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Temporary workers

British employers' organisations were celebrating last month when the European Union failed to reach agreement over the drafting of the Agency Workers' Directive. The directive, which appeared to have secured the support of most European partners, was attempting to improve the rights of temporary workers.

Industry bodies in the UK, however, had objected to the proposals, fearing that they would harm the business of existing temporary agencies and would restrict the opportunities for companies to build labour flexibility into their operations.

Anna Diamantopoulou, the EU's employment commissioner, had been anxious to push the measures through before the EU presidency was transferred from Greece to Italy. But the UK, backed by Germany, Ireland and Denmark, succeeded in delaying the drafting. Now the impetus has been lost. With Italy showing no desire to revive the measures, it is difficult to see how the directive could be resuscitated in the short term.

Some breathing space was probably necessary but it would be a pity if all the momentum towards a more equitable arrangement for labour across Europe were lost. The focus on labour flexibility has been drawing European states more closely together in the search for common employment policies. Italy, Spain, Portugal and Germany have been abandoning many of their restrictive labour laws.

The degree to which some European countries have moved towards a more liberal employment regime is apparent in Italy. On the shelf next to the desk of Maurizio Sacconic, undersecretary at Italy's labour ministry, is a photograph of the late Marco Biagi, the labour ministry adviser who was assassinated in March 2002 because of his desire to liberalise the Italian employment market.

It seems unimaginable, from the perspective of anyone in the UK or the US, that a man should have been killed simply because he wanted to make it easier for people to find work. He was not the first to die in the cause of labour liberalisation but it is to be hoped he may be the last. The hard left that once bred such extremism appears to be losing ground. As Mr Sacconic put it, "Italy is the last Eastern European country. It's a transition economy. The only eastern European country joining the monetary union."

The remark was designed to illustrate the political and economic contrasts that characterise the Italian economy. The same contrasts are evident in the labour market. Italy has some of the strongest unions in

Europe but it is also a country with more than 4m "micro-businesses", where a large proportion of people in the employed population are either running a small company or working for one.

The lack of support for a tightening of labour laws in a recent referendum has given the Italian government the confidence to pursue phased relaxation of legislation, now being debated in its parliament. As an experiment, the government is proposing to ease restrictions under Article 18 of the labour law for new employees of larger companies. Article 18 is the part of the law that protects people from being dismissed in companies with more than 15 employees. The job security of existing employees

will not be affected by the move (at the insistence of the trade unions before they agreed to the measures).

Economists are divided on how it may affect the business sector. But the idea that it will trigger a mass of mergers and business expansion seems fanciful. On the contrary, it could be argued that the vibrant network of interrelated businesses in the Terza Italia - the band of industry across middle Italy - is closer to the model that the rest of the post-industrial world will need to assume in future to provide greater customisation of products and services.

I must own to some wishful thinking here because I love the character of Italian towns and cities to about the same degree that I hate the homogeneity of so many high streets in Britain and the US with their Identikit shops and restaurants.

Another Italian issue that in time will be shared by its European partners is that of demographics. Italy has the lowest birth rate in Europe and in the north of the country there is full employment, so the use of migrant workers is widespread. The Italian government has been pursuing bilateral agreements with countries such as Tunisia and Albania to allow industry sectors and private operators to provide skills and language training in the source countries. The idea is to ensure regulated flows of labour.

In the next few years there will be a need for a similar movement of regulated labour across the rest of Europe, including the UK. The challenge for the EU will be to ensure that it engineers the skills it needs to sustain a strong and competitive mixed economy. This is not just about providing 20m more jobs - the goal of the Lisbon summit - but of matching skills, people and work in a way that will ensure stability and continued competitiveness.

The UK has shown what can be achieved with employment liberalisation. Protectionism among many of its European partners had gone too far. But the protectionist approach was set against a history of worker exploitation and the constant search among employers for cheap labour.

These days you would have thought the argument for promoting a strong, skilled, fairly rewarded and sustainable labour force had been won. But the resistance to the Agency Workers' Directive led by the Confederation of British Industry and supported too readily by the UK government did little to confirm this. As Brendan Barber, general secretary of the Trades Union Congress, observed in a letter to the FT, the CBI's own research revealed that three-quarters of the employers it surveyed already gave temporary agency workers at least as good conditions as permanent staff. So why the opposition to measures that would ensure greater fairness for all employees?

There is an argument that "if it ain't broke, don't fix it". There is also an argument that more regulations would mean more red tape. But employers' organisations mounted the same resistance to a minimum wage in the UK and their arguments proved unfounded. Raising the bar gets rid of the cowboys and promotes the kind of work, temporary or otherwise, that people and business need.