörg Flecker, Ursula Holtgrewe, Annika Schönauer, FORBA
Monique Ramioul and Karen Geurts, HIVA

Comment by Christian Bellak¹

¹Department of Economics, University of Economics Vienna, Austria

WORKS final international conference

Synopsis of the report I

- **Aim** *How workplaces, jobs, allocation, working conditions and industrial relations change in relation to the restructuring of value chains. What employment gets located where? Where does which type of production occur?*
- **Motivation** *To deepen the insights into the topic of workers representation and participation in the framework of industrial relations and social dialogue.*
- **Method** *Descriptive and qualitative analysis, 54 case studies.*

Synopsis of the report I

- **Aim** *How workplaces, jobs, allocation, working conditions and industrial relations change in relation to the restructuring of value chains. What employment gets located where? Where does which type of production occur?*
- **Motivation** *To deepen the insights into the topic of workers representation and participation in the framework of industrial relations and social dialogue.*
- **Method** *Descriptive and qualitative analysis, 54 case studies.*

Synopsis of the report I

- **Aim** *How workplaces, jobs, allocation, working conditions and industrial relations change in relation to the restructuring of value chains. What employment gets located where? Where does which type of production occur?*
- **Motivation** *To deepen the insights into the topic of workers representation and participation in the framework of industrial relations and social dialogue.*
- **Method** *Descriptive and qualitative analysis, 54 case studies.*

Synopsis of the report II

What employment gets located where?

© Original Artist
Reproduction rights obtainable from
www.CartoonStock.com



**"We are outsourcing your job to Borneo
where it will be performed by a monkey."**

Synopsis of the report III

The economist's answer

- **Krugman 1990** Multinational enterprise occurs whenever there exist related activities for which the following is true: There are simultaneously transaction cost incentives to integrate these activities within a single firm and factor cost or other incentives to separate the activities geographically.
- **Feenstra 1998** Integration of markets and disintegration of production; extends argument to outsourcing: breakdown in the vertically-integrated production or “Fordist production”.
- **Brainard 1997** Proximity-concentration trade-off
- **Barba-Navaretti and Venables 2005** Costs and benefits of geographical dispersion

Synopsis of the report III

The economist's answer

- **Krugman 1990** Multinational enterprise occurs whenever there exist related activities for which the following is true: There are simultaneously transaction cost incentives to integrate these activities within a single firm and factor cost or other incentives to separate the activities geographically.
- **Feenstra 1998** Integration of markets and disintegration of production; extends argument to outsourcing: breakdown in the vertically-integrated production or “Fordist production”.
- **Brainard 1997** Proximity-concentration trade-off
- **Barba-Navaretti and Venables 2005** Costs and benefits of geographical dispersion

Synopsis of the report III

The economist's answer

- **Krugman 1990** Multinational enterprise occurs whenever there exist related activities for which the following is true: There are simultaneously transaction cost incentives to integrate these activities within a single firm and factor cost or other incentives to separate the activities geographically.
- **Feenstra 1998** Integration of markets and disintegration of production; extends argument to outsourcing: breakdown in the vertically-integrated production or “Fordist production”.
- **Brainard 1997** Proximity-concentration trade-off
- **Barba-Navaretti and Venables 2005** Costs and benefits of geographical dispersion

Synopsis of the report III

The economist's answer

- **Krugman 1990** Multinational enterprise occurs whenever there exist related activities for which the following is true: There are simultaneously transaction cost incentives to integrate these activities within a single firm and factor cost or other incentives to separate the activities geographically.
- **Feenstra 1998** Integration of markets and disintegration of production; extends argument to outsourcing: breakdown in the vertically-integrated production or “Fordist production”.
- **Brainard 1997** Proximity-concentration trade-off
- **Barba-Navaretti and Venables 2005** Costs and benefits of geographical dispersion

Synopsis of the report IV

Likewise: Power Relations



© Original Artist
Reproduction rights obtainable from
www.CartoonStock.com

Synopsis of the report V

This report maintains that analysis of these questions has to be carried out at the *level of the business function* rather than at the firm or even industry level.

Synopsis of the report VI

Results in a nutshell

- **General Result** “Diversity and heterogeneity” ... rather than the economist’s “average firm”; highly relevant for policy makers
- **Empirical Analysis**
 - Degree of elaboration of value chains; role of tacit knowledge; the strong spatial dimension of value-chain restructuring; and the impact on business services, power relationships and typologies of value chains.
 - Race to the bottom strategy, role of **cheap labour**

Synopsis of the report VI

Results in a nutshell

- **General Result** “Diversity and heterogeneity” ... rather than the economist’s “average firm”; highly relevant for policy makers
- **Empirical Analysis**
 - Degree of elaboration of value chains; role of tacit knowledge; the strong spatial dimension of value-chain restructuring; and the impact on business services, power relationships and typologies of value chains.
 - Race to the bottom strategy, role of cheap labour

Synopsis of the report VI

Results in a nutshell

- **General Result** “Diversity and heterogeneity” ... rather than the economist’s “average firm”; highly relevant for policy makers
- **Empirical Analysis**
 - Degree of elaboration of value chains; role of tacit knowledge; the strong spatial dimension of value-chain restructuring; and the impact on business services, power relationships and typologies of value chains.
 - Race to the bottom strategy, role of cheap labour

Synopsis of the report VI

Results in a nutshell

- **General Result** “Diversity and heterogeneity” ... rather than the economist’s “average firm”; highly relevant for policy makers
- **Empirical Analysis**
 - Degree of elaboration of value chains; role of tacit knowledge; the strong spatial dimension of value-chain restructuring; and the impact on business services, power relationships and typologies of value chains.
 - **Race to the bottom strategy, role of cheap labour**

Evaluation I

Conceptual Part

● Report ...

- ... is well structured, state-of-the-art conceptual background
 - ... can be seen as a complementary counterpart to the analysis of the restructuring of labour processes and of changes in the social and technical division of labour
 - ... it brings to the fore the *contradictory nature of the changing division of labour*
 - ... on the basis of its results, the report challenges other approaches (e.g. Gereffi et al.)
- **Research Questions** *Highly relevant and well argued*, not all of them are answered.

Evaluation I

Conceptual Part

● Report ...

- ... is well structured, state-of-the-art conceptual background
 - ... can be seen as a complementary counterpart to the analysis of the restructuring of labour processes and of changes in the social and technical division of labour
 - ... it brings to the fore the *contradictory nature of the changing division of labour*
 - ... on the basis of its results, the report challenges other approaches (e.g. Gereffi et al.)
- **Research Questions** *Highly relevant and well argued, not all of them are answered.*

Evaluation I

Conceptual Part

● Report ...

- ... is well structured, state-of-the-art conceptual background
 - ... can be seen as a complementary counterpart to the analysis of the restructuring of labour processes and of changes in the social and technical division of labour
 - ... it brings to the fore the *contradictory nature of the changing division of labour*
 - ... on the basis of its results, the report challenges other approaches (e.g. Gereffi et al.)
- **Research Questions** *Highly relevant and well argued, not all of them are answered.*

Evaluation I

Conceptual Part

● Report ...

- ... is well structured, state-of-the-art conceptual background
 - ... can be seen as a complementary counterpart to the analysis of the restructuring of labour processes and of changes in the social and technical division of labour
 - ... it brings to the fore the *contradictory nature of the changing division of labour*
 - ... on the basis of its results, the report challenges other approaches (e.g. Gereffi et al.)
- **Research Questions** *Highly relevant and well argued, not all of them are answered.*

Evaluation I

Conceptual Part

● Report ...

- ... is well structured, state-of-the-art conceptual background
 - ... can be seen as a complementary counterpart to the analysis of the restructuring of labour processes and of changes in the social and technical division of labour
 - ... it brings to the fore the *contradictory nature of the changing division of labour*
 - ... on the basis of its results, the report challenges other approaches (e.g. Gereffi et al.)
- **Research Questions** *Highly relevant and well argued, not all of them are answered.*

Evaluation I

Conceptual Part

- **Report ...**
 - ... is well structured, state-of-the-art conceptual background
 - ... can be seen as a complementary counterpart to the analysis of the restructuring of labour processes and of changes in the social and technical division of labour
 - ... it brings to the fore the *contradictory nature of the changing division of labour*
 - ... on the basis of its results, the report challenges other approaches (e.g. Gereffi et al.)
- **Research Questions** *Highly relevant and well argued, not all of them are answered.*

Evaluation II

Empirical Part

- **Depth** Report provides information which is normally hidden in aggregate data; detailed case-study evidence not available elsewhere
- **Breadth** Report uncovers partly the restructuring in the services sector, where restructuring is primarily going on (e.g. large scale, global service providers), and the public sector - besides the (usual) analysis of the manufacturing sector

Evaluation II

Empirical Part

- **Depth** Report provides information which is normally hidden in aggregate data; detailed case-study evidence not available elsewhere
- **Breadth** Report uncovers partly the restructuring in the services sector, where restructuring is primarily going on (e.g. large scale, global service providers), and the public sector - besides the (usual) analysis of the manufacturing sector

Evaluation III

Contribution to public policy discussion

© Original Artist
Reproduction rights obtainable from
www.CartoonStock.com



"Your new sweater was made someplace
named Usa. Must be a city in China."

Some questions and comments I

Substantive Issues

- **Role of knowledge** *Where are the limits of the modularisation process of production and services?* (p. 32)
- **Institutional environment** *Which types of regulations create which types of value-chain restructuring and ultimately which prisoner's dilemma in working conditions in Europe?* (e.g., "Danish slaughterhouse case", p. 92)
- **Unresolved questions** What kind of methodology is needed in order to answer the question *whether the CEECs are becoming the back-office for the EU?*
Important question for old and new EU member states

Some questions and comments I

Substantive Issues

- **Role of knowledge** *Where are the limits of the modularisation process of production and services?* (p. 32)
- **Institutional environment** *Which types of regulations create which types of value-chain restructuring and ultimately which prisoner's dilemma in working conditions in Europe?* (e.g., “Danish slaughterhouse case”, p. 92)
- **Unresolved questions** What kind of methodology is needed in order to answer the question *whether the CEECs are becoming the back-office for the EU?*
Important question for old and new EU member states

Some questions and comments I

Substantive Issues

- **Role of knowledge** *Where are the limits of the modularisation process of production and services?* (p. 32)
- **Institutional environment** *Which types of regulations create which types of value-chain restructuring and ultimately which prisoner's dilemma in working conditions in Europe?* (e.g., “Danish slaughterhouse case”, p. 92)
- **Unresolved questions** What kind of methodology is needed in order to answer the question *whether the CEECs are becoming the back-office for the EU?*
Important question for old and new EU member states

Some questions and comments II

Empirical Issues

- » **Catching the butterflies** « *Which kind of data needs to be collected on a larger scale, e.g. Outsourcing Survey sufficient?*
- **Alternative Approaches I** *Combine e.g. GERMAN BUNDESBANK database on foreign affiliates with data on individual employees from BUNDESANSTALT FUER ARBEIT? Yet: data availability across countries and industries?*
- **Alternative Approaches II** *Use input - output analysis, since value-added does not move in parallel with jobs: weighting?*
- **Employment shifts from old to new member states**
One-to-one substitution? Apply productivity differentials in the quantitative analysis of job gains / losses?
example next slide

Some questions and comments II

Empirical Issues

- » **Catching the butterflies** « *Which kind of data needs to be collected on a larger scale, e.g. Outsourcing Survey sufficient?*
- **Alternative Approaches I** *Combine e.g. GERMAN BUNDESBANK database on foreign affiliates with data on individual employees from BUNDESANSTALT FUER ARBEIT? Yet: data availability across countries and industries?*
- **Alternative Approaches II** *Use input - output analysis, since value-added does not move in parallel with jobs: weighting?*
- **Employment shifts from old to new member states** *One-to-one substitution? Apply productivity differentials in the quantitative analysis of job gains / losses?
example next slide*

Some questions and comments II

Empirical Issues

- » **Catching the butterflies** « *Which kind of data needs to be collected on a larger scale, e.g. Outsourcing Survey sufficient?*
- **Alternative Approaches I** *Combine e.g. GERMAN BUNDESBANK database on foreign affiliates with data on individual employees from BUNDESANSTALT FUER ARBEIT? Yet: data availability across countries and industries?*
- **Alternative Approaches II** *Use input - output analysis, since value-added does not move in parallel with jobs: weighting?*
- **Employment shifts from old to new member states**
*One-to-one substitution? Apply productivity differentials in the quantitative analysis of job gains / losses?
example next slide*

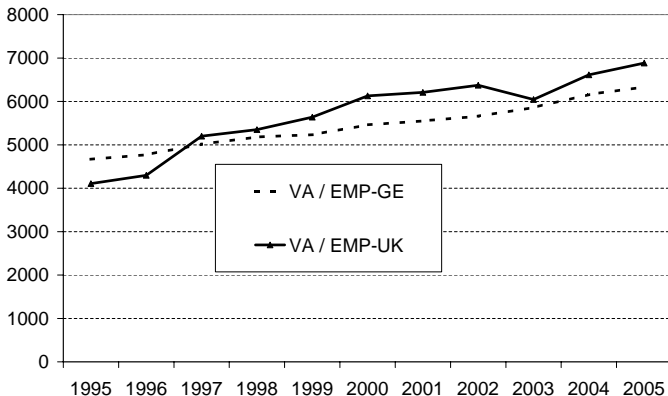
Some questions and comments II

Empirical Issues

- » **Catching the butterflies** « *Which kind of data needs to be collected on a larger scale, e.g. Outsourcing Survey sufficient?*
- **Alternative Approaches I** *Combine e.g. GERMAN BUNDESBANK database on foreign affiliates with data on individual employees from BUNDESANSTALT FUER ARBEIT? Yet: data availability across countries and industries?*
- **Alternative Approaches II** *Use input - output analysis, since value-added does not move in parallel with jobs: weighting?*
- **Employment shifts from old to new member states**
One-to-one substitution? Apply productivity differentials in the quantitative analysis of job gains / losses?
example next slide

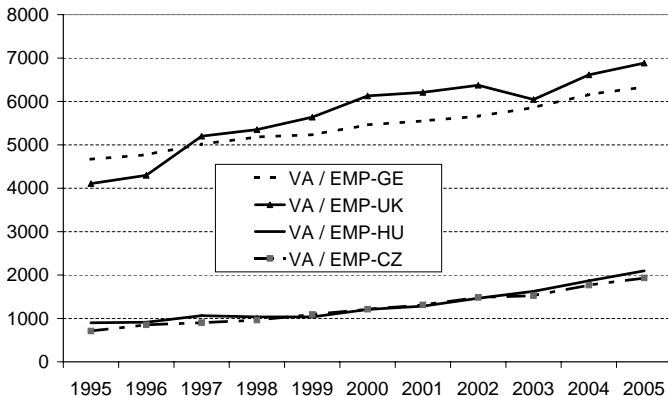
Value-added (in millions of Euros) per employee (in 1.000) in the manufacturing sector, NACE D

Source: EUKLEMS database



Value-added (in millions of Euros) per employee (in 1.000) in the manufacturing sector, NACE D

Source: EUKLEMS database



Some suggestions for further research

- Analyze, to what extent (structural) policies of the EU do or do not take into account the developments revealed in the report.
- Approach the empirical issues from different angles, since it may provide additional insight into the types of restructuring of firms.
- Collect data on the firm-internal substitution of domestic employees by cheap labour as an alternative to outsourcing to low-cost locations abroad, as described in some case studies.

Some suggestions for further research

- Analyze, to what extent (structural) policies of the EU do or do not take into account the developments revealed in the report.
- Approach the empirical issues from different angles, since it may provide additional insight into the types of restructuring of firms.
- Collect data on the firm-internal substitution of domestic employees by cheap labour as an alternative to outsourcing to low-cost locations abroad, as described in some case studies.

Some suggestions for further research

- Analyze, to what extent (structural) policies of the EU do or do not take into account the developments revealed in the report.
- Approach the empirical issues from different angles, since it may provide additional insight into the types of restructuring of firms.
- Collect data on the firm-internal substitution of domestic employees by cheap labour as an alternative to outsourcing to low-cost locations abroad, as described in some case studies.

Thank you!

bellak@wu-wien.ac.at

<http://www.wu-wien.ac.at/usr/vw4/bellak/>