
Economic Perspective 1

MAKING TRACKS: CATERPILLAR'S CRAWL FROM SCOTLAND

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Malcolm Rifkind is justifiably appalled by the Caterpillar company's recent decision to close its Uddingston plant. The injury to the Scottish economy and to the plant's workforce has been compounded by the insult offered to the Secretary of State. In a matter of a few short weeks, a £62.5 million investment programme welcomed by Mr Rifkind in his Christmas message, including praise for the company and the workforce and stress on the importance of foreign investment for Scotland's future, evaporated as the company decided to pull out of Scotland.

The turnabout was made all the more inexplicable by evidence from unions and management that they considered the plant to be profitable and that they were buying in new machinery even after the closure had been announced. One Uddingston product - an upgraded medium-sized bulldozer - looked to have a successful future in a mainstream sector of earth moving equipment sales. More importantly, the components which made up 80% of the Uddingston plant's production were a vital input to Caterpillar's international operations in both Europe and the USA, particularly in the context of Caterpillar's adoption of 'just-in-time' techniques. A skilled, experienced and stable workforce was already on site primed to carry out the upgrading of both tractor and components production. It was even the case that new labour was being recruited by management on the basis of the plant's assured future.

Industrial disputes in contemporary Scottish industrial relations. A fourteen week occupation accompanied by political machination, managerial intransigence, contradictory union pressures and workforce resilience has ended in the confusion of the MPAT Ltd initiative and the continuing probability of the plant's demise by early 1988.

Caterpillar's decision highlights the contradiction at the heart of Scotland's commitment to industrial growth on the back of foreign manufacturing investment. The contradiction has two dimensions. Firstly, in order to attract foreign capital, a complex benefits package must be offered to potential investors. Factors which might make Scotland less attractive to the foreign investor, or which make other locations more attractive, must be negated. In particular, controls over the impact of such investment must be minimised in order that investors feel relatively unconstrained. Yet that very freedom of action enhances the liberty of companies like Caterpillar to relocate outside Scotland. Secondly, regional industrial policy has not concerned itself with the issue at the heart of the Caterpillar case - what do you do when decisions which do not reflect the industrial efficiency of the regional subsidiary lead to run-down or closure of that facility? How do you respond when what appears to most commentators to be a profitable plant is closed on the basis of criteria which have little or nothing to do with the plant itself.

In place of this bright future, we have seen one of the most protracted and public

Not all cases are as stark as Caterpillar. Yet over the last decade Scotland has seen

subsidiary after subsidiary pared down or closed at the behest of a foreign head office. Goodyear, Singer, Massey Ferguson, Chrysler, NCR, Burroughs are but well-known examples of this phenomenon. Informed estimates put job losses at about 25,000 as a consequence of such restructuring. The indigenous manufacturing sector has of course also suffered a high rate of closures during this period. The knock-on effect of closures on the Scottish economy points to even greater indirect job loss and an accompanying destabilisation of the Scottish manufacturing base. It is now urgent that we reappraise the regional approach to foreign capital investment in order to balance the 'foreign investment at (virtually) any price' view with a longer-term appraisal of Scotland's investment needs. Of course, such an appraisal might then encompass the interests of a potential workforce as well as of the wider economy.

Little of the above is novel. Even the SDA and LIS may well agree privately with the thrust of the argument, yet their public face appears to many of to be as seductive and compliant as ever in search of the next tranche of investment. Government has nailed its colours to the same mast, a commitment manifestly compromised by the Caterpillar debacle. Yet this of all governments is unlikely to consider specific constraints on the activities of international investors.

Integrative versus initiative strategies

A feasible way forward would be to look to the European Community for an international response to the problem of mobile investment. Such a solution might simultaneously ensure that no competitor for investment would be unfairly obstructed in their sales pitch, whilst the importance of the European market would mean that international investors would be forced to operate to a standard European code of practice in order to gain access. However, this solution, which might be dubbed the **integrative** approach, is unlikely to be implemented. The

establishment of a co-ordinated European model would require a degree of political co-operation far beyond current practice. As things stand, national economic policies might be compromised unacceptably by such a move. The bitter progress of the relatively mild Vredeling proposals through the European system highlights the uncompromising opposition by national governments and enterprise managers to European-wide constraints on the firm. Vredeling sought to increase the information flow about companies and their performance to the workforce, and permit greater scrutiny of company decision-making. It was fought tooth and nail throughout its progress through the European legislative framework and finally emerged a mere shadow of its former intention.

The obstacles in the way of a successful implementation of an **integrative** approach suggest an alternative **imitative** posture. The imitative option emerges from the study of cases such as the Caterpillar closure. Take the establishment of a plant such as Caterpillar's. It is located in Scotland because of a variety of factors, of which only one is the level of constraint on company activity imposed by the national government. For example, market location, labour market factors, government aid, potential for local production integration, local language and culture, and traditional links with the country, might all figure in the location decision. However, at the moment of decision-making about relocation, the crucial conjunctural factor will be the ease with which the movement of capacity may be undertaken. Comparisons between constraints on movement in different production centres will be made. The factors which brought about the location of the plant initially may become either irrelevant or relatively insignificant as headquarters decision-making responds to supra-national demands with supra-national policies. Hence the evidence from the Caterpillar case and others suggests that an important factor - perhaps **the** important factor - in the decision to rationalise away from Uddingston was the relative costs of closure in their Belgian, French and Scottish locations. Put simply, it is much more time-consuming and costly to close plants in mainland Europe than it is in the UK. Supra-national decisions might well hinge on such a factor.

Evidence which supports this focus on closure costs is found in OECD studies which stress the impact of interventionist employment policies on closure decisions in mainland Europe. For example, in **Germany** legislation exists which requires a company to notify government agencies, works councils and unions about proposed dismissals of 10% or more of a workforce. The works' council may demand comprehensive information about the proposed rationalisation, and the employer is required to discuss whether redundancies can be avoided or how resultant hardship may be reduced. The works' council can demand a **social plan** covering redundancy payments, the selection and timing of redundancies and a wide range of related matters. The state's regional employment office is empowered to defer dismissals for up to two months in order that retraining or the transfer of workers may be set in train. Where work is rationalised, the employer is responsible for a number of relatively costly provisions relating to the maintenance of wage levels where downgrading occurs, the protection of workers of 55 or over, supplementary payments for short-time working and so on.

In **France**, similar requirements exist vis-a-vis notification of the intention to close plants and dismiss workers to both workers' organisations and the local departmental labour office. However, in the final instance, government officials have the right to veto proposed dismissals by a company. Companies are required to follow a detailed programme of consultation which must establish a legitimate argument for redundancy or closure.

In **Italy**, compulsory consultation with unions about proposed redundancies is demanded in law. Unions have recourse to the courts which increasingly rule in terms of the social consequences of an employer's action. In the highly politicised context of Italian labour relations, political parties and the relevant administrative authorities have intervened actively around the issue of proposed dismissals and thus may impose substantial pressure on an employer to avoid redundancy. Provisions such as the Earnings Supplement Fund provide economic support over extended periods of nine-months or even more in order that short

and medium-term economic pressures on a firm may be alleviated.

Of course, the **UK** does have parallel legislation. Firms must provide advance notification of proposed redundancies. The 1975 Employment Protection Act laid down a three month consultation period for proposed redundancies; minimum statutory redundancy payments are also laid down; time-off to search for another job is legally guaranteed to a worker facing redundancy. These measures are supported by a number of other provisions. However, the combined effect of the UK package is generally considered to be less onerous than many comparable packages elsewhere in Europe. The industrial relations system seen by many to be a hallmark in the UK social fabric has neither established the general consultation provisions embodied in works' council legislation, nor relied upon state executive intervention around employment rights, nor seen legal action as an effective method of conducting the bargaining process. Collective agreements have often been regarded as more than adequate frameworks in which employment legislation may operate. In the Caterpillar case, and many others in recent Scottish history, the UK framework has been woefully ineffective in restraining closure decisions. Employers have consistently met their legal obligations, yet such compliance rarely impinges upon the basic closure decision. Essentially, UK employment law comes into play after the strategic decision is made, acting more as a palliative than as an effective defence of jobs or investment capacity.

The policy implications for Scotland of the imitative approach emerge from a comparison of different employment law provisions across Europe. If the logic of attracting foreign investors is to create a stable sector of foreign-owned production, responsive to both its own and Scotland's needs, the open-door policy must be tempered with appropriate legal constraints on the incomer's behaviour. Arguably, at the time of location a wider range of factors including any such constraints as are deemed necessary will inform a firm's decision. It might be possible to countervail the effects of

such constraints in the mind of the potential investor with added tax, financial, property or development incentives. The equivalence between Scottish requirements and those found elsewhere might be stressed to establish the fairness of the constraints. The unwillingness of a firm to invest under such circumstances might suggest that in the long run a stable manufacturing strategy for Scotland could do without such an unco-operative partner. It follows that all companies - foreign-owned and UK-based - would be required to adhere to the provisions.

The constraints would come into play particularly when relocation was planned. At that time, a willingness to abide by agreed practices would incur no penalty; any unwillingness would be dealt with within the framework of sanctions established at the time of location. Both sides would play to the rules of the game in force at the moment of capital location.

What form should these constraints take? Perhaps a meld of French and German approaches would be a useful basic framework. Into a suitably-amended package of existing UK legislation could be inserted the requirement to negotiate a social plan in the event of a proposed redundancy. Local government agencies might be permitted the executive action accorded to their equivalents in France. For example, an employer might have to establish the legitimacy of his redundancy or closure policy in the eyes of an appropriate government agency. The framework governing a proposed closure would therefore look something like this:

Stage 1: company proposals would be presented to employees, unions and the designated state agency. A formally-established six month period of consultation would commence. The information necessary in order to make an informed judgement about the state of the company would be made available.

Stage 2: formal negotiation between company representatives and the workforce. If an agreement were to be reached at this stage, it would be reported to the state agency for comment. Usual procedures relating to redundancy payments etc would then be set in train through the operation of a social plan including both company and state provision.

Stage 3: where no initial agreement was reached, the company would be required to stay its hand whilst arbitration procedures attempt to resolve the impasse. The designated state agency would be responsible for the arbitration process, and, where such a commitment was not yet established, the promotion of a social plan.

Stage 4: In the event that no agreement is reached during Stage 3, the designated state agency would be responsible for the commissioning of a detailed independent economic and social survey of the closure proposal and its effects. An appropriate period of time would be allocated for the preparation of the survey. The decisions available to the agency would be: closure on the basis of an existing or amended social plan; a recommendation that the plant should continue in production, with a detailed justification. Of major importance at this stage is the provision that the firm should not be permitted to relocate the affected plant's machinery until the agency's decisions are enacted.

These proposals raise a variety of questions, only some of which can be tackled here. Agencies such as the SDA and LIS would have to provide an appropriate infrastructure in which adherence to the procedures would be fostered. In the initial bargaining with

a potential investor, the framework would be explained as a general requirement imposed on all firms intending to make an investment. The package would appear as only one factor in a range of issues under discussion and might be presented as, for example, are French and German regulations - as an unquestioned aspect of local labour relations practices. Government would have to create and support the designated state agency. Unions would have to amend their bargaining practices to encompass the social plan aspect of the model. They might also have to rethink the scope of the bargaining process and the union approach to its conduct. Obviously, the general provision would be a minimum requirement; some employers and workforces might agree to a more extensive framework.

The key question about the operation of this procedure relates to the ability of a government to impose the second decision in Stage 4 on an international investor. In practice, as in Germany and France, agreements generally do emerge during the consultation period and it may be that the second option would be rarely if ever needed. The proposal has been posed above in terms of a 'recommendation' rather than a directive simply because it is conceivable that, where agreements were not reached, a firm might simply leave the threatened plant and the UK, thus absenting itself from the competent national legal framework. However, the experience of France suggests that international firms may be unwilling to act so precipitately simply because of market or legal sanctions which a government may impose against other subsidiaries within national boundaries, or against the company's products. However, as the aim of the proposal is to work with the company rather than against it, and to promote a responsible framework in which competing interests are catered for, the emphasis would be on Stages 1 to 3 rather than on the extremes envisaged in Stage 4.

Although the introduction of such measures would require substantial political will on the part of the government of the day, the task is not technically difficult. Equally, the legislation would not call on large resources in its implementation. It might even prove to be politically popular!

These are realistic proposals, although they run counter to government, regional policy and enterprise views of international location strategy. They may be challenged on the grounds that they obstruct the operation of the market, or they reduce the flexibility of the labour market, or that they interject unacceptable political criteria into decisions to locate. Perhaps the strongest criticism will be that they may deflect potential investors from the Scottish economy. There may be an element of truth in all of these criticisms, but the alternative is to accept the responsibility of a relatively-unconstrained haemorrhage of investment production and employment from Scotland. What cannot be denied is that until an effective code of practice is introduced, the arbitrary closure of plants such as Caterpillar's will continue unchecked. Given that we are now in mid-election campaign, it will be interesting to note the extent to which the Caterpillar occupation has put these issues on to the Scottish political agenda.