

Gerhard Bosch

Problems facing labour in the European Building Industry

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PEOPLE IN CONSTRUCTION
Session 7

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Structure of presentation

1. Characteristics of the construction industry
2. Changes in the chain of value added
3. Role of product and labour market regulation
4. Challenges
5. Posting workers abroad

1.1 Characteristics of the construction industry



Construction is like

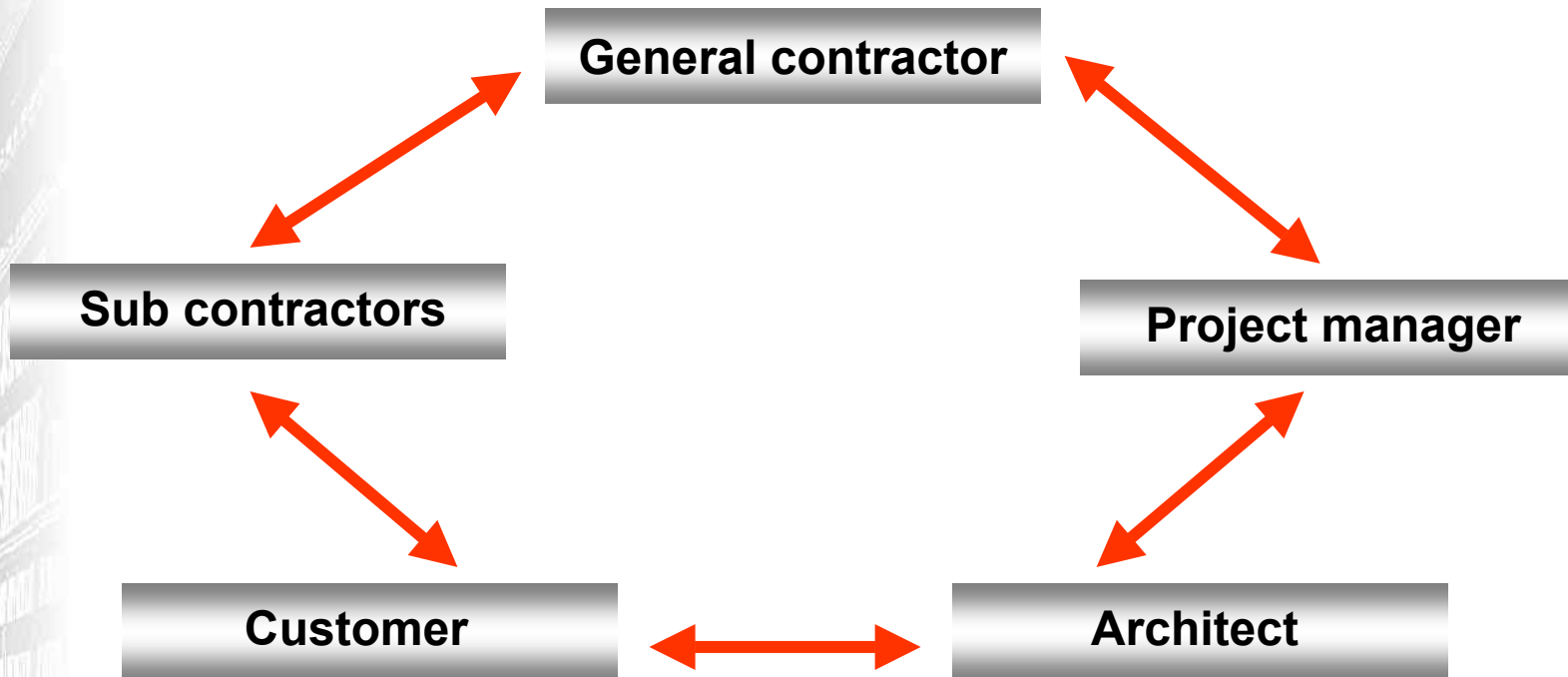
- Manufacturing
 - ▶ Produces durable
 - ▶ Highly cyclical

- Agriculture
 - ▶ Outdoor activity
 - ▶ Subject to the vagaries of the weather

- Services
 - ▶ Production at the point of purchase
 - ▶ Construction must travel to the customer
 - ▶ Is a local industry

- Mining and transport
 - ▶ Moving heavy equipment digging
 - ▶ Dam construction
 - ▶ Dangerous like in mining

1.2 Who does What? *Building Chaos*



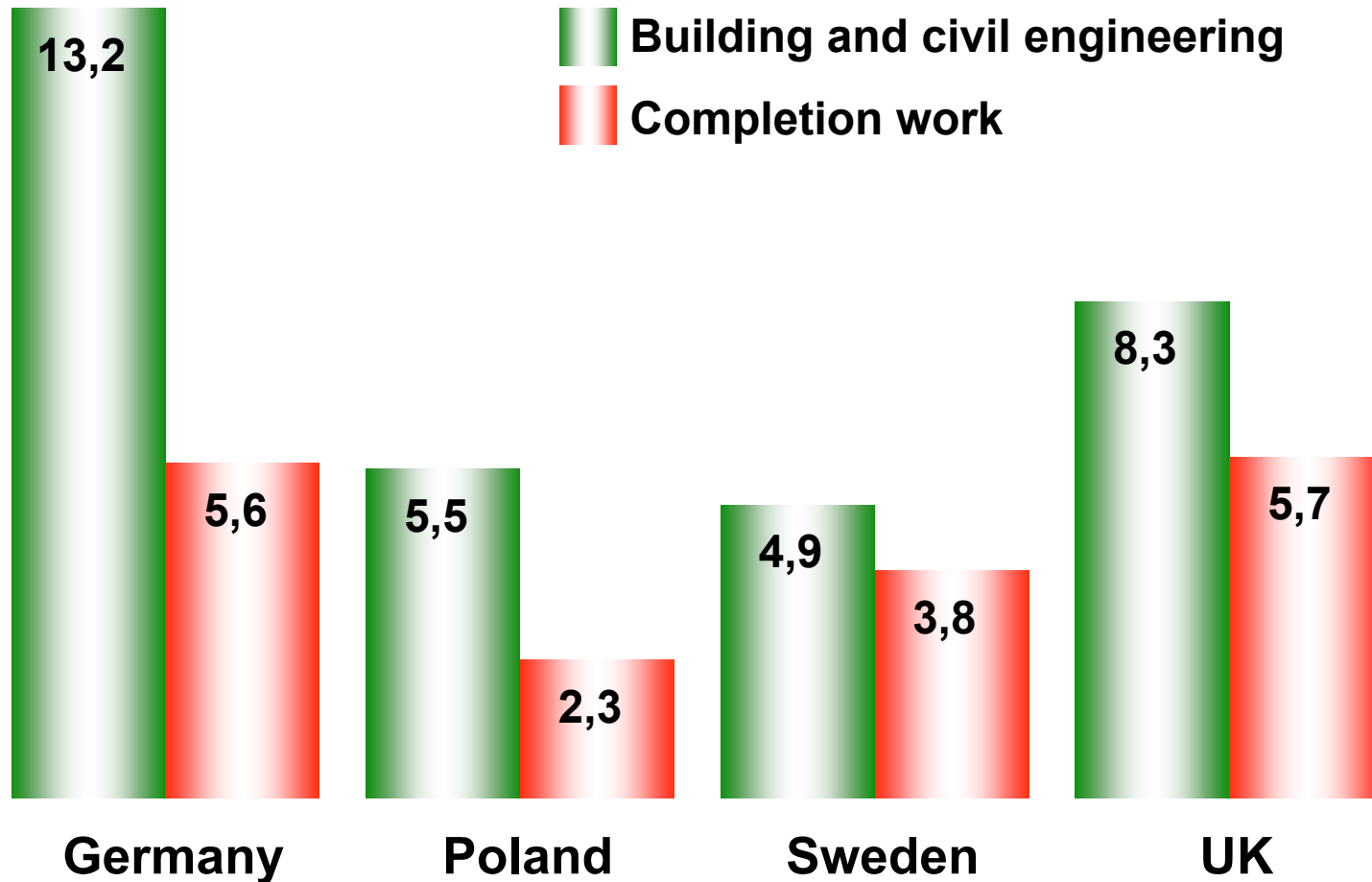
- Constantly evolving structure of who does what
- Result of the turbulence of the industry and the uncertainties associated with buying and making products

1.3 The role of subcontracting

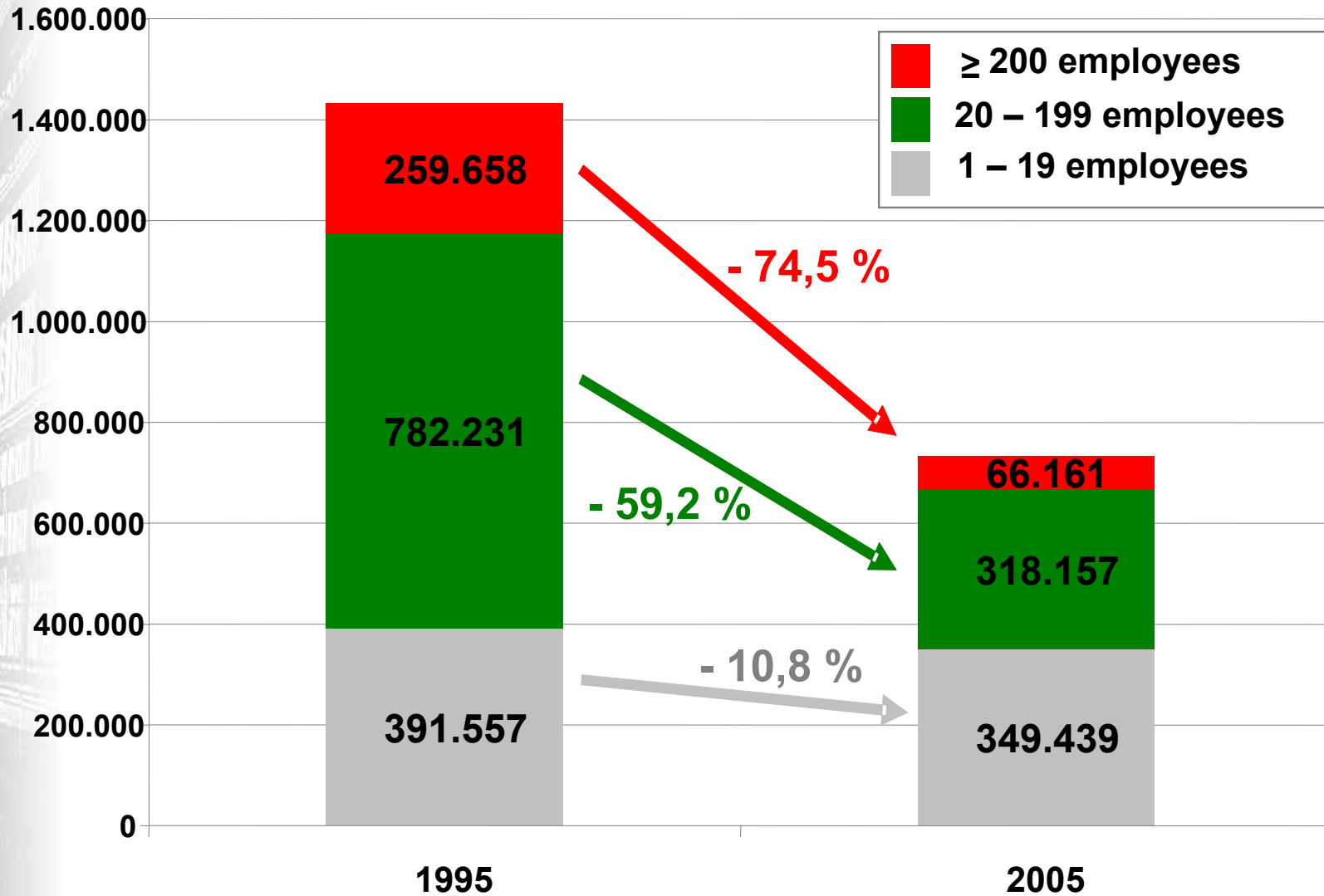
Two types of subcontracting

- ➔ Co-operative subcontracting: extension of specialisation
- ➔ Competitive subcontracting : method of risk reduction, labour control and cut of costs
 - ▶ Construction is an unusual risky endeavour
 - ▶ Employers face considerable financial risk (economic cycle, weather, fluctuation of demands between regions)
 - ▶ Subcontracting a common response to face, avoid and minimize these risks
- ➔ Competitive subcontracting is increasing and is linked with bad – often illegal - labour practices

1.4 Due to competitive subcontracting firm size is decreasing: Number of persons employed per enterprise in 2000



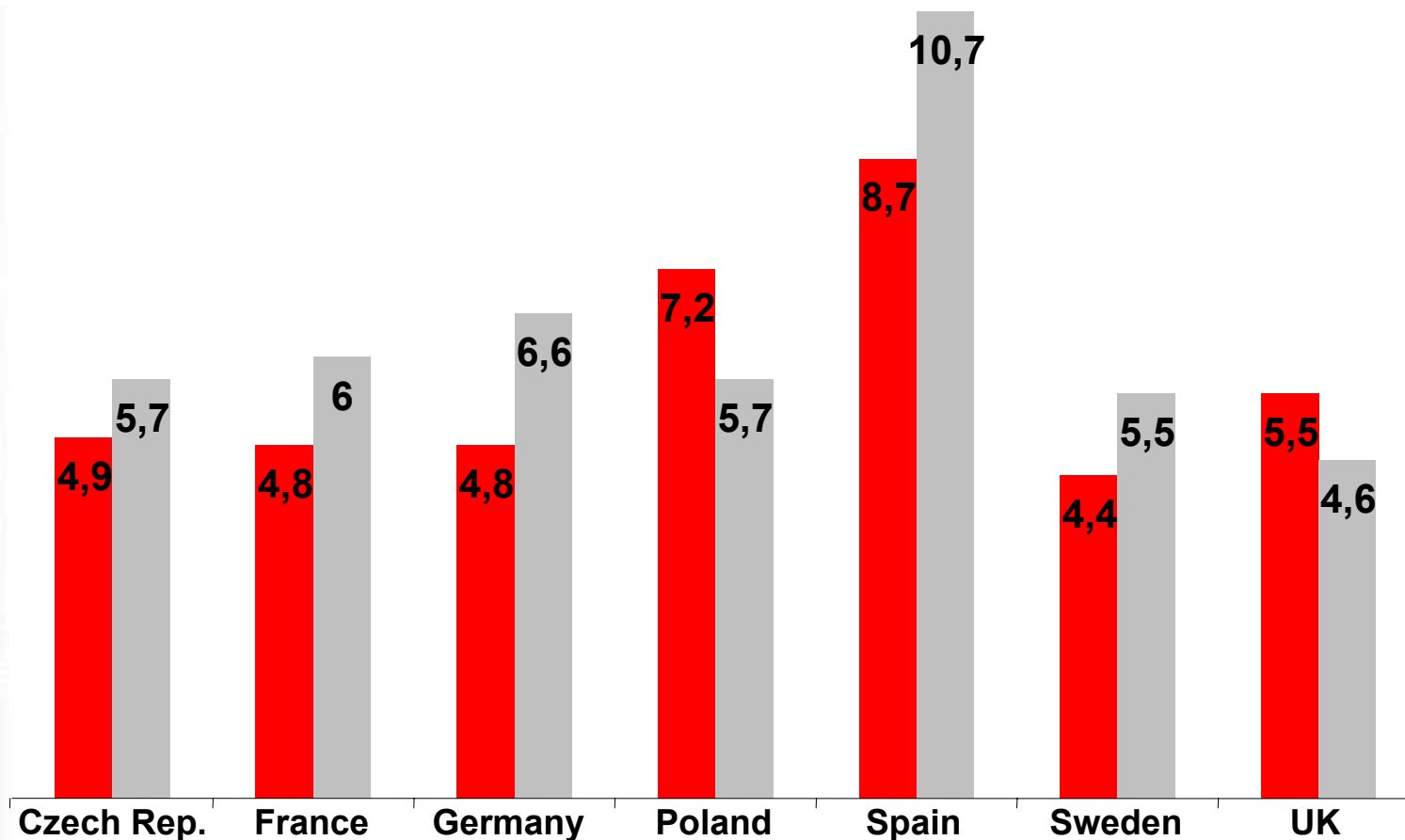
Number of employees in the construction sector (building and civil engineering) by the size of firms Germany, June 1995 and 2005



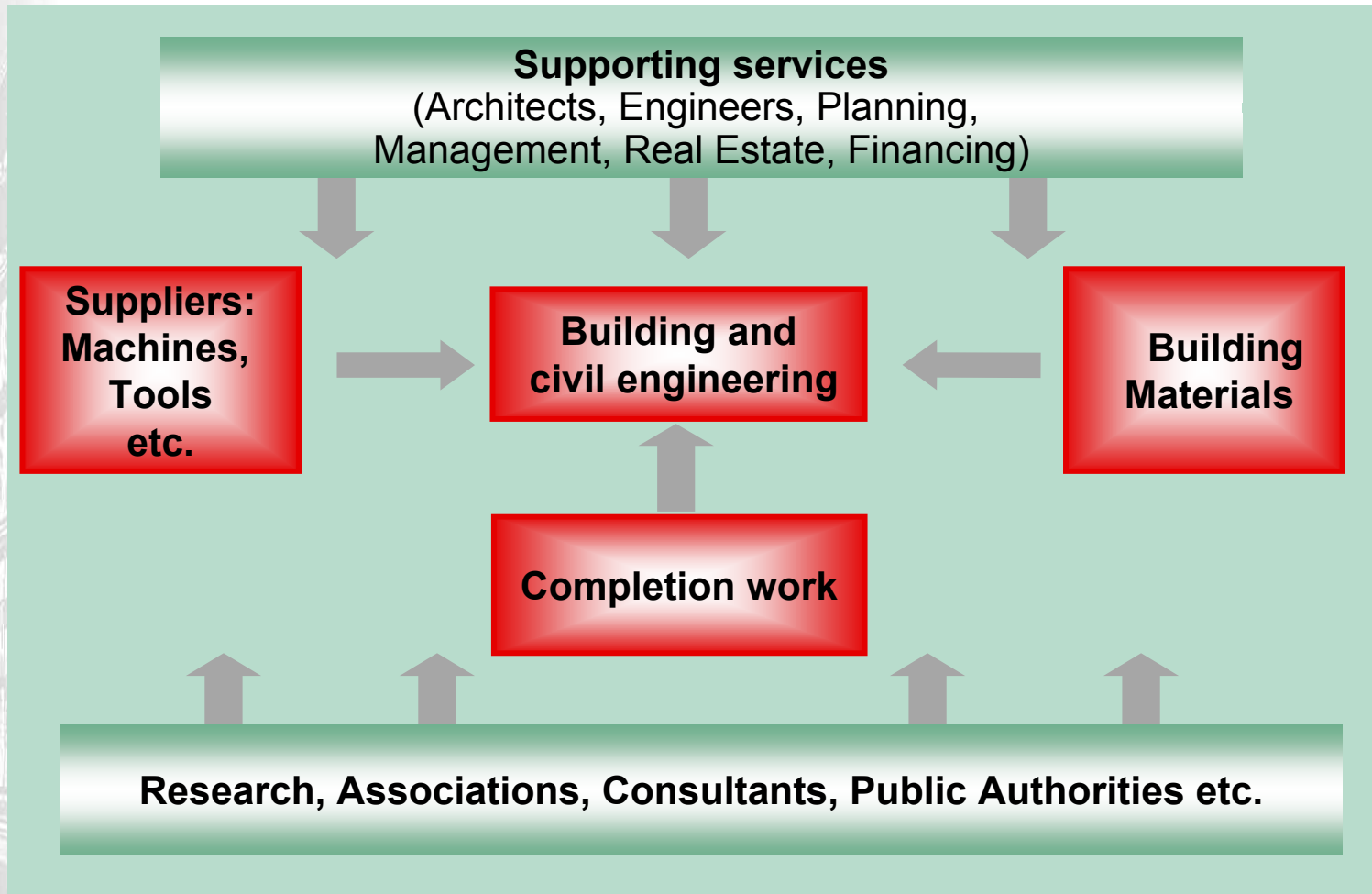
2.1 Value added and share of employment 2001



- Value added shares in % of economy
- Employment shares in % of employment



2.2 Chain of value added in the construction industry

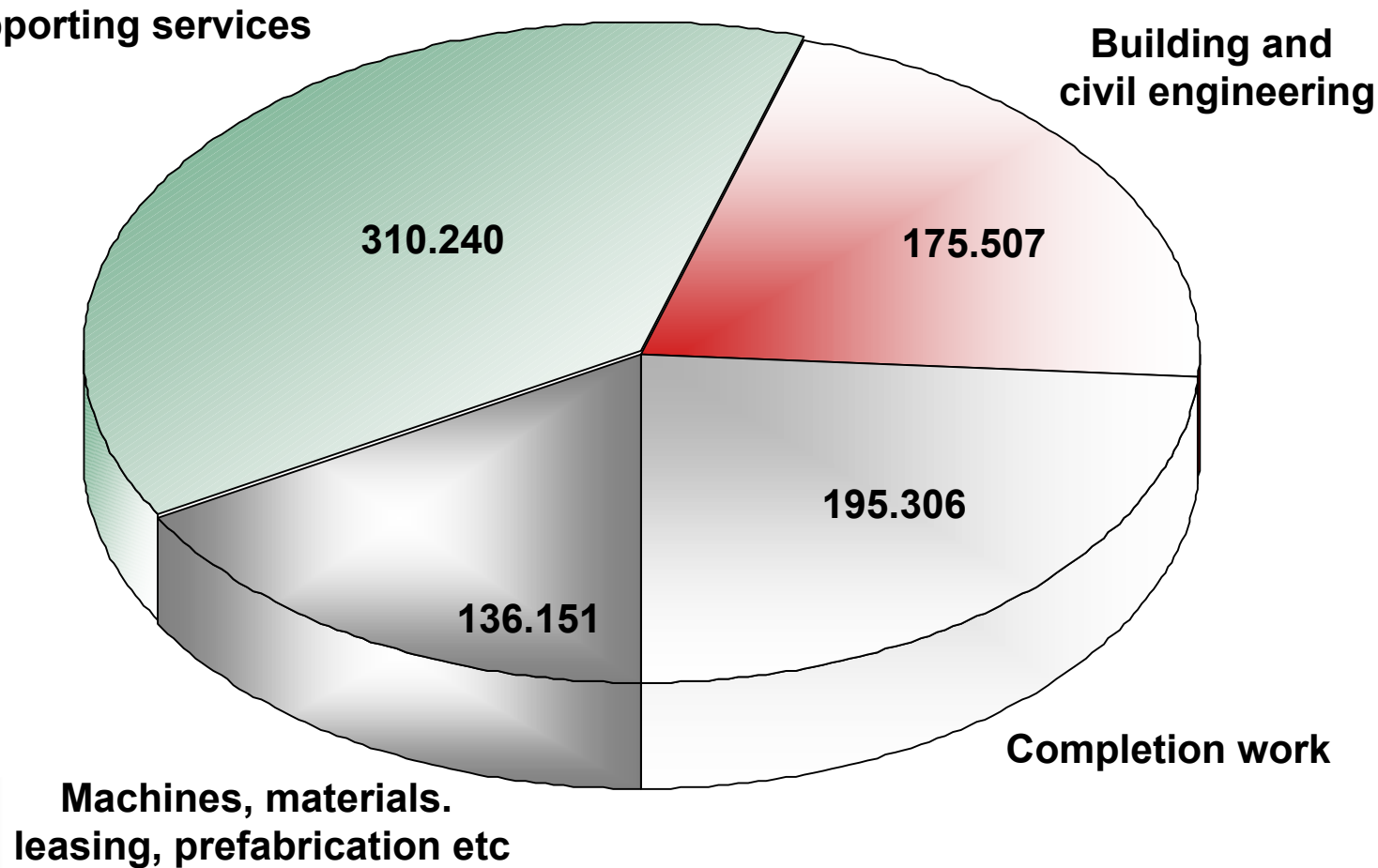


To understand structural changes in the construction industry one has to look at the whole chain of value added

2.3 Construction Cluster in North-Rhine - Westphalia 2001



Share in total employment 13,8% (817 000 employed)



3.1 Role of Regulation

- Investments in equipment and human capital pay off only over many years
- Firms and workers investing face risk that capital can be idled
- Firms investing in human capital face risk of poaching
- Customers are reluctant to pay for the training for the customers of tomorrow

CONCLUSION

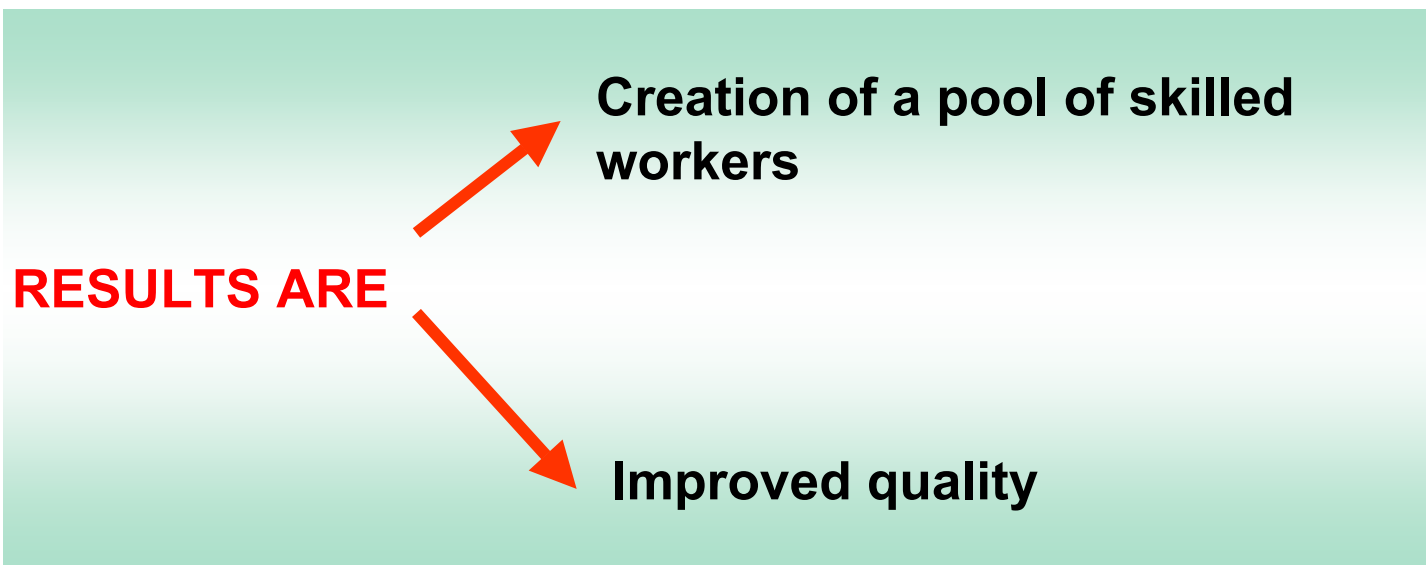
Considerable short-term pressures and considerations militate against the accumulation of fixed and human capital

Industry full of free-rider problems

Competitive subcontracting increases the problem

3.2 Role of Regulation

- Regulation can help to overcome these shortcomings
- Regulations can redistribute costs and benefits of investment over the time and over the industry



3.3 Types of Regulation: Examples



1. PRODUCT MARKETS

- Licensing
- Quality standards
- Prevailing wage laws
- Guarantees to the customers
- Supporting innovation

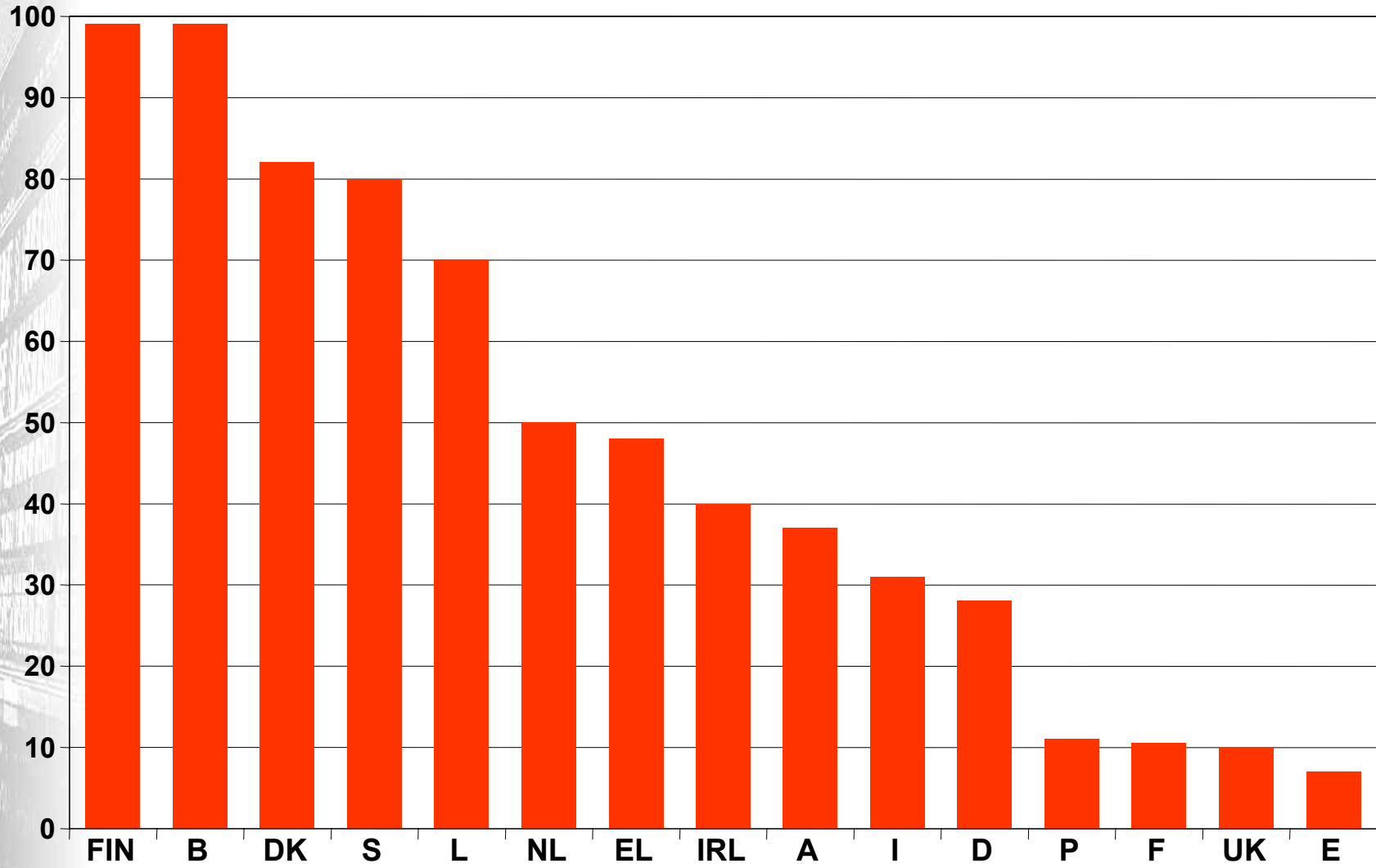
2. LABOUR MARKET

- State subsidies
- Levy systems
- Encouraging and supporting collective bargaining

3.4 Trade union density in construction, (%)



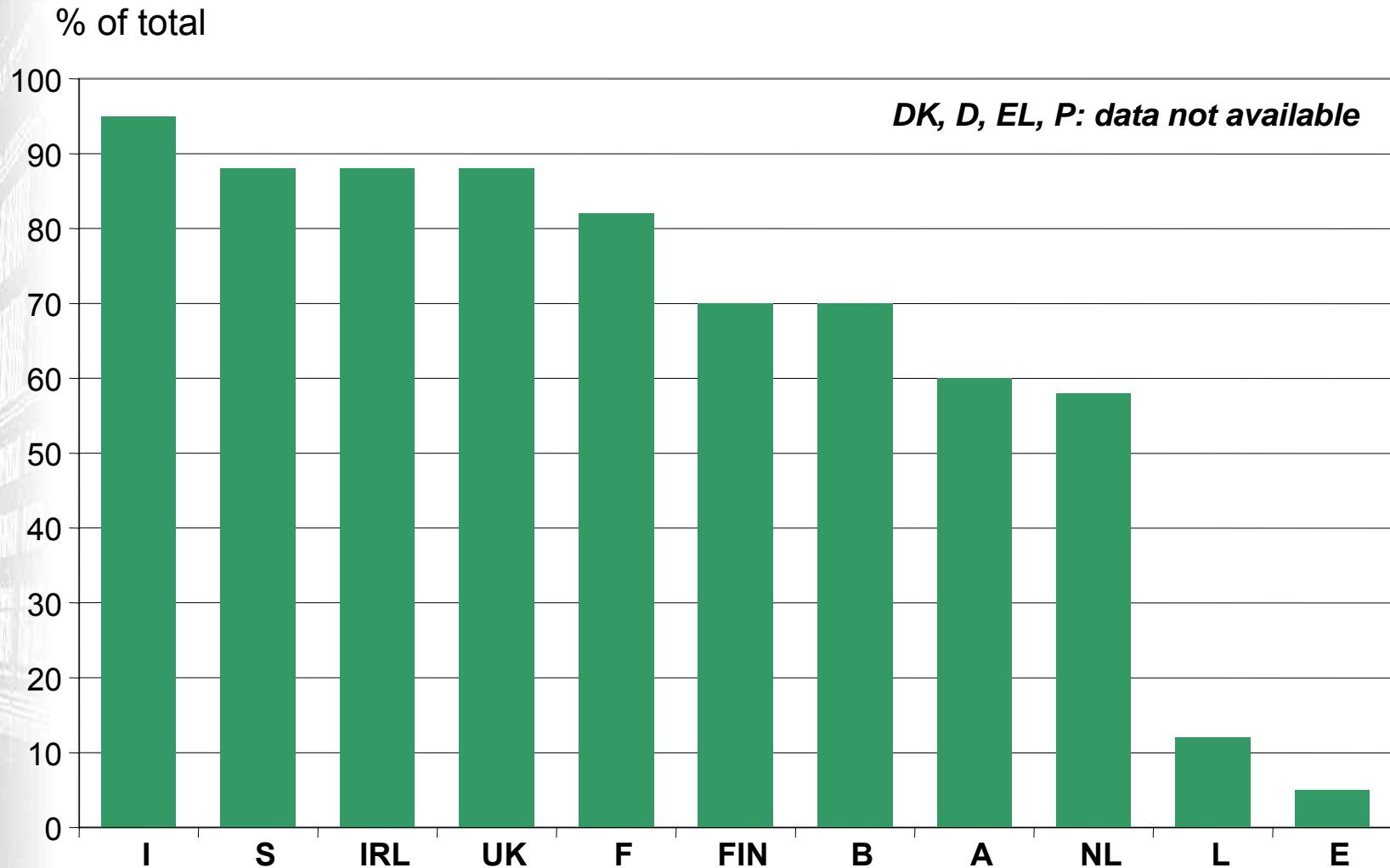
% of union members in total employment



Source: European Commission 2002, p. 81

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3.5 Employers organisations – represented employment in construction



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Source: European Commission 2002, p. 81

3.6 Example: Regulations in the German Construction industry

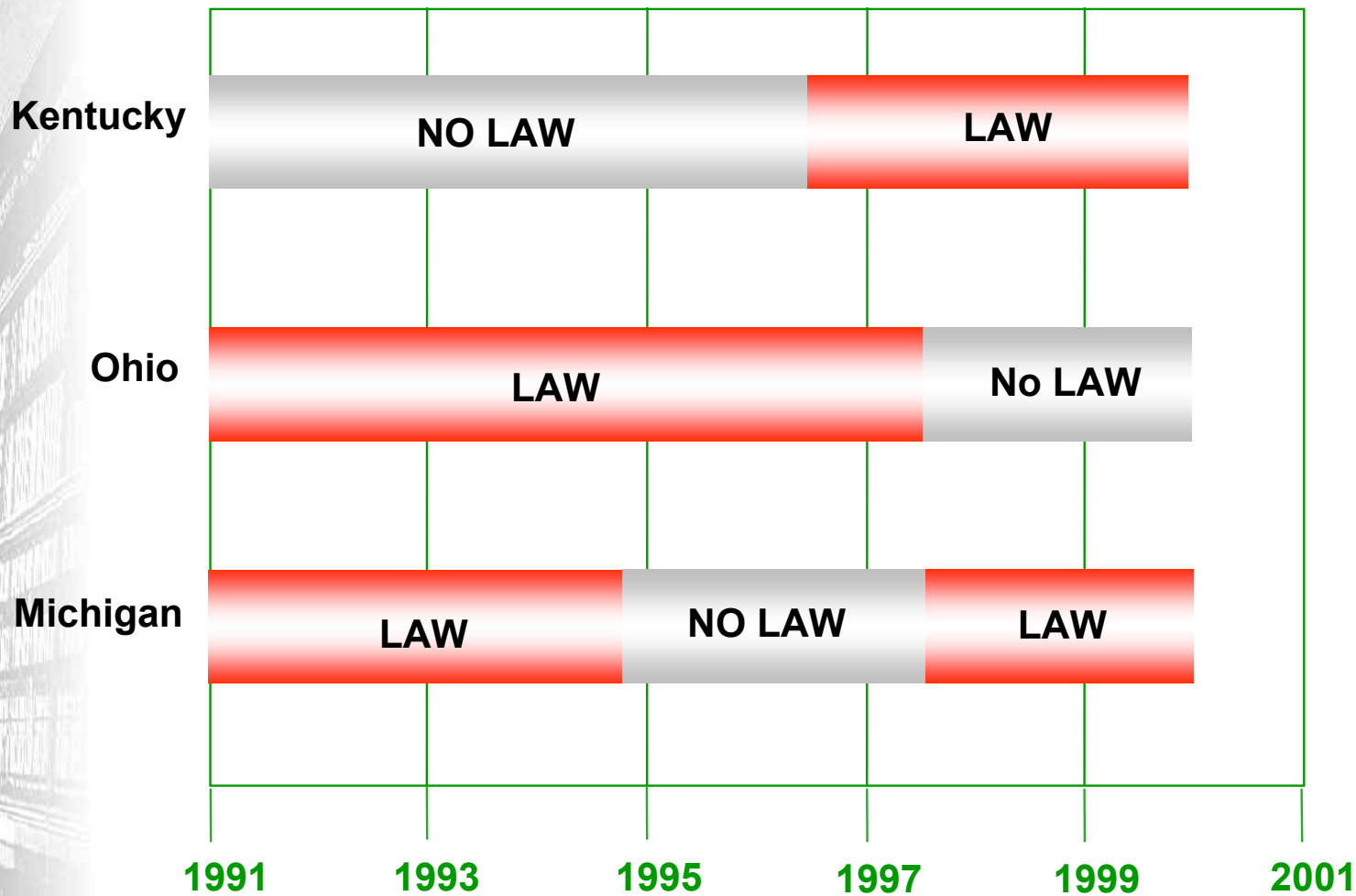
Product market regulation

- ▶ Handicraft code and master craftsman title (still dominating in the construction industry)
- ▶ German Building Contract Code (VOB)
- ▶ Prevailing wage laws (some states)

Labor market regulation

- ▶ Joint social funds of social partners (20% of the gross wage bill for holiday pay, wage compensation for holidays around Xmas, age insurance, apprenticeships)
- ▶ Agreement on social funds is declared as generally binding
- ▶ Agency work limited
- ▶ Industry specific labor market policy (bad weather allowance)

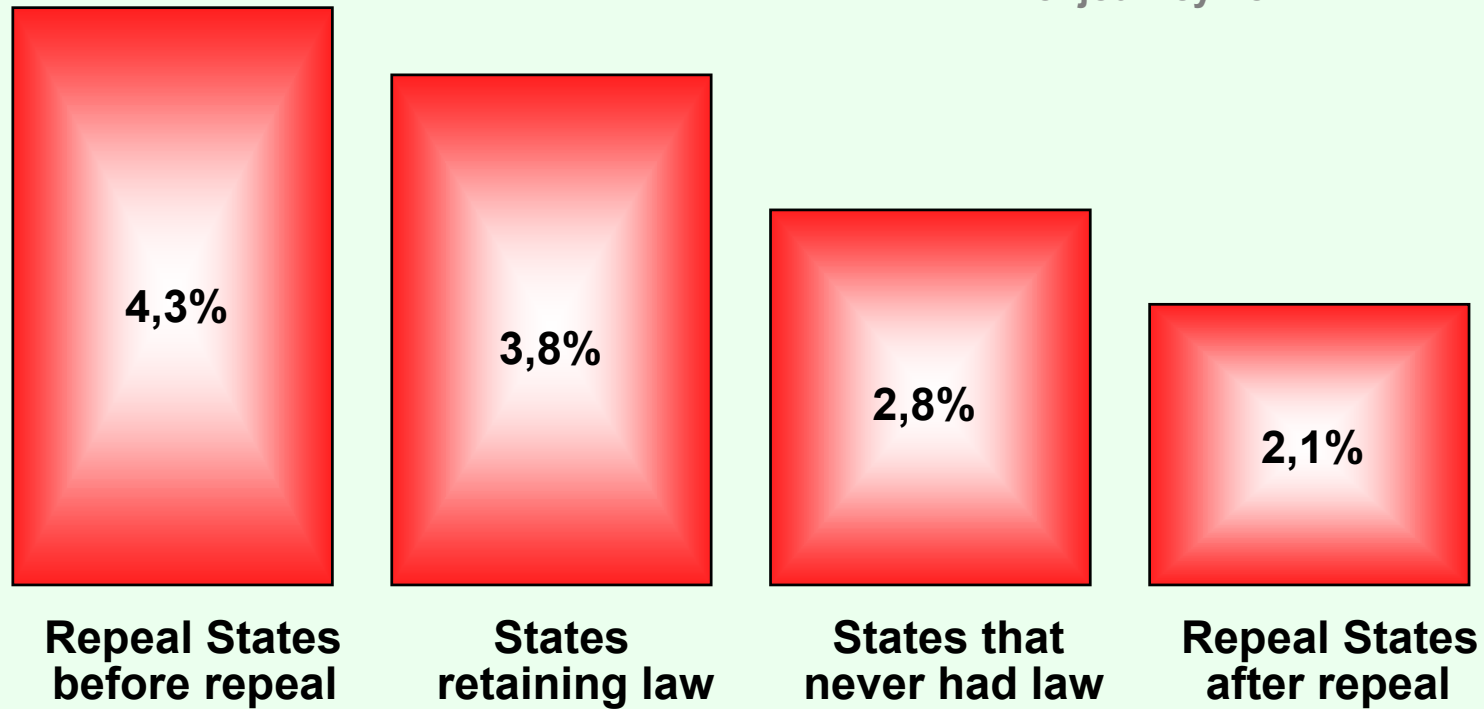
3.7 Prevailing wage laws in 3 US states 1991 - 2000



Source: Peter Philips, 2001: A comparison of public schools construction costs. University of Utah. S. 8. (http://www.smacna.org/pw_report_2001.pdf)

3.8 Apprenticeship Training Rates and Prevailing Wage Laws by State Legal Policy *

* Apprentices as a percent of journeymen.

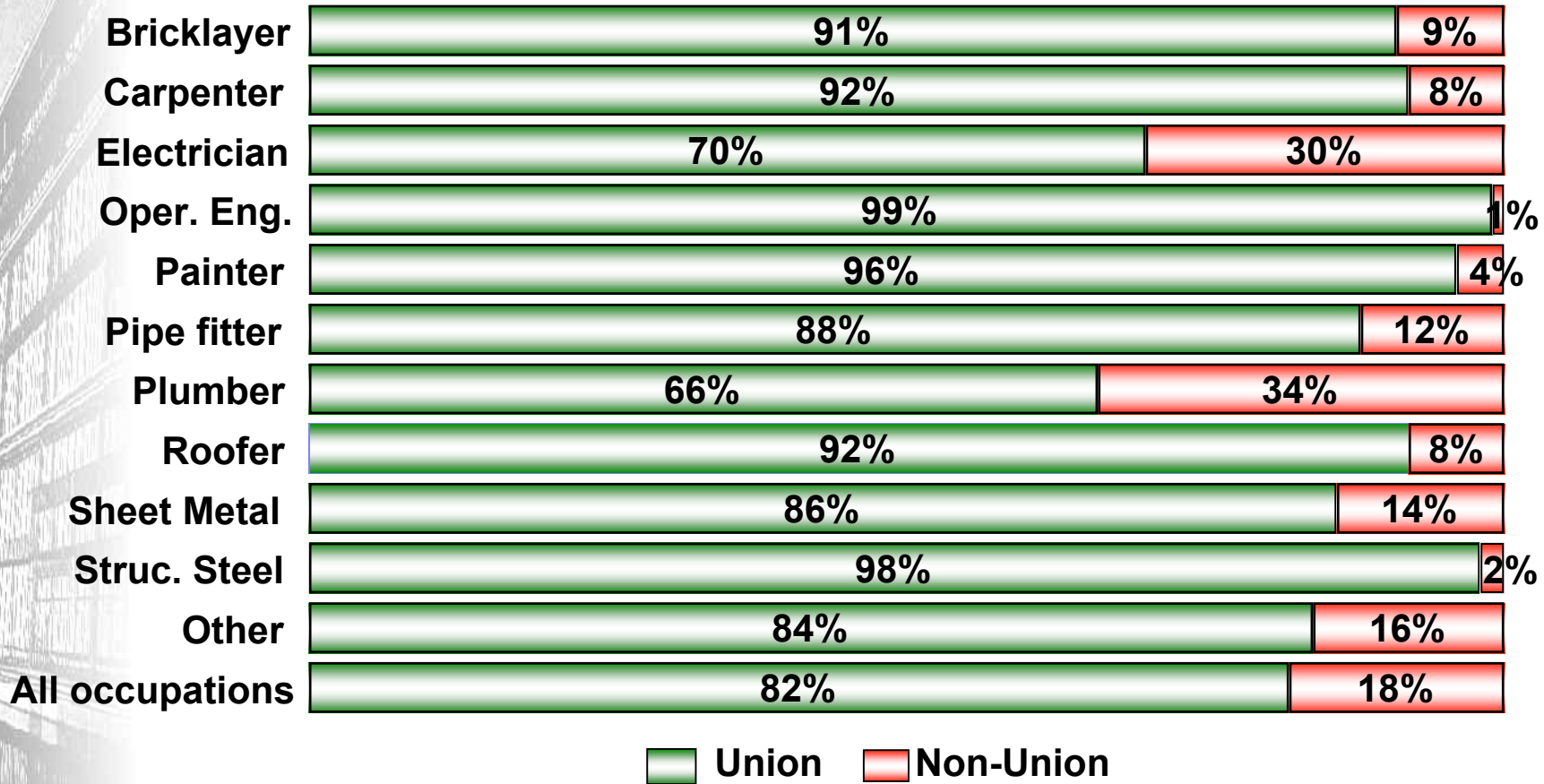


Source: P. Philips: The US: A tale of two cities. In: G. Bosch / P. Philips: Building chaos (Eds.): an international comparison of deregulation in the construction industry. London: Routledge, 2003

3.9 Relative Contributions of Collective Bargaining and Open Shop Programs to Graduating Journey Workers



(Classes of '89, '90 and '91)



Source: P. Philipps: The US: A tale of two cities. In: G. Bosch / P. Philipps: The labour market in the construction industry. An international comparison, Routledge Press 2002

3.10 Construction costs of public schools

\$ per square foot

	Rural areas			Urban schools		
	Average cost	Standard deviation	Number	Average cost	Standard deviation	Number
Prevailing wage law	98 \$	24 \$	104	114 \$	34 \$	86
No law	96 \$	26 \$	161	114 \$	36 \$	40
Difference statistical significant	?			NO		

Source: Peter Philips, 2001: A comparison of public schools construction costs. University of Utah. S. 3. (http://www.smacna.org/pw_report_2001.pdf)

4.1 SWOT analysis of the construction sector



Strengths

- ▶ Increased focus on R&D among the large construction companies
- ▶ Growing specialisation in many firms has created highly knowledgeable and competent companies within specific construction fields

Weaknesses

- ▶ Low productivity
- ▶ Weak industry image among customers and potential new workers
- ▶ Problems with health and safety in terms of accidents and physical strain on employees
- ▶ Problems with undeclared work
- ▶ Little interest in further education and training among small construction companies
- ▶ Low level of R&D investment among SME construction companies
- ▶ SMEs lack marketing, ICT and management skills

Opportunities

- ▶ Growth markets in new Member States, China, India and others
- ▶ Demographic changes leading to new markets developing
- ▶ Environmentally sustainable development, including waste management
- ▶ Off-site construction (pre-assembly)
- ▶ Embedding ICT in construction products and processes to improve efficiency and effectiveness
- ▶ Virtual prototyping for design, manufacture and operation
- ▶ New market segment in BOOT activities (Build-on-operate-transfer)

Threats

- ▶ Many European markets with stagnating growth, if any growth at all
- ▶ Increasingly globalised engineering sector where Japanese and US construction companies will enter certain European construction sectors
- ▶ Recruitment and retention of ageing workforce in some low-skilled professions
- ▶ Inter-European price-based competition represents a threat to employment in some EU15 countries

SWOT analysis of the construction sector



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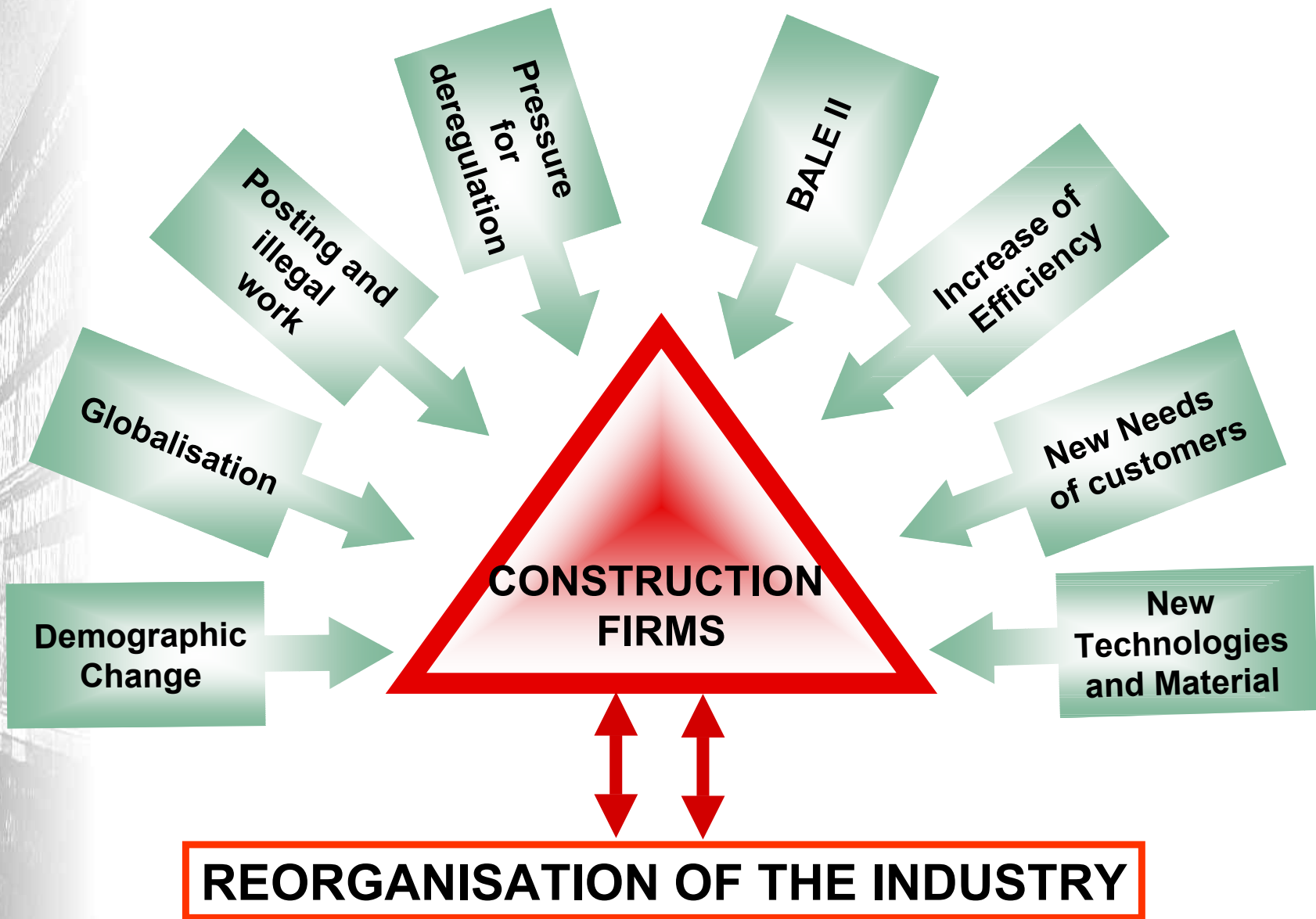
Opportunities

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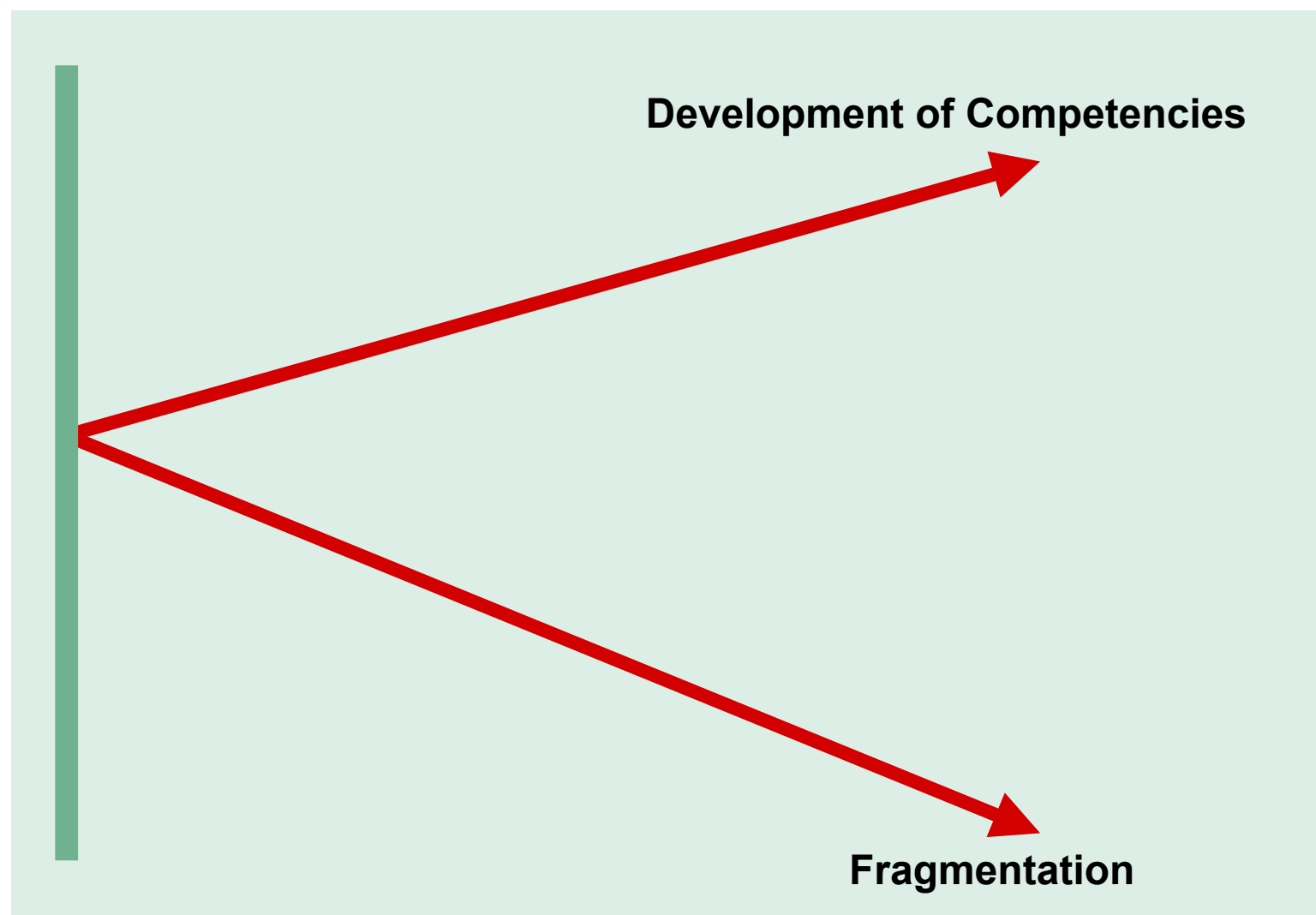
Threats

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4.2 Challenges to EU-Construction Industry



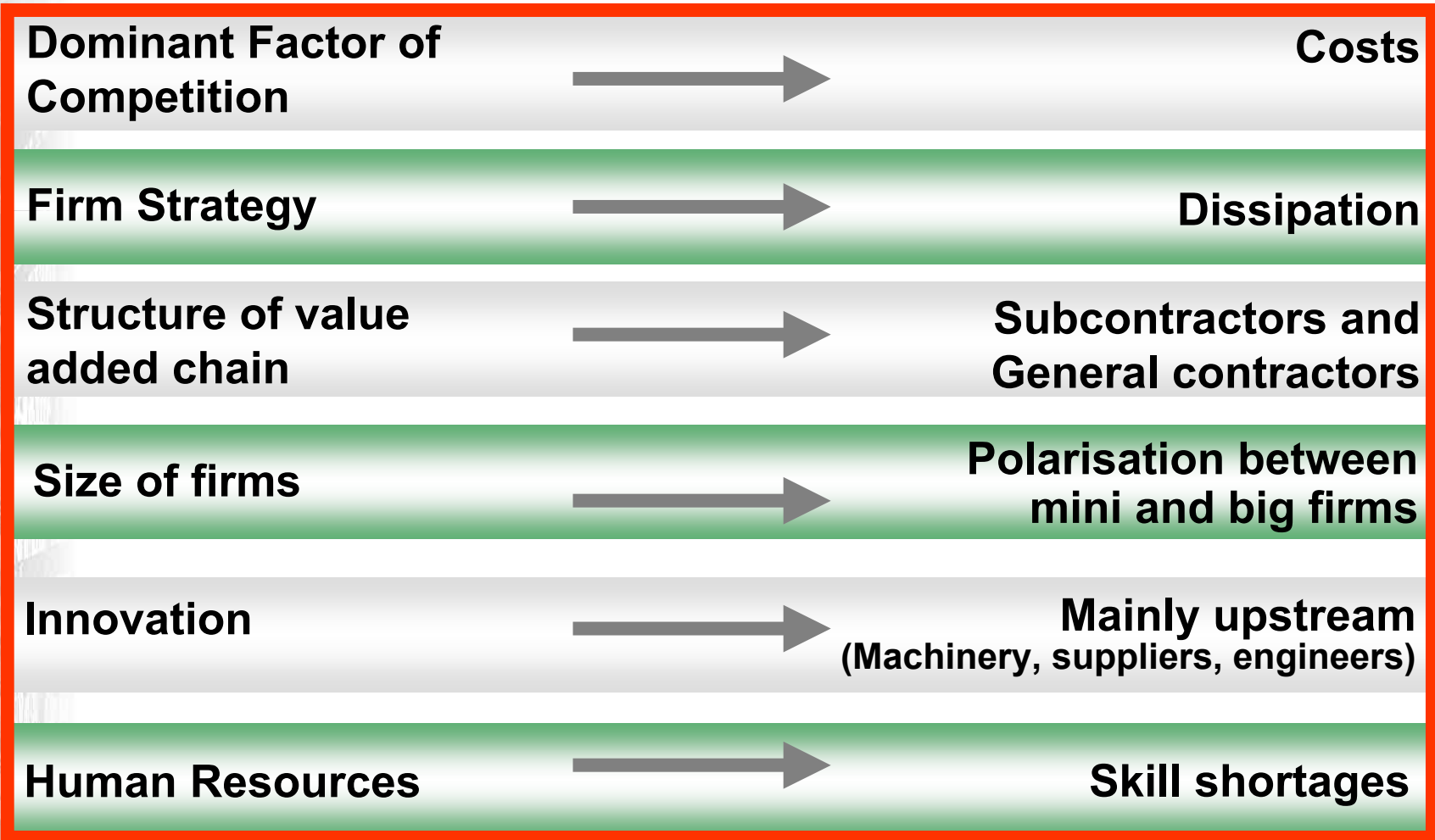
4.3 Challenges to the Construction Industry



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Scenario „Fragmentation“

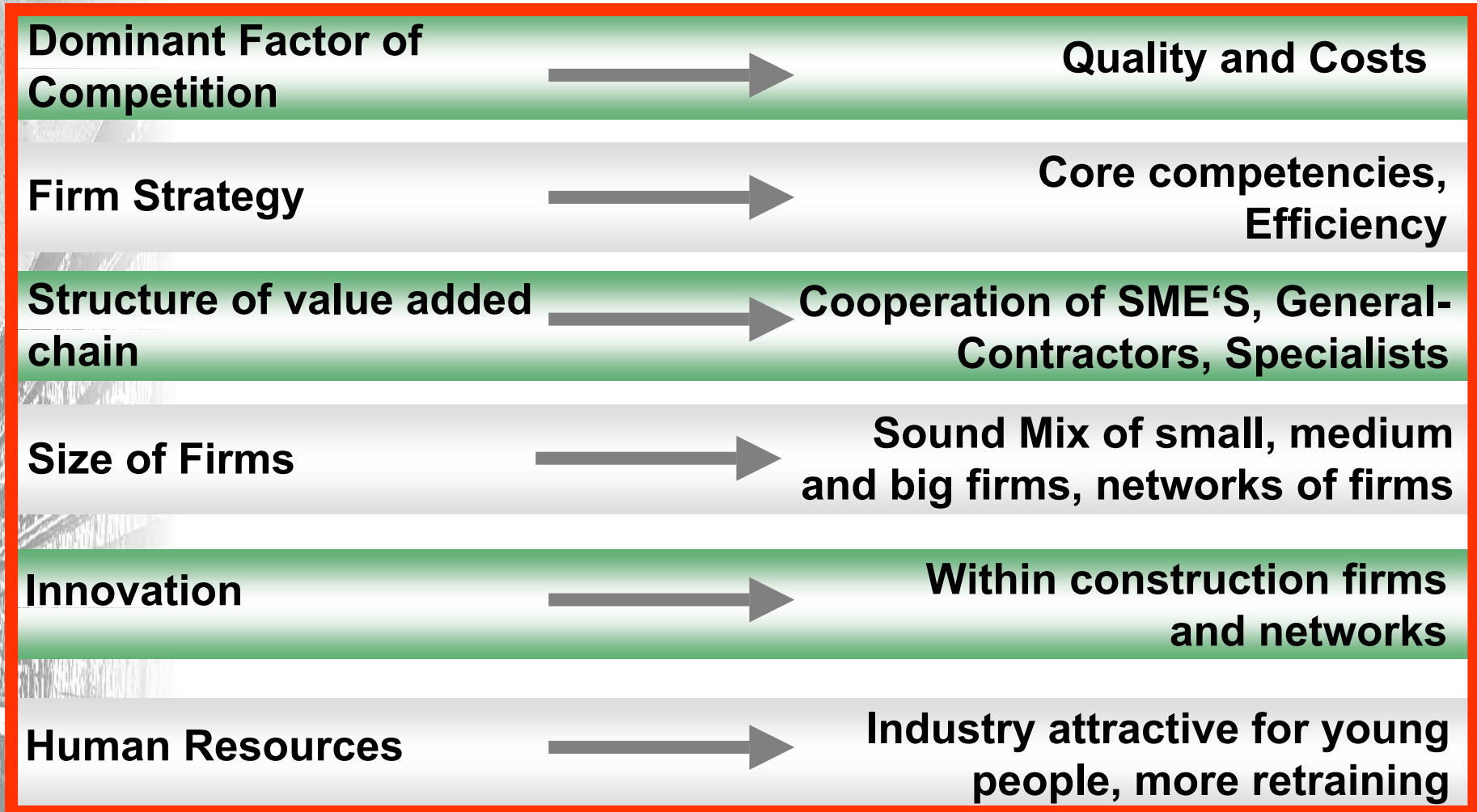


Loss of Competencies

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4.5 Challenges to the Construction Industry

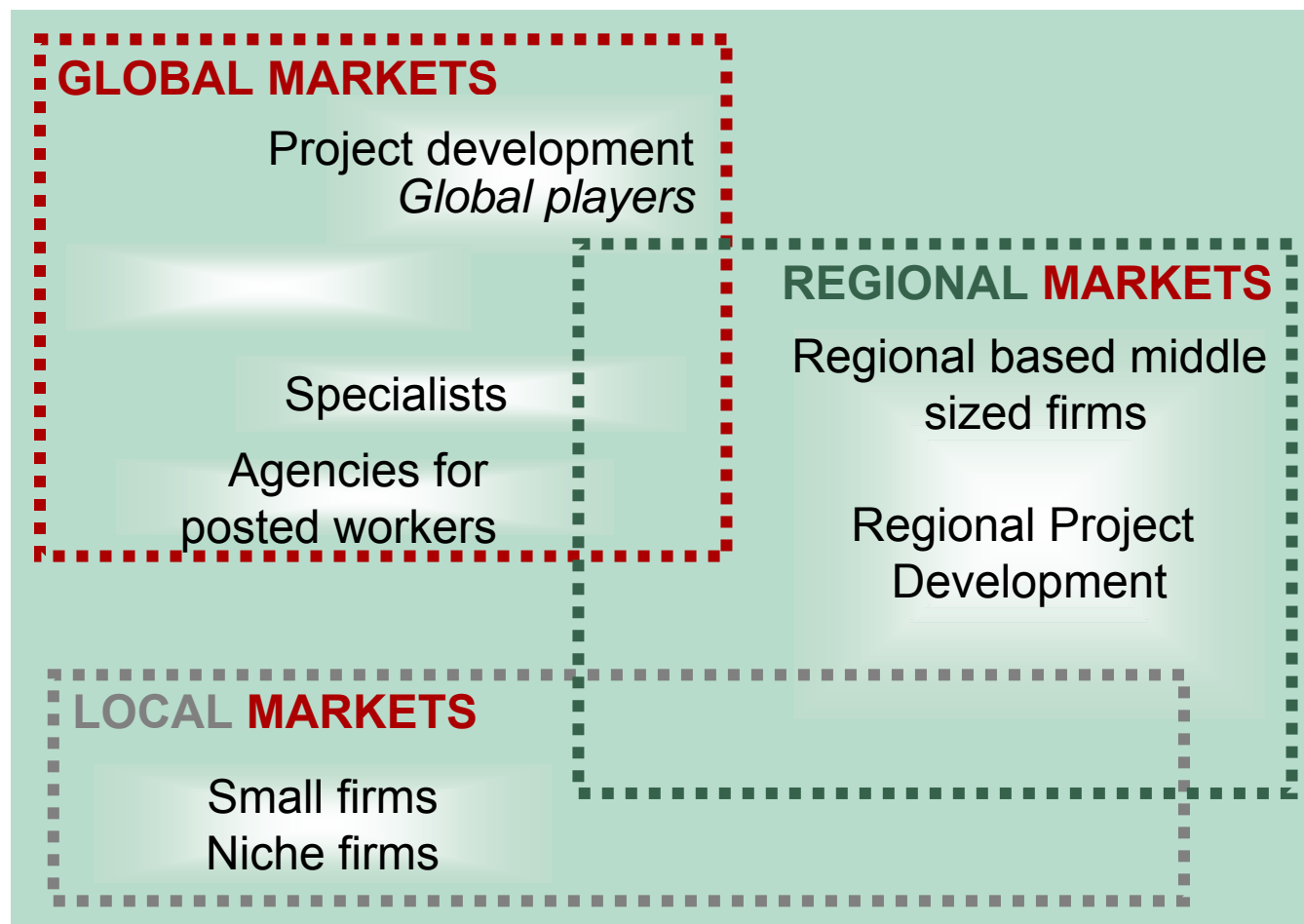
Scenario „Development of Competencies“



Increase of Competencies

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4.6 Challenges to the Construction Industry



Conclusion: Core competencies of big, medium and small firms are different

5.1 New forms of using foreign labor: Posting workers from abroad



Form of migration	Regulation of working conditions
Individual migration	Principle of territoriality; Inclusion in national systems of collective agreements and the systems of social welfare legislation; Equality of status for all workers employed by national companies.
Posting by companies based outside the country	In principle, no integration into national labour and social law. Integration occurs only via special laws or generally binding collective agreements.

5.2 Posting workers abroad: Lengthy tradition of using foreign workers in the construction industry: Example Germany

In 1970

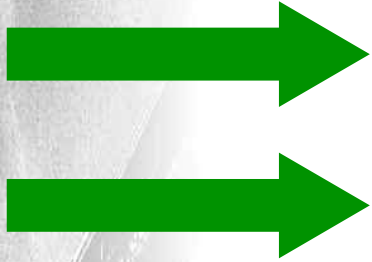
20% of employees were foreigners

Today

9% foreigners

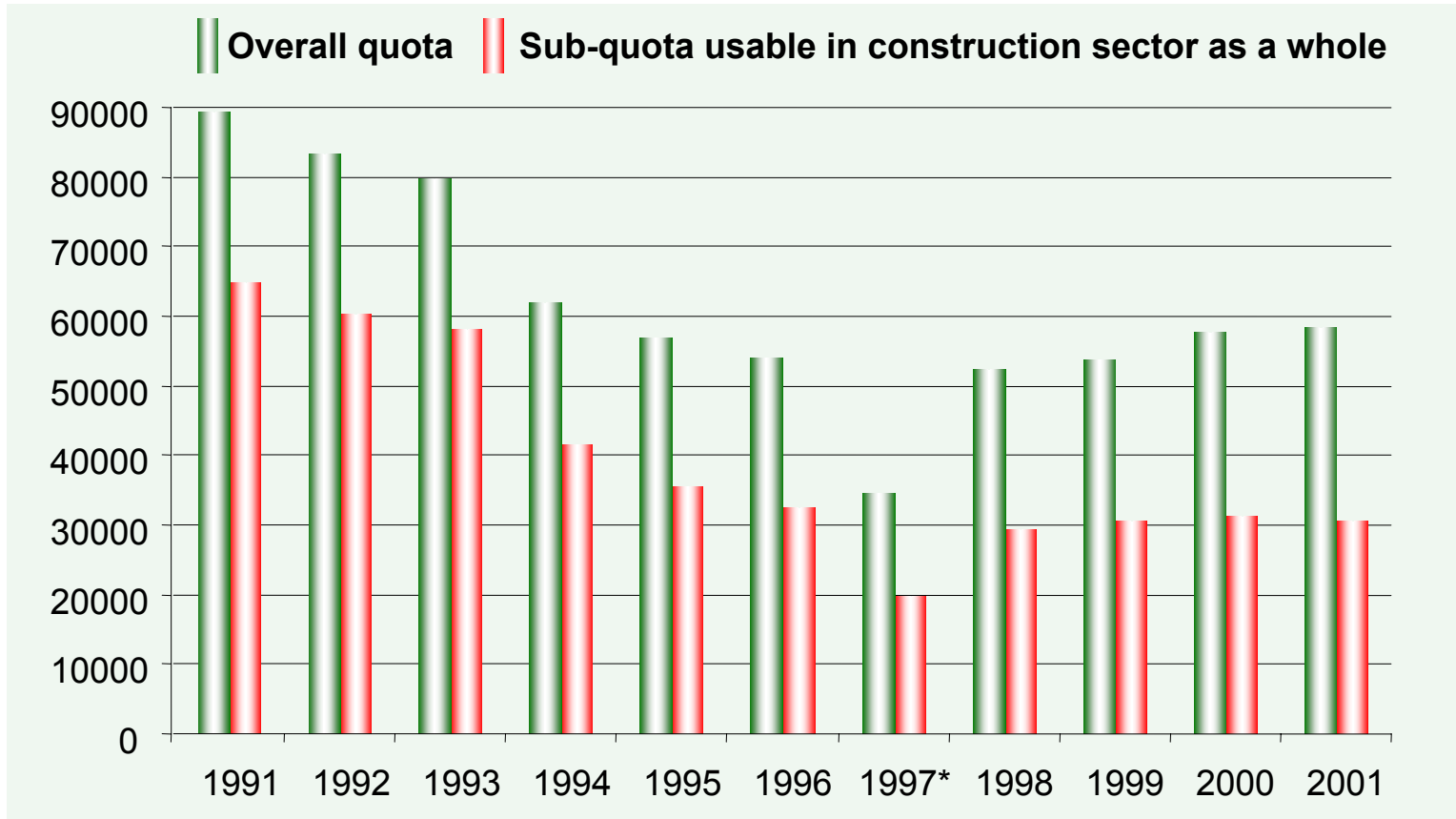
These foreigners were paid according to German collective agreements and were integrated in the social security systems

5.3 Quantitative Development of Quotas for Posting in D



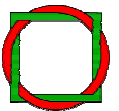
Freedom to provide services in the EU

Agreements on the posting of workers with Central and Eastern Europe

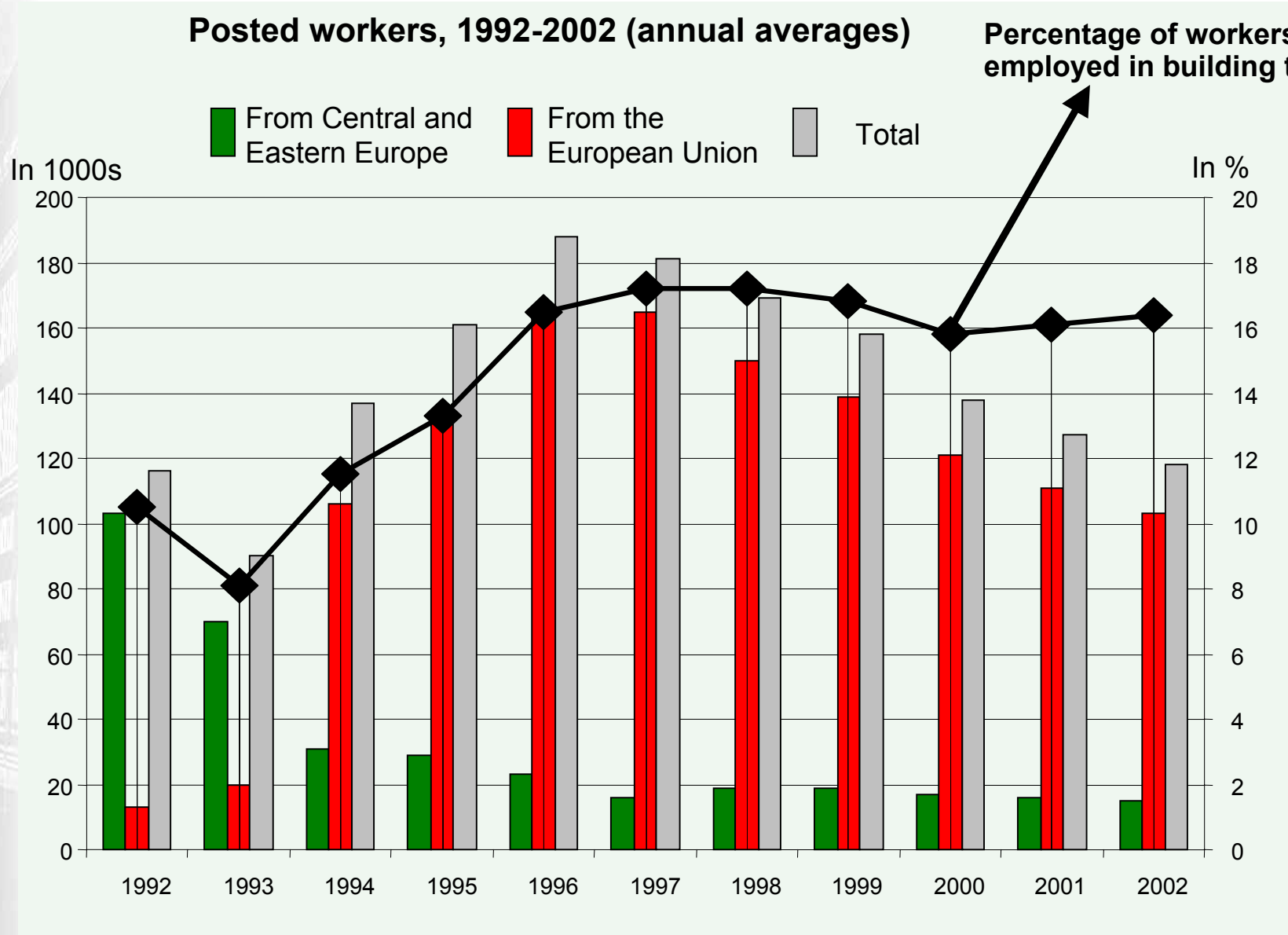


Source: German Federal Ministry of Labour and Social Affairs, Federal Employment Service, miscellaneous documents.

5.4 Quantitative trends in recorded posting



NRW



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5.5 Responses of state and social partners on increase of posted workers: Example D

Controversial Discussion

“Social Dumping” and “Creation of Equal Conditions for Competition”

VS.

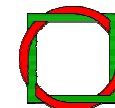
“Protectionism” and “Defence of Unjustified High Wages by Insiders”

“Law on posting of Workers” in force since 1997

Main Points

- ▶ Registration of posted workers required
- ▶ Sanctions
- ▶ Monitoring
- ▶ General-contractor-liability
- ▶ Statutory-instrument authorisation
- ▶ Minimum wage

5.6 Minimum wages for posted workers in EURO



Date concluded	Declared generally valid by	Term	Minimum wage level (TCAHW)			
			for unskilled workers (occ. group VII 2)		For skilled workers (occ. group III)	
			West	East	West	East
02.09.1996	CBC	1.1.1997-31.8.1997	8,69	8	-	-
17.07.1997	CBC	1.9.1997-31.8.1999	8,18	7,74	-	-
26.05.1999	Statutory instrument	1.9.1999-31.8.2000	9,46	8,32	-	-
02.06.2000	Statutory instrument	1.9.2000-31.8.2001	9,65	8,49	-	-
		1.9.2001-31.8.2002	9,8	8,63	-	-
04.07.2002	Statutory instrument	1.9.2002-31.8.2003	10,12	8,75	-	-
		1.9.2003-31.8.2004	10,36	8,95	12,47	10.01

TCAHW: Total collectively agreed hourly wage; CBC: Collective bargaining committee.

Source: 1996: German Construction Industry Association 1997: 464-466; 1997, 1999: German Construction Industry Association 1999: 48-54; 2000-2004: IG Bauen-Agrar-Umwelt 2000: 5, Federal Law Gazette Part I, various references, compiled by author.

**Not each country has a mining
or automobile industry
but each country as a construction industry
since buildings cannot
easily be transported elsewhere**

To read

Bosch, Gerhard / Philips, Peter (eds.), 2003

Building chaos: an international comparison of deregulation in the construction industry.

London: Routledge research studies in business organization

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Zukunftsstudie Baugewerbe Nordrhein-Westfalen Endbericht. Mai 2003.

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