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## *The significance of the transformation towards ‘human capital’*

### **Abstract**

The central subject of this paper is the ‘transformation’ from ‘employee’ towards ‘human capital’, an evolution which also reveals itself in the shift from ‘personnel management’ towards ‘human resources management’. These issues will be considered from a political science perspective. This contribution will focus on the power and policy dimension of these apparently quite innocent efficiency and productivity improving operations.

What is, from a political science perspective, the significance of this shift from employees towards some form of human incarnation of capital? What is the importance of this transition for the social balance of power (and industrial relation system) and for the regional government policies? In sum, we want to turn around the modern concept of ‘human capital’ with the modest intention of unraveling some less evident dimensions of the contemporary trendy discourse on ‘human capital’. This contribution must therefore be considered as a brief collection of considerations and reflections rather than a conscientious considered and elaborated discourse. This brainstorm, within the political science framework of (post)fordism, only intends to offer some arguments for discussion.

## **I. Introduction.**

During the past decades, several authors disentangled different forms of major transformations. Some analysts translated the social changes emanating from the great, all-embracing structural crisis at the beginning of the seventies into a shift from 'embedded' (Ruggie 1983) towards 'disembedded liberalism', others mentioned the end of organized capitalism and the evolution towards a 'disorganized capitalism' (Lash & Urry 1987). In this contribution however, the central theme will be approached from yet another point of view, namely the transformation from fordism towards a form of post-fordism, using a regulation approach (e.g. Boyer 1990). This certainly does not imply an extensive or profound review of the transformation of fordism towards post-fordism or a clarifying overview of the basics of the regulation school. The only function of this theoretical construction is to bring the transformation that we will consider in this paper into a broader explanatory perspective. Therefore, the concepts of (post-) fordism can only be considered as academical arguments enabling us to approach the central issue of this paper from a comprehensive framework.

The central subject of this paper is the 'transformation' from 'employee' towards 'human capital', an evolution which also reveals itself in the shift from 'personnel management' towards 'human resources management'. It must be clear that these, at first sight only or mainly economic issues, will be considered from a political science perspective. This brings about that the power dimension and ideological significance of these apparently quite innocent efficiency and productivity improving operations will be illuminated. Since these developments are well documented and intensively studied by economists, we will stay away from the management dimension of 'human capital'.

The purpose of this contribution lies elsewhere. What is, from a political science perspective, the significance of this shift from employees towards some form of human incarnation of capital? What is the importance of this transition for the social balance of power and government policies? In sum, we want to turn around the modern, shining concept of 'human capital' with the modest intention of unraveling some less airy dimensions of the contemporary trendy discourse on 'human capital'. It is quite evident and frustrating that, within the scope of this contribution, we can not deal with all the interesting and relevant issues of our story and must limit ourselves to the mentioning of some of them. This contribution must therefore be considered as a brief collection of considerations and reflections rather than a conscientious considered and elaborated discourse. This brainstorm, within the political science framework of (post)fordism, only intends to offer

some arguments for discussion. First however, we will briefly consider some elements which could clear up this trend towards ‘human capital’.

## **2. Some origins of the ‘humanisation’ of capital.**

### **2.1 A small historical stroll.**

It is, of course, rather obvious that we attempt to fit in the transformation under consideration in the all-explaining, subjective and ill-defined story of globalisation, still the latest buzzword to which observers resort in order to explain changes of all kind. After all, the threatening strength of global capitalism, the ‘new Leviathan’ (Ross & Trachte 1990), is disciplining state- (e.g. regions) and non-state actors (e.g. companies) all over the globe. One does not need to expatiate frequently on globalisation, the most recent ‘great transformation’ (Polanyi 1944), in order to understand how the belief in globalisation can clarify the notion of ‘human capital’. The road that connects them both runs from fordism to post-fordism.

The concept of fordism, which was a form of ‘monopolistic capital’ (Baran & Sweezy 1966), refers to a comprehensive accumulation regime consisting of a complex configuration of characteristics. Fordism is, among other things, typified by a specific organisation of the production process, an interventionist Keynesian welfare state based on an explicit or implicit class compromise, a particular completion of the competitive struggle, an expanding market of durable consumer goods, a tightly integrated organisation structure of the individual enterprises, etc. All these complementary ingredients of fordism were, at least in the high days of this ideal typical construct, mutual reinforcing, leading to the ‘golden age’ (Maddison 1991). A specific clarification of each of these characteristics lies outside the scope of this contribution. Of particular importance in this present paper is that fordism is characterised by a very typical and distinctive organisation of the production process (Braverman 1974).

The success of fordism cannot be fully grasped without referring to the importance of Taylorism. The principles of his ‘scientific management’ based on ‘time and motion studies’, such as the rigorous separation of executive and conceptual tasks and the attempt to determine the one best way to carry out specific tasks, are universally known and need no further elaboration. Essential in this contribution is the reason behind the introduction of Taylorist principles of the division of labour.

Before fordism, a technological paradigm that rests on the deployment of unskilled labour used in conjunction with specialised single-purpose machinery, the dominant ‘industrial’

production was highly manual and was carried out by skilled, all-round, artisanal workers whose power position was based on a 'knowledge monopoly'. This means that the owner-entrepreneur was dependent upon his workers for the technological organisation, tempo and execution of the production process: only these skilled workers, a group shielded by monopoly mechanisms, knew how the production had to be carried out. These core workers were essential for the enterprise. Their craftsmanship and competence was decisive for the success of the enterprise in the competition struggle.

The 'knowledge monopoly' and the power position based on it of these core workers became endangered by the introduction of capital goods, such as machines, and by the extension of the population dependent on the sale of their (low skilled) labour in order to survive, a by-product of industrialisation and urbanisation. Taylorism was designed with the intention of breaking through the resistance of this limited group of highly skilled workers against these evolutions (such as mechanisation and the expansion of cheap mass labour) which undermined their power position and thus their working conditions and wages. In this respect, Taylorism was successful.

The fanatical subdivision of labour tasks, the reduction of the autonomy of workers, the introduction of a series of control and supervision mechanisms, the use of an intermediate layer of controllers and supervisors and other principles of Taylorist organisation, gave rise to the intensification of the production process and the de-skilling of labour. Traditional high skilled craftsmanship decreased considerably and was increasingly replaced by simple, standardised, repetitive, low skilled mass labour which did not require much education nor experience. Labour became just another production factor. One could allege that, in a way, the relative importance of an individual production factor for the success of the enterprise switched towards capital, away from labour.

Fordism, however, was much more than the simple application of Taylorism and the widespread introduction of the assembly line. After all, pure Taylorism was blind to many things, e.g. the importance of mass consumption. Low wages, an intense competition between workers and a deflation policy stood, amongst other factors, in the way of a necessary and sufficient consumption demand. In Fordism, these considerations became central. The attention, in Fordism, for the importance of mass consumption is symbolised by the introduction of the '5\$ day': for the first time in history, the mass worker became a mass consumer. The considerable productivity profits were, in accordance with a social class compromise, distributed over consumption ((in)direct wages) and investment. This Fordist 'virtuous circle', supported by a Keynesian welfare state, led to the 'golden age' of postwar capitalism.

However, in the light of the subject of this paper we cannot elaborate further on these matters and must focus our attention on reflections concerning the organisation of the labour process, the significance of the individual employee in that process and the new power resources within the collective industrial relations framework.

## **2.2 The fordist way.**

In fordism, where the industrial sectors were the dominant sectors of the economy, the bulk of labour was carried out by a mass of low skilled, low educated workers who, brought together in an impressive workshop, were engaged in repetitive, simple, standardised labour, denied of much responsibility and strictly defined by a clear and narrow job description. Fordist workers had to carry out their simple duty, at a (high) tempo enforced by machines, without them being required to engage in creative, problem solving thinking. Considering their low skill level, workers did not require much education nor vocational or professional on the spot training: they stood clearly on the 'doing' side of the 'thinking-doing' dualism. Therefore, it was not very surprising that fordist management faced major motivation problems. The only way that cooperation and compliance could be induced was through higher direct and indirect wages and through other social concessions. In short, bosses tell workers what to do, when to do it, how to do it and how much to do it ...

The majority of individual employees had to work with highly specialised and very inflexible machines. The lifespan of these expensive machines was dependent on the lifespan of the products made by these machines. Maintenance, adjustment, planning or improvement of these machines were responsibilities reserved for a specialised team.

These qualifications, on the other hand, created the objective conditions for a new power base of labour. The homogenisation, leveling and concentration of labour and the equality of working and wage conditions encouraged the mutual solidarity between workers and the similarity of interests. The parallel definition of their life and work situation and the accordance of interests stimulated the extension of mass integrative encompassing industrial unions. These unions derived their power resources no longer from the knowledge monopoly of their members but from their numerical strength. This strengthened power base of mass union organisations led to an increase of the social expenditures of the welfare state, an evolution based on a class compromise and enabled by the economic prosperity of fordism. However, these social expenditures were at the same time the consequence of and a precondition for the success of fordism.

The story about the decline of fordism is long and complicated and has been written many times now. A new international division of labour, the end of Bretton Woods, the difficulties with the financial and political tenability of the welfare state, inflation, the saturation of the market of consumer durables, increasing labour protest against the work pressure and alienation effects of the labour process, decrease of the productivity rate, etc. It is impossible here, nor necessary, to tell this whole story. In the light of the subject of this paper, we will focus on the shortcomings of fordism resulting from the specific organisation of the production process and its use of labour force in order to illuminate the evolution towards a concept of 'human capital'.

### **3. The shift towards 'human capital': some elements of an explanation.**

#### **3.1 Push-factors.**

Several authors point towards the rigidity of the production process and of the labour regulation as one of the main causes of the bankruptcy of the 'fordist way'. The change of consumer preferences (D'Aveni 1997) towards less standardised, more customized and qualitative products, the saturation of and increasing (foreign) competition on the market of consumer durables necessitated a profound changeover of the production process. In order to remain competitive, enterprises needed to respond as fast as possible to the alterations of the market conditions and consumer preferences and to the growing and intensifying competition.

However, in fordism, increasingly expensive man and his fine-tuned specific-use machine were specialised in the production of one, and mostly just one, specific good. It took a lot of time and money for these machines to be adjusted so that they could switch towards the production of another kind of product or towards another variety of the same product. "Technological developments during the 1950s and 1960s came in the form of further increases in the degree and scope of mechanisation and the introduction of automated technologies. A number of case studies have revealed the enhanced control over the labor process that capital is able to achieve as a result of automation. These however, have tended to concentrate on the deskilling of highly skilled workers, who possess significant power in the shop by virtue of their craft skills." (Fairris 1994:198) A close reading of the most cited studies on automation's impact on the workplaces in the 1950s suggests that automation was likely to decrease the amount of team production and to reduce the ease of communication between workers. Fordist automation seemed to increase the distance between work stations, diminish workers' control over the pace of production, increase

the intensity of supervision and decrease the differentiation of tasks. Knowledge was concentrated and centralised by the management.

The individual low skilled worker, operating his machine, was unable and not authorized to redesign or improve the capital goods so that these could be adjusted quickly in order to meet the new consumer preferences and beat the competition. Furthermore, the tightness of the labour market had temporarily altered the power balance in favour of labour: in the beginning, most countries were typified by “a balance of power relatively favourable to capital, assisted by political setbacks of radical sections of the labour movement which helped to restrict the demands of organized labour to the incomes sphere. Basic innovations and further development of Taylorist and Fordist labour organisation methods thus became possible, resulting in a sharp rise in productivity. (...) In a second stage which can be described as the full-blown Fordist stage, the unions were successful in achieving real rises in wages in line with the increase in productivity which should certainly be seen in relation to the positive influence on their bargaining power of the reduction in the reserve of unemployed labour driving from the high level of growth.” (Frantzen 1990:5). This was translated into an increase of the labour costs and social expenditures at a time when the productivity got into trouble and markets shrunk. The impotence of the cumbersome, bureaucratic, hierarchical structured (top-down) fordist enterprises to react quickly and flexible led to unmistakable difficulties. Drastic measures seemed inevitable. So, the unravelling of the Fordist system entailed the beginning of major changes in capital-labour relations. Central to this unravelling was a drop in the rate of growth of productivity across the OECD quite generally. The productivity slowdown in turn put pressure on other aspects of capital-labour relations, such as wage formation, the degree of centralization, and the extent of welfare state spending. Not only the organisation of the production process went through severe changes, even the organisation structure of fordist enterprises had to be redesigned. Hence the popularity of downsizing, outsourcing, deconcentration, decentralisation, the construction of horizontal network structures, etc.

“In Europe and the United States, the belief that market ‘rigidities’ (especially in labour) were the cause of the decline in productivity growth and profitability became widespread.” (Schor & You 1995:7) In other words, those very same arrangements which had secured the stability that made renewed capital accumulation possible in the post war period had now grown sclerotic and became an impediment for continued economic growth.

The measures proclaimed by the new conventional wisdom come down to the flexibilisation of the production process, the outsourcing of activities and the downsizing of the enterprise. They also explain the switch towards ‘lean production’ systems (Womack, Jones & Roos 1990)

and the revaluation of the importance of labour. Over the course of the twentieth century, the organisation of production has evolved from craft to mass to lean and flexible production (e.g. flexible manufacturing systems (FMS), using CAD (computer aided design) and CIM (computer integrated manufacturing)) in the final decades of this century. The latter has tended to rely less on vertical integration and more on horizontal linkages between firms, often of different national origin. (McClintock 1996)

However, the novelty of the contemporary best practice of lean production must not be exaggerated, it does not indicate the definitive end of the mass production processes. Moody points out that lean production produces “high volume output through the standardisation of products and process beyond Henry Ford’s wildest dreams. It attempts to capitalize on economies of scale (output per unit of capital) as much as on the more fashionable economies of scope (ability to produce different products with the same unit of capital) associated with flexibilization. Real flexibility in lean production lies primarily in the combination of information-age technology and worker experience with archaic forms of work organization, such as contracting-out, casualization, old-fashioned speed-up, and the lengthening of working time.” (Moody 1997:86) In other words, these evolutions bring about a certain degree of polarisation of the work force, with relatively well-paid skilled and professional core-workers on the one hand and less skilled, less educated, less paid workers which are often employed on a part-time or temporary basis on the other hand. (Brand 1997: 59)

There is, however, more to production than its leanness. The production process should also take place in a ‘high commitment organization’, where ‘cross-functional teams’ work on the re-engineering of the ‘high performance work systems’. After all, since firms can no longer exclusively focus on product innovations and must consider all aspects of process innovations, it becomes quite fundamental for a company and its success in the global competition that they bring in all the experience, know-how, skills, expertise or knowledge of their workers which are involved daily in the production process and which are therefore the exquisite partners if it comes to advice and recommendation concerning process adjustments or a redesign of the organisation structures.

As the lessons of the fordist defects made so clearly, these human assets are fundamental. In a speedy economy based on a complex customized quality production system using information technology, cross-border competition, fast changing preferences and market conditions, one cannot do without a core of flexible, skilled workers capable of adapting the ever flexible capital goods, of suggesting ideas, etc. The necessity of the revaluation of the worker and his place in the production system is even more inevitable when one considers some pull factors: human capital



becomes one of the main competitive advantages of the European Rhineland economies in the light of the international division of labour.

### **3.2 Pull-factors.**

The idea of globalisation, and its ideological dimension, is another important element in the explanation of the shift of the balance of power between labour and capital and towards the reevaluation of the individual worker. According to Palan, Abbott and Deans, globalisation represents “an attempted resolution of the fordist contradictions. (...) We regard globalization not as a quantitative change denoting the global integration of markets, but as a qualitative change which implies an intensification and extension of capitalist relationships.” (Palan, Abbott & Deans 1996:19) This qualitative change had severe consequences for the bargaining position of labour. The fact that, in conformance with the globalisation thesis, workers can be more easily substituted for each other across national boundaries undermines the post-war social bargain between workers and employers. The bargaining power of labour erodes (Rodrik 1997:4-5) because “in the new era of global capitalism, employers can counter labor’s former strategic strength by the threat and reality of capital mobility towards more compliant labor and more propitious political or technological environments. (...) What is qualitatively new to world capitalism, however, is that investors may find a broadening geographic field of choice in which modern methods of production and adequate human and physical infrastructure is available without the impediments of unwanted constraints. It is the scope and size of the new field of investment opportunity which has changed the strategic balance of social power in the older industrial regions.” (Ross & Trachte 1990:6, 8).

After all, the source of investor’s power lies in their ability to withhold investments, either by not investing at all or by not investing in a particular jurisdiction: “as long as different jurisdictions are competing to land new economic activities, or keep existing ones, companies have the potential to improve their outcomes in these bargaining games by using auctions among governments.” (Thomas 1997: 20) In this view, the power of management is based on the ability to choose the site for their economic activity out of an enlarging list of possibilities. Along with other aspects such as the structural and thus persistent unemployment, the waning impact of industrial sectors and an ideological paradigmatic shift, this power generating aspect of potential and actual capital mobility leads to a weakened resistance of labour against labour market reforms. These reforms concern the government policies and the individual enterprise.

Besides the weakening of the bargaining position of labour, globalisation has yet another part to play in the story of the intensified importance of 'human capital'. This has to do with the well known thesis of the new international division of labour, studied by several academical disciplines since many years now (e.g. Fröbel, Heinrichs & Kreye 1981). According to this international division of labour, labour-intensive low-skilled mass production jobs are increasingly shifted towards (semi-)peripheral new industrialising countries while the older core industrial countries must focus on knowledge and technology-intensive, high-skilled production, at least if the last mentioned want to maintain or improve their level of prosperity. It must be clear that this is not a matter of an absolute fact but rather of a relative evolution: not all low skill, labour intensive production is concentrated in the periphery and knowledge-intensive high skilled jobs are certainly not a monopoly of the core. Elsewhere (Devos 1999) we have put this cutthroat competition-dimension of globalisation in perspective and came to the conclusion that, although the fact that as an empirical, actual process it most certainly can not be denied, globalisation is subjected to a serious amount of mythologisation and that this myth is often used as an argument to enforce some - indeed sensible - policies, such as labour market reforms. (Veseth 1998)

Although some perceptions of globalisation rest on an exaggeration of the real dimension of globalisation, one can not deny that globalisation has increased the cross-border competition, especially what concerns the labour intensive low skilled production. Therefore, the European countries must invest in and focus on their most unique selling proposition, people, at the same time the most immobile production factor. Since capital (goods) and technology are considered to be more or less mobile on a global scale, it becomes essential for regions to invest in what is bound to that region in order to attract new and maintain existing investments.

#### **4. The leading part of human capital.**

It must be clear that it is a meaningful conclusion that "the driving force in the economy has become knowledge, creation, handling and application." (Kenney 1997: 89-90) Even for small enterprises, a high stock of knowledge portends a tremendous wealth-creating potential: "In creating wealth, knowledge is increasingly taking a front seat to the traditional factors, that is physical and fiscal assets." (Kim & Mauborgne 1999:44) A good deal of analysts indicated that we are now facing the transition from a production to a knowledge economy, in short "we are in a 'new economy'." (Triplett 1999:13) In other words, the old foundations for success are gone: "For all of human history the source of success has been controlling natural resources – land, gold, oil. Suddenly the answer is 'knowledge'." (Thurow 1999:57)

Both Blair's Fabian Pamphlet (1998) and Giddens' recent book on the Third Way (1998), intellectual bibles of the so-called ideology of the Third Way, start from the clear assumption and assertion that capitalism has undergone an irreversible epochal change (Froud, Haslam, Johal, Leaver, Williams & Williams 1999). Blair indicates that globalisation and technological change have made skills the main drivers of employment (Blair 1998:6) while for Giddens the epochal change comes down to the end of mass production (Giddens 1998:16). In other words, these two essential pillars of the intellectual foundation of the currently so popular conventional wisdom refer to a fundamental shift of the economy in general and of the production system in particular. In this sense it becomes clear that the Third Way as a package of policy proposals seems to be written just for the purpose of a reevaluation of the human capital factor: "Government has an essential role to play in investing in the human resources and infrastructure needed to develop an entrepreneurial culture. (...) Education and training have become the new mantra for social democratic politicians. (...) Welfare expenditure should remain at European rather than US levels, but be switched as far as possible towards human capital investments." (Giddens 1998: 99, 109, 122)

In conformance with these proposals, the traditional system of strongly segmented jobs and rigid job descriptions must be abandoned in order to meet the quickly changing differentiated consumer preferences. In order to meet such demands effectively, "a production line should be able to produce a wide range of products, and workers need multi-functional skills and greater adaptability. Jobs are more complex, involving more tasks, multiple skills and greater interaction among workers, between workers and employers, and with suppliers and customers. With the quality of products increasingly representing a core determinant, the task of quality inspection must be incorporated into the production line, involving the need to broaden job definitions." (ILO 1997:94) New (information) technology becomes the key to a more flexible form of production which is more responsive to increasingly rapid changes in the market. According to Brewster, Mayne & Tregakis (1997:134), "such developments may depend for their success upon a more skilled, motivated and flexible workforce." As a consequence, the array of employment contracts needs to be broadened, and indeed it did. It should be clear that evidence of research is incontrovertible and unanimous: there has been a substantial change in Europe's labour markets since employers now have open to them, and are using more extensively, a wider range of means of getting the work done. The range, extent and use of nearly all forms of flexible working hours and contractual arrangements is increasing.

In reducing the autonomy of national macroeconomic policy, globalisation enhances the firm's role as the primary engine of wealth and job creation while at the same time it exposes the firm to heightened competition and erodes the shelter in which firms used to operate. Globalisation makes flexibility at the enterprise level essential for responding to rapid product market changes. Robert Cox (1987) has indicated that the large-scale organisation of flexible quality production requires the general use of general use machines and other capital goods which can easily be converted by skilled trained workers to which more is entrusted than mere execution. This new division of labour on the enterprise level, a reversal of tayloristic organisation principles, needs a 'high trust' environment in which management leans on the initiatives, knowledge and experience of its core workers. The latter become so important that their revaluation appears out of a new indication, 'human capital'. There is no longer management of the personnel, but of the 'human resources'. Labour, incarnating valuable knowledge and knowhow, becomes the most important asset of the enterprise, since other productions factors are more easily available on the global market.

In the light of 'diversified quality production' (Streeck 1992) and the importance of competitiveness on a global scale, an intense cooperation between the management on the one hand and core workers on the other hand is essential. After all, the present-day post-fordist production system must offer a third way between the low volume (craft) production of non-standardised customized quality competitive products and the high volume (fordist) production of price competitive products: a flexible and high volume customized production of price and quality competitive products. These requirements have far-reaching consequences for the position and role of 'labour' in the production process and in the enterprise in general. As we indicated, the use of term 'human capital' is emblematic of this evolution.

As Womack, Jones & Roos (1990:13) noticed, lean production uses less of everything compared with mass production. So lean and flexible production comes down to "the continuous search for marginal improvements in costs by constantly stressing and readjusting the production system and, above all, the labor process. Lean production is run by a system of 'management-by-stress' (...). Kaizen, just-in-time, multiskilling, job rotation, teams, quality management, numerical and functional flexibility, extensive outsourcing, and all the well-known features of lean production are the means to reduce the resources, including labor, needed to produce a given product or service. This is done by a constant process of stretching one phase of production to the 'breaking point' by reducing the number of workers and/of mass of materials available, and then recalibrating the other phases of the production process. Efficiency and improvements are defined as cost reduction (...), in practice cost reduction most frequently applies to labor. In particular, getting

lean means eliminating as much non-value added labor time as possible.” (Moody 1997:87) This makes that whatever remains is of greater importance, that the remaining core valued labour is the essential ‘human capital’ of the enterprise.

We referred several times to polyvalent ‘core workers’. This indicates that there are non-core workers. We will not go into the economic logic of this evolution. Anyhow, there can be no mistake about the fact there is still a large group of low skilled workers employed in monotonous, repetitive, low knowledge, mere execution jobs, even in the European Rhineland countries. Despite the fact that, in many cases, these workers too are being approached from a ‘human capital’ point of view, they remain the subject of more classical control and supervision mechanisms and are not involved in the same way as the core-workers are. We will turn to this point in section 5.1.

## **5. Significance out of a political science perspective.**

### **5.1 The capital-labour balance of power.**

The birth of a new post-fordist, sometimes called toyotist or sonyist, flexible regime of accumulation gave way to a range of appreciations. (Harvey 1989) Some indicated that the new technologies and organisation schemes opened up the possibilities for a reconstitution of labour relations and of production systems on an entirely different social, economic and geographical basis. New forms of worker-co-operative organisations, armed with decentralised technologies of command and control, should enable workers to evolve as individuals in an environment of relative freedom, creativity, trust, shared (financial) interests, greater responsibilities and commitment. An environment in which management is more dependent on the cooperation with human capital, in which employees become co-workers. In this partnership between management and human capital, interests are no longer antagonistic. The class struggle becomes an outdated concept of ancient times. This implies that unions should alter their strategies, purposes and favourite negotiation level. The centre of gravity should be based on the enterprise level, their strategies should be more cooperative and purposes more modest. Company-based unions too have to take, through their influence on the human capital, responsibility for the success of their enterprise in the global cutthroat competition and they too must contribute to the management of flexibility, in association and through an open dialogue with the management of the firm. This implies a more cooperative

unionism which is mainly concentrated on the long-run profitability of the individual firm, a close community of harmonised interests.

Others maintain that the ideas of flexibility, outsourcing, etc. are extremely powerful terms legitimizing an array of political practices which are chiefly reactionary and anti-worker and create a climate of opinion, an ideological condition, that renders working-class movements less powerful. These authors emphasize the casualization of labour, and claim that essentially, when one looks behind the smoke screen of this trendy rhetoric of cooperation and commitment, behind the ‘fuss’ about the revaluation of labour, the position of workers has not improved so dramatically as some want us to believe, on the contrary. They point out that uncertainty about demand and the cutthroat competition has led to uncertainty about labour requirements, and that employers have sought many different ways to make labour both cheaper, more easily variable in quantity and more tame and cooperative. From now on, we will focus on the analysis of this second group of authors since they most explicitly deal with the power-dimension of the post-fordist approach of labour.

These authors insist that we must see through the optimistic ideological varnish in order to determine what is really going on. They underline that flexibilisation of labour involves a transfer of risks from the employer towards the employee, an evolution that goes against the central concern of the interventionist Keynesian welfare state. Several analysts of post-fordism payed especially attention to the polarisation between different categories of workers. According to Jessop, there will be no such thing as a generalisation of “core workers’ rising incomes to other workers and/or the economically inactive. Indeed, as post-fordist accumulation will be more oriented to worldwide demand, global competition could further limit the scope for general prosperity and encourage market-led polarisation of incomes.” (Jessop 1994:20) Pierson on his turn observed a process of de-massification of labour: “The demands of batch production and ‘niche marketing’ taken together with the production possibilities afforded by the application of new technologies favour a ‘de-massification’ of the workforce. At its simplest, employment is polarised between a ‘core’ of well-paid, secure and qualified wage-earners with polyvalent skills and a ‘periphery’ of poorly paid, casualised and unskilled workers. There is a growth in sub-contracting, in ‘atypical’ work practices and in employment within the (largely unregulated) informal economy.” (Pierson 1994: 100-101)

Frantzen refers to the effects of new technologies and remarks that these will “be more likely to add momentum to the separation of work that requires the application of intelligence and work that is purely mechanical, and the average operator would be reduced to perform the task of filling

the gaps in the computerized production process.” (Frantzen 1990: 183) So, the post-fordist production process and the emphasis on information technology could lead to, on the one hand, the development of a core of skilled workers that firms will seek to keep, in view of their high training costs. Because of their skills, such workers will tend to possess enough bargaining power to influence real wage levels. On the other hand, this will be balanced by a situation where the majority is composed of less skilled workers who are easily replaceable, hired with less job security, where possible without trade union protection, and payed off against each other in order to force wages down. This gives rise to dualisation and the construction of a two-tier society.

The practice of outsourcing is not unfavourable to the above mentioned evolution. Outsourcing is mostly driven by the popular recommendation to specialise in core activities in which one can gain a competitive advantage and to toss down all others. In many cases, this will mean the displacement of more traditional contracts of employment with individuals by contracts for services with other organisations. The employment relationship will be superseded by a commercial relationship and the organisation which is giving out the contract will have no further concern with employment issues since these will be passed on to the subcontractor. This brings about that the (relatively stronger) union organisation of the firm which is contracting out will have less or no influence on the employment conditions of the workers who are now carrying out what was formerly done within the firm. As The Economist indicated, this process could lead to a “widespread re-examination of the idea of contracts between companies and employees.” (The Economist 21 dec. 1996:114)

Another important evolution that is indirectly connected with the increased importance of human capital and which must be taken in consideration is the decentralisation of collective bargaining, an evolution which, according to the ILO, has to do with globalisation: “Capital’s potential mobility may exceed its actual mobility, but the effects are the same. Firms are less able and less willing to sustain their share of financing the welfare state than when capital was more immobile and economies less open. This applies not only to who pays the non-wage cost bill, but also to the full scope of collective bargaining.” (ILO 1997:74)

The fordist strongly institutionalised forms of collective bargaining and centralised negotiations over constantly rising nominal wages are increasingly undermined in favour of the promotion of flexible, decentralised and differentiated agreements on wages, safety and labour time, specifically on the firm level. The level of the individual enterprise is an increasingly important negotiation level in the collective bargaining system. According to some authors of post-fordism, this leads to a kind of ‘new unionism’, e.g. the substantial growth of pro-management

company based unions, which replaces the ‘militant’ appearance of the fordist unions. In contrast, post-fordist unions are seen as stripped of their power to participate in neo-corporatist regulations and to oppose management successfully. According to these authors, new unionism plays the role of a decentralised factor of moderation and discipline without the power of opposition. However, “for centralized, encompassing trade unions, disintegration of the neo-corporatist machinery of joint regulation would destroy their strategic capacity for solidaristic interest representation aimed at protecting, as much as possible, the status of individual workers from the whims and uncertainties of the market. For employers’ associations, given the decline of union bargaining power in the crisis, the same development would mean the realization of an important interest of their members - the interest in flexibility, ‘de-bureaucratization’, higher autonomy in dealing with the uncertainties of more competitive and volatile markets, etc. Employers therefore have an alternative, and in principle a preferred alternative, to re-negotiating existing agreements - which is to let the machinery of central negotiations fall into disuse and return the regulation of the employment relationship to the market. This places them at a strategic advantage over their trade-union adversaries for which the market becomes *less* rather than more acceptable as a regulator of working conditions when the economy declines.” (Streeck 1984:294) So, there is no question of a formal withdrawal from capital, but rather of a subtle re-setting, in line with the changed balance of power, of the institutional balance between the different levels of bargained interest accommodation. All that is needed for this to happen are constant pressures, inside and outside the various bargaining arenas, for special regulations and exemptions for individual firms and industries and for a general delegation of bargaining issues down to the level of the individual firm. This must enable the individual firms to adjust the collectively bargained agreements to the concrete difficulties, challenges, possibilities, market conditions, etc. of that firm. Indeed, as research of the ILO (1997) made clear, enterprise-level industrial relations have acquired unusual prominence relative to other levels of the industrial relations system.

All these evolutions mentioned above, such as flexibilisation, outsourcing, decentralisation, which have to do in some way or another with the general recommendations concerning the reassessment of some core parts of the labour force, have clear consequences for the social balance of power. These evolutions encourage the existing processes of class dealignment, of class decomposition, of de-massification, of individualisation. The broadening of labour contracts and arrangements, in the light of the flexibilisation of labour and the revaluation of human capital, leads to an increasing fragmentation of the working class. In contrast to fordism, where the equality or similarity of wages, contracts and working conditions gave way to a clear



and general class solidarity (of which powerful encompassing industrial trade unions were the expression), the increasing diversity and individualisation of wage systems, contracts, working conditions, responsibilities, etc. weakened this class solidarity which is so essential for the collective protection of working class interests. After all, labour only has power when it operates collectively, in contrast to capital where individual units (the individual firm) are powerful. The new 'human capital' approach of employees promotes the segmentation of the working class. The increased diversity of statutes, employment contracts, work forms, etc. complicates the formation of collective interests, of a common strategy, of mutual understanding and the collective definition of purposes.

Human resources management or other modern versions of personnel management, aiming at the maximal effectuation of the potential of the human capital (e.g. by means of life long learning, reskilling programs or the individualisation of wage systems), contain the construction of new communication channels, besides and around the classic patterns of communication between trade unions, as the collective representatives of labour, and the management. These new open communication channels, preferably embedded in a high trust environment, lead to more direct communication with the individual employee. They, amongst other things, intend to increase the commitment of the work force. An important aspect in which this pursuit shows itself is the increasing popularity of individual and personal remuneration systems and financial participation formulas, which have in mind to enlarge the commitment and involvement of the human capital. According to the ILO, an important consequence of these ambitions to increase the commitment of the human capital is that they call into question the role and position of trade unions since they "might distance the workers from the trade unions and erode the traditional forms of participation, collective bargaining and consultation with workers' organizations or representative bodies. It is not surprising that union leaders have at times opposed such policies. (...) Human resources management policies may undermine existing industrial relations where labour-management relations are prone to conflict. In this case, they might be used as a corporate strategy of union avoidance and combined with enterprise paternalism." (ILO 1997:97)

In this respect it is also essential to remember that when workers are tied "to their present place of employment, then this should have a profound impact on both their definition of interests and, accordingly, the policy options open to their trade unions. (...) The willingness of workers to inflict damage on their employer in the support of class-wide, solidaristic interests is inversely related to the degree to which their own economic fate has become, as a result of a decline of the external labour market, inseparable from that of their employer." (Streeck 1984:304, 305)

As the ILO indicated, these new management approaches “enhance the scope of management control through the leverage of personnel assessment and foster individualism. As a consequence, they call into question, at least in part, the traditional industrial relation settings.” (ILO 1997:97) Claus Offe (1981) referred several times to what can be considered as the ‘class bias’ of these industrial relation settings. The point is that organisations of labour and capital, although affected by exactly the same forms of institutionalisation, are inhibited to a greatly differing extent in their freedom to pursue their respective interests. Put simply and abbreviating a long and complicated discussion, unions need strong, encompassing peak organisations negotiating mainly on and out of the most centralised and collective bargaining level. “Paradoxically, the political power of investors depends to some extent on the condition of powerlessness of their interest organization, which have, neither de lege nor de facto, more than marginal control over members’ investment decisions. What the governments can do, then, in order to secure the willingness of investors to cooperate, is to design policies that are most conducive to profits - which remain the only channel by which investors are to be controlled - and win the support of organized labor for such policies.” (Offe 1981:150) In other words, the relative shift of the main point of collective bargaining towards the level of the individual enterprise, in the light of the improvement and development of flexibility - of which the humanisation of capital is another element - strengthens the position of the management in relation to that of labour. The dualisation, segmentation or fragmentation of the work force, evolutions that can go together with the new ‘human capital’ approach, weakens the traditional collective trade union organisations. This is where the power dimension of ‘human capital’ shows itself in all its clearness.

In sum, flexibilisation, outsourcing or other adjustments of the organisation structure, decentralisation of collective bargaining, the construction of new communication channels, the individualisation of reward systems, the proliferation of employment contracts, etc. fit close with the ‘human capital’ approach, using the broad spectrum of IT. This approach tries to flexibilise the work force, push up their commitment, concern, involvement, participation and engagement, utilise all their potentials, model the employment contracts and tasks on the particularities (strength, knowledge, skills, etc.) of the individual worker, etc.. In this pursuit, a first difference between core workers and non-core workers becomes visible. Secondly, the entire workforce becomes the subject of de-massification, of class dealignment and decomposition. As we have noticed, this has important strategic consequences for the power resources of trade unions and thus for the process of collective bargaining.

## **5.2 Changed political responsibilities: the importance of the regional authorities.**

Another essential political consequence of the revaluation of labour as ‘human capital’ in a post-fordist flexible accumulation regime concerns the transformation of state responsibilities or, more precisely, the shift of emphasis within the governmental policy.

Nowadays, it is quite popular to say that the state is ‘withering away’: the Keynesian Welfare State (KWS) is disintegrating and is being replaced by a form of ‘competition state’, e.g. the Schumpeterian Workfare State (SWS). This SWS is a different kind of state than the KWS. The SWS is, in some way, ‘smaller’ than the KWS but does not in any sense indicate the end of the state responsibilities, competences or capacities: “In abstract terms, its distinctive objectives in economic and social reproduction are: to promote product, process, organisational, and market innovation in open economies in order to strengthen as far as possible the structural competitiveness of the national economy by intervening on the supply-side; and to subordinate social policy to the needs of labour market flexibility and/or the constraints of international competition. In this sense it marks a clear break with the KWS as domestic full employment is de-prioritised in favour of international competitiveness and redistributive welfare rights take second place to a productivist re-ordering of social policy.” (Jessop 1994:24)

The Schumpeterian element refers to the idea that political authorities should concentrate less on demand-side measures, such as full employment or a redistribution policy, should less try to preserve old industries but instead focus on the encouragement of promising activities, on the construction and management of a favourable investment climate (supporting ‘creative destruction’). In other words, political authorities should focus more on a supply-side policy (e.g. education, R&D, infrastructure, re-skilling processes, etc.) stimulating the international attractiveness of the local production factors. Workfare - namely the activation and thus heightened selectivity of social benefits - refers to the greater responsibility of the individual, both for its own success or failure (e.g. policies encouraging, in several ways, the unemployed to make great efforts and to take initiatives in order to improve their chances on the labour market). So, the post-fordist SWS stands for an important change of state responsibilities and for a different method of operation in order to achieve these aims.

Elsewhere, we alleged that competition in Europe is mainly European, rather than a violent struggle against NIC’s, Japan or the USA (Devos 1999). Indeed, research has indicated that the EU is a very regionalized macro-region, with a high degree of internal interdependence and interaction, so the ‘internal’ not the global market is the first battlefield. In the EU, political-

institutional (d)evolutions have, in several European countries, shifted important socio-economic competences upwards and downwards, away from the nation-state level. In the European market, the political option has been to transfer competences towards the macro-regional EU-level and towards the micro-regional level. Both are chapters of the same story.

The competences entrusted to the EU are ‘high economics’, by analogy with ‘high politics’: the construction of a common macro-economic framework, shaping the European market, a common budgetary and financial policy, coordination of national policies in the field of employment policies, some very general social regulations, etc. However, the general and superficial competences of the EU in the field of labour market regulation are for the time being without a truly decisive influence on the course of economic activity and on the decisions concerning the location of production. Due to national differences and incompatibilities, the social regulation of the European labour market is still mainly established at the level of the member states. The construction of an European welfare state is rather unlikely. In the opinion of Martin Rhodes “it is clear that nothing resembling a European ‘welfare state’ currently exists and few social risks are dealt with at the European level (...) The political structures of the EU prevent the transfer of major welfare/distributive resources to the European level” (Rhodes 1998:105; on the persistence of differences between national systems in Europe, see Lecher & Platzer 1998).

As a result of regional, nationalistic or federalistic tendencies and devolution processes within some EU-members, certain parts of the competences to regulate the labour market and of the so-called ‘flanking’ policies have been assigned to the regional authorities. In other EU-members the process of regionalisation has not (yet) resulted in a meaningful transfer of competences enabling the regional state-level to influence seriously the supply and quality of the regional production factors (more specifically human capital) on the global, that is mainly European, market. In several of them, however, apparently soft competences, such as education, training programs, activation policies, infrastructure, environment, etc. are placed in charge of the region. ‘Apparently’ soft refers to the fact that these ‘soft’ issues increasingly become ‘hard’ determinative issues in the era of the knowledge economy since they can be of great significance for the quality and capacities of the local human capital factor.

This means that the majority of the competences of the different European regional authorities are increasingly relevant for the attractiveness of the region as a site of economic activity on the global market of possible sites. In other words, the knowledge economy increases the importance of regional authorities for the wealth of that region since these authorities have in many cases a considerable influence on the quality of the one immobile production factor that is

tied to the region, namely human capital. Since the significance of human capital has increased substantially, in view of the the shift towards a post-fordist 'knowledge' accumulation regime, these regional competences are of increasing importance. Whatever the nature of the competences allocated to the region, it seems to be a recurring reflex that they increasingly become economically relevant, or at least that the economic (more specifically, cost-competitive) consequences of each decision taken in the field of a specific competence are taken into account. A very deciding reflection is whether a certain decision deteriorates or improves the competitive position of those living in a region and since all regions or states are captured by this logic, there seems to be no other way.

The general argument is that increased globalisation has actually influenced and circumscribed the extent of the autonomy that previously existed at the national and sub-national level. This does not mean that it has ended it. Regional and national governments continue to retain considerable leverage over the economy and their responsibilities towards the value of the local human capital are unmistakable. In spite of the fact that the national and regional state is still political significant and retains much of its formal sovereignty, its capacities to project its formal power are weakened but not vanished. The common perception seems to be that these remains of glorious times must be brought into action in order to please the increasingly mobile (actual and potential) investors and that the tendency towards a SWS - or any other version of the competition state - is inevitable since other states and regions are exhausting themselves to do the same, trying to snatch away existing and new investments (see the popularity of concepts such as 'regime shopping' or 'competitive deregulation').

This strategical switch towards a version of the SWS emphasizes the importance of policies concerning the human capital. Since regions are increasingly entitled to regulate aspects (such as education) that are of huge importance for the immobile production factor 'human capital', regional authorities have - even in a post-fordist accumulation regime - an important,beit a changed, rol to play in the maintenance and improvement of the attractiveness of their inhabitants in the global market of production sites.

## **6. Conclusion.**

As the ILO indicated, "the internationalization of the economy, *whether as present fact or future potential*, has a clear impact on industrial relations. It certainly seems to contribute, however *indirectly*, to the weakening of the trade union movement in several countries. The

greater possibilities for transferring activities from one region to another, or from one country to another, enhance employers' arguments at the bargaining table, even if such arguments are stronger than actual transfers are frequent (which is most often the case). This globalization process combines with other factors, foremost among which are the new production and communication technologies, which are crucial in the changes taking place in the economic and social landscape."(ILO 1997:221) Some of these other factors, especially with regard to the new production organisation, are described in the above discussion.

The general conclusion of this paper, which is meant to instigate further debate, is that the transformation of workers to 'human capital' has important consequences for the balance of power between trade unions and the management and for the state, in particular regional state, responsibilities. Out of a political science framework we attempted to illuminate some aspects of these politically important evolutions. We hope to have demonstrated that these apparently neutral and purely on efficiency based recommendations have indeed important political consequences that need to be mentioned.

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