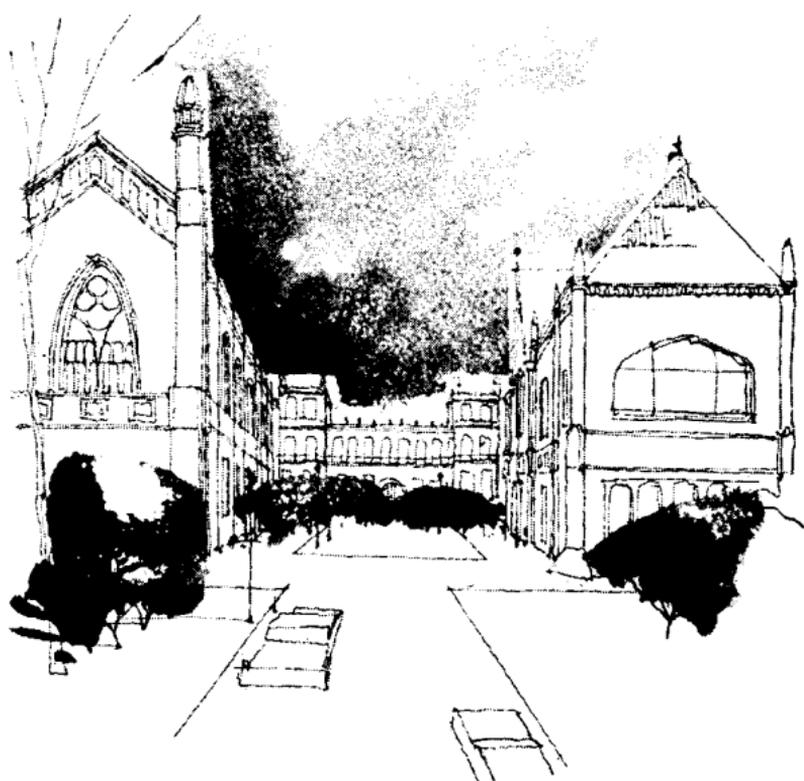


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Labor
Lessons:
Notes from
Europe

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Labor Lessons:

Notes from Europe

AMERICANS have often given an extra measure of respect to products of Western Europe, from English shoes to Italian actresses. This deference probably arises from a variety of cultural and historical factors. We are all humbled by the knowledge that a ranch house with a two-car garage is no substitute for a thousand years of culture when it comes to distinguishing a Michelangelo from a Titian or arguing with a Parisian taxicab driver. It may then be assumed that the superior taste and finesse necessary to deal with these situations will be applied in other spheres of activity as well.

Some of this same distant admiration has been noted in American assessments of recent labor market developments in Western Europe. That is, while the labor market in the United States has been characterized by unemployment rates of four to eight per cent and alleged "structural deficiencies" for the last nine years, Western Europe has been suffused with the continued glow of full employment and appears to have adjusted to changing market conditions without major dislocations. Although several explanations have been offered, the reasons for the difference in performance are not obvious. As in a comparison of Italian actresses and the home-grown Hollywood product, the presumed superiority of the former may arise from basic differences in the way they are put together or from the fact that they have learned to exploit their natural endowments more effectively.

To push this analogy one additional step, we will explore the anatomy of Western Euro-

pean labor market organization and policies in order to determine which hypothesis comes closest to explaining the phenomenon under consideration. Once this task is accomplished, we can assess further the feasibility of importing Western European policies to promote the same level of well-being in the domestic labor market.

Organization of the Labor Market in Western Europe

No easy or completely accurate generalizations can be made about the organization of the labor market in Western Europe. Uncommon diversity can even be found within the boundaries of the Common Market, where these economic partners are often held together by little more than a multilateral anxiety concerning the encroachments of American corporations or General DeGaulle's next ultimatum. Nonetheless, like the tourist confronted with a foreign menu, certain cross-cultural similarities can be detected, especially as they compare to equivalent American institutions.

First, West European countries are often characterized by the dominance of large confederations on both sides of the labor market. From an American point of view, this condition is particularly distinctive among employers. Historically, European employers have shown strong associational tendencies in the labor market which make the American Babbitt seem like a sullen nonconformist. At the least, most European employers will join together in a regional association on an industry basis to develop common industrial relations policies and, frequently, to conduct collective bargaining negotiations with the unions. In some countries, such as Italy, Denmark, and Sweden, this organization will extend to all private sectors of the economy, culminating in some central organization which may speak

with an authoritative voice for management on many crucial labor market issues. This cohesion among employers has been fostered by cartels in the product market and has been reinforced by sanctions such as fines, the denial of aid during labor disputes, and commercial boycotts.

Clearly, the tendency toward association has strengthened the employer's hand in the labor market, especially when he is dealing with trade unions. Similarly, there is a strong likelihood that uniform policies will prevail throughout an industry or the labor market at large. For example, in The Netherlands virtually all workers in the private sector have been covered by a common scheme for job evaluation and wage determination. On the other hand, the price of this discipline and uniformity has been a lack of flexibility in adapting industrial relations policies to the circumstances of particular firms and industries. Thus, Dutch employers have expended considerable energy in an effort to accommodate the needs of individual enterprises to changes in labor market conditions without destroying the integrity of the national system of job evaluation.

The penchant for broad forms of organization also applies to the supply side of the market. In general, the West European worker, both white and blue collar, has been more likely to join a union than his opposite number in the United States. However, the strategic implications of worker solidarity in Western Europe often are unrealized. In many cases, including France, Belgium, Italy, and The Netherlands, the workers may agree that the boss is a bum but will disagree over whether they should embrace him or expropriate him in order to achieve his redemption. In this manner, organized labor's potential power frequently has been dissipated by splits among competing trade union centers with

different political ideologies. In addition, labor's strategic position has been undermined by the lack of effective units at the plant level. Under these circumstances, the employer often has been able to play off one union against another, or to enjoy considerable freedom from union-imposed restraints. This does not mean that West European unions are merely proletarian debating societies. Indeed, strong, well-entrenched unions can be found in England, Denmark, Sweden, and Germany. Nonetheless, it does seem true that the effective exercise of the potential power of the unions has been limited by these ideological and organizational disabilities.

Second, a high degree of formal organization also characterizes the internal operation of the labor market in Western Europe. In this respect, apprenticeship programs generally play a more important role in West European countries than in the United States. In West Germany, for example, there are over 400 apprenticeable trades that constitute the accepted ports of entry into most important non-managerial occupations. A similar proliferation of apprenticeship programs can be found in England, Denmark, Switzerland, and, to a lesser extent, in France.

These programs differ somewhat from the concept of apprenticeship held by most Americans. On the one hand, apprentices in Western Europe generally start carrying a lunch bucket to work at an age when most American youths may still look forward to participation in their first protest rally. The normal school-leaving age in most West European countries is fourteen or fifteen at which time the industrious juvenile will enter into an apprenticeship program as an extension of his educational process. In addition, many trades that are the subject of formal training in Western Europe would not be recognized as sufficiently demanding in the United States.

In West Germany a young person may enroll in an apprenticeship program to become a retail clerk. After a year of sweeping the floor he may advance to counting trading stamps and other aspects of a well-rounded business education. When the prescribed period of time has elapsed, the apprentice will duly receive a "certificate" proclaiming his skill and occupational attachment to the world at large.

Various conditions also limit entry into managerial positions. Although West Europeans wouldn't subscribe to the Social Darwinian notion that managers are born rather than made, entry into executive jobs tends to be narrowly defined by considerations of family, class, and education. Thus England has "the old boy" school of management, while many of the top French executives are groomed for their ascension at the elite "ecole polytechnique."

This formalized organization of the labor market probably has imposed economic costs in the form of reduced mobility and efficiency in the utilization of labor. From the employees' vantage point, however, a *quid pro quo* has been exacted in the form of a high degree of job security. As a general practice, West European employers are reluctant to use layoffs as a method of adjustment to short-term fluctuations in demand. Instead, every effort is made to provide continued employment and income to the worker. Similarly, major dislocations, like plant shutdowns, are grave decisions that are taken only after all other alternatives are explored. The difference in the West European and American approaches to job security is vividly demonstrated when American firms in Europe make large-scale cutbacks in response to changing market conditions. In France in particular the cries of outrage have reached a note of anguish usually reserved for California wines.

In general, then, the West European labor market is organized so that, within the limits established by general economic conditions, there will be something for everyone. Once a worker gains access to a particular sector of the labor market via an apprenticeship plan or a similar arrangement he can look forward to a modest progression up the occupational ladder, and a high degree of job security. On the other hand, the American labor market is organized to serve the interests of the "winners." There is considerable opportunity for both vertical and horizontal mobility, and generous rewards await those who have the proper combination of ability, initiative, and good fortune. But there has been only meager institutional support available for those who trip-or who are pushed-in the process.

Third, the government normally plays a more important role in the organization and operation of the labor market in Western Europe than in the United States. In most West European countries, the government is a major employer in its own right and its industrial relations policies often provide a basis for comparison in the private sector. In addition to providing the usual types of public employment, the government may also operate the national communication system, the railroads, various utilities, coal mines, and even automobile plants and petroleum refineries.

The emulative aspects of government activities are reinforced by the direct regulation of industrial relations practices. Many of the issues that are left to unilateral employer determination or collective bargaining in the United States are prescribed by law in Western Europe. Any American employer who feels that he has struck a blow against creeping socialism by subscribing to the *National Review* can gain some perverse comfort by examining government policies in the labor

market in Western Europe. Employers may have to hire their employees from referrals made to them by the public employment service. Grievances can be referred to a Labor Court for final disposition. Expressions of employer munificence, such as holiday and vacation pay and annual bounses, may also be spelled out by law or administrative decree. Thus, in many aspects of the employment relationship the government will have a determinant influence on the nature of management actions.

As an example of current practice, the British Parliament recently enacted a law prescribing mandatory periods of advance notice before an employee could be permanently displaced. In phraseology that probably owes more to the Beatles than to Shakespeare, an English newspaper commemorated the event with a headline that proclaimed, "Instant Sacking Out!" This act was followed by another law requiring the payment of separation allowances to all redundant employees. The new measure was immediately dubbed "the golden handshake." Although it is not clear that the quality of English industrial relations legislation has improved, one can detect a conservative trend in the use of metaphors to describe these enactments.

Recent Labor Market Developments in Western Europe

This picture of labor market organization in Western Europe may create the impression of order and stability. In fact, the West European labor market has been the arena for dynamic change, with full employment coloring all aspects of labor market behavior over the past decade. Unemployment has consistently been under three per cent in Sweden, England, West Germany, The Netherlands, and France, among others. In West Germany and The Netherlands, joblessness

has declined to barely measurable levels and the number of known vacancies has regularly exceeded the number of job seekers. Even in Italy, which has been the "underdeveloped area" of the Common Market, unemployment has recently dropped to levels that are comparable with other West European economies.

A standard reaction to a comparison of the American and West European experience is to question the comparability of the statistics. The implication is that the European unemployment figures are derived from a moving average of persons observed feeding the pigeons each morning in the town square, or some other medieval technique. In fact, a careful study has been carried out which applies American standards to the unemployment data for the major West European countries. The study gives little support to the editors of the *Reader's Digest* and other learned economic journals who may contend that the differences in economic performance are statistical rather than real. Using American methods did not significantly alter the West European results as measured by their own standards.

Greater weight, however, can be given to the assertion that some of the difference in unemployment rates reflects variations in the composition of the labor force. That is, a much higher proportion of the labor force in most West European countries is employed in agriculture and small service establishments than in the United States. And these sectors are much more likely to harbor "disguised unemployment" than other components of the economy. In the same manner, the widespread use of apprenticeship training programs in many West European countries probably has served to soak up some unemployment that otherwise would exist among young people. Most of the juveniles enrolled in these programs have extremely low short-run productivity and receive commensurate wages. In

the United States, we have recently come to adopt a parallel strategy for dealing with unemployment among youths through the establishment of the Job Corps and other programs associated with the war on poverty. Although any balanced analysis should take such factors into consideration, the West European record of full employment cannot be explained away on these grounds.

The effects of sustained full employment in Western Europe have extended to other, less-developed areas of the continent and to labor markets outside Europe proper. In addition to providing employment opportunities for almost all indigenous job seekers, the demand for labor has set in motion a massive migration of workers from labor surplus areas. In view of the rigidities that have been built into West European labor markets, these migrant workers have provided the margin of mobility that has been essential to the continued well-being of the region.

The sources of the migrant labor describe a series of concentric arcs moving southward across Europe and into North Africa. For several years the major export of Italy was Italians, who moved in large numbers into West Germany, Switzerland, France, and Belgium. As the labor surplus in Italy became depleted, the scope of recruiting was expanded to encompass Spain, Greece, Portugal, Turkey, Yugoslavia, and Morocco. For special industry needs, such as coal miners, employers have sought labor as far away as Korea and Chile.

Overall, there are close to four million workers in Western Europe who are employed in places other than their country of origin. About 1.2 million foreign workers are employed in West Germany alone. One can walk into a German automobile plant and see safety directions written in six different languages, from Italian to Turkish. In Switzerland, there are approximately 700,000 foreign workers,

comprising about one-third of that nation's total labor force. Since the Swiss seem to have one government official watching over the activities of each foreign worker, it is clear that they have found the secret of perpetual full employment. Concentrations of foreign workers are also found in Belgium, France, Luxembourg, and The Netherlands. In addition, while England has not drawn heavily on the European labor market, it has absorbed large numbers of immigrants from various parts of the Commonwealth. Today, your fine English woolens may be made by a newly-arrived Pakistani immigrant rather than a descendant of Beowulf.

This mass movement of labor has been of obvious benefit both to the "exporting" and "importing" countries. The less-developed countries have been able to export their labor surplus to more advanced countries where these workers have been able to acquire basic industrial skills. In most cases, the migrant worker will return to his country of origin with greatly improved productivity. In fact, employers in the "industrial triangle" of Northern Italy have dispatched agents to cities in West Germany to recruit Italian workers currently employed in German industry. On the other hand, the "importing" nations have been able to meet the short-term demand for labor and reduce, to some extent, the upward pressures on wages. For the greater part, the foreign workers have filled the arduous, low level jobs that have become increasingly less attractive to members of the domestic labor force.

Although there is considerable variation in local practices, the "importing" countries generally have done an effective job of assimilating the foreign workers. In West Germany, for example, sufficient language instruction is given to permit the foreign worker to comprehend operating instructions-without mak-

ing it too easy for him to argue with his supervisor. In many cases, special bilingual "stewards" are assigned to the foreign workers until they have become adjusted to the new environments. Intensive training is also carried out so that they can become productive in the shortest possible time. In France, rural workers from Morocco have been flown into the Twentieth Century and then returned to the Nineteenth by sending them down to work in the coal mines after a brief period of training.

To be sure, many problems have arisen as a result of the influx of foreign workers into West European labor markets. However, these problems probably have been less severe than those associated with the movement of Negroes from the rural South to the urban centers of the North in the United States. A Spanish worker probably will never come to appreciate sauerbraten or the Teutonic sense of order. The chronic shortage of housing in Western Europe also has caused considerable difficulty for both the migrants and the employers. Nonetheless, with perhaps the exception of Switzerland and Great Britain, social tensions have not reached the flash point. Moreover, no case has come to light where a culturally deprived Greek worker has been denied a job in a Dutch television factory because of his inability to pass a psychological test.

Continued full employment also implies that technological change has not been a major disturbing factor in the labor market. In the United States, "automation" has been the scare word of the decade, and much controversy-often conflict-has surrounded this issue. In Western Europe there is some concern over new technology, particularly among trade unions, but these negative attitudes reflect traditional worker values rather than any perceived clear and present danger. For the

employer, on the other hand, "automation" offers the prospect of relief from labor shortages. And in some case, as in England and France, the government has taken steps to promote the introduction of new technology in order to improve the nation's position in world markets.

Consequently, private programs to deal with the impact of technological change are well-developed in most West European situations, although they are seldom designated as such. That is, those measures that have been utilized in the United States as a result of coercion or compassion are generally adopted in Western Europe for reasons of efficiency. The attrition approach, transfer arrangements, and intensive retraining are used as a matter of course to conserve scarce manpower. In this sense, economic considerations reinforce the high value placed on job security by both employers and employees.

This task has been made easier for the employer because in many cases, he has a training capability built into the firm. Many of the apprenticeship programs that support this capability are now obsolete, but they have helped to create a training apparatus necessary to teach old Hans or Pierre new tricks. Thus in Western Europe the "automation" issue provides very little employment for politicians and professors as it does in this country; instead, it is viewed primarily as an administrative problem to be handled within the framework of the individual firm or union-management relationship.

As indicated earlier, West European governments are not disposed to leave the operation of the labor market to the vagaries of the invisible hand. In recent years, these policies have focused on attempts to influence the outcome of labor market processes. Again, the

precipitating factor has been full employment, and the objective has been to moderate the pressures on wage levels engendered by this state of affairs.

Essentially, two types of labor market policies have been used in an effort to limit wage movements under full employment: "Manpower" policies and "incomes" policies. The former involve efforts to improve the utilization and allocation of labor, while the latter seek to influence the magnitude of wage increases through a variety of governmental methods short of outright regulation.

Of the two approaches, the most extensive record of experience has been compiled with respect to "incomes" policies. Explicit programs of wage restraint have been initiated in The Netherlands, England, Sweden, and Denmark. Tentative steps in this direction also have been taken in Italy, France, and West Germany. Environmental conditions in these countries generally have been favorable to the acceptance and implementation of such policies. That is, collective bargaining is carried out in large units that are amenable to influence or control, the government generally has been accepted as an active participant in the labor market, and the existence of strong Labor parties has made the trade unions receptive to political appeals for "moderation."

An examination of the record indicates that "incomes" policies offer little hope of dampening the pressures on wages in a full employment situation. About the only positive conclusion to be inferred is that union power cannot be used to keep wages *down*. Thus, in England and Denmark, the "incomes" approach has failed to achieve any basic change in wage movements. In Sweden and The Netherlands, national wage policies influenced economic events only when the government was prepared to use legal compulsion or to

participate directly in labor-management negotiations.

It is true that a request for a "wage pause" may have some short-run effectiveness, especially when the nation's economy is heavily dependent upon its position in international markets. But the period of "restraint" generally has been followed by a "wage explosion" within a year to eighteen months after the parties have solemnly agreed to hold the line on wages in the national interest. In Sweden, average hourly earnings for male workers in manufacturing rose by nearly 21 per cent in 1951 in the wake of an apparently successful effort to limit wage increases in the previous year. Even in The Netherlands, where strong convictions concerning the need for labor-management responsibility are reinforced by elaborate wage-fixing procedures, pressures in the labor market have forced up wages at an estimated 15 per cent per year since 1964.

In England, the fourth and most recent attempt to construct an effective "incomes policy" was promptly impaired by the government itself when it granted postal employees a two year wage increase of 20 per cent, an amount far in excess of the official guidelines. In response to the audible clucking on Threadneedle Street, the authorities used the same justification that has sustained private employers in similar straits—that is, serious "inequities" existed in the wage structure of postal employees, and without special consideration the agency would be left with a handful of Boer War veterans to deliver the mail.

Manpower policies represent a flanking attack on the problems of the labor market in a period of full employment. The major impetus for this approach in Western Europe has come from Sweden. In the mid-1950's, Swedish officials became disenchanted with the "hiccoughing inflation" that had accompanied efforts to

implement an "incomes" policy. To bring new relief to the economy, they prescribed liberal doses of an alternative remedy. Instead of keeping wages down by exhortation, more effective steps could be taken through policies that aimed at improving the quality and allocation of the labor force by programs for retraining and geographical mobility.

While Swedish manpower programs have received the greatest attention from specialists, similar measures have been adopted in other West European countries. Or more accurately, existing programs have been altered to meet contemporary requirements. Thus, the substance of a manpower policy also may be found in France, West Germany, The Netherlands, and England. At the same time, multinational organizations like the European Economic Community and the Steel and Coal Community have given considerable support to the development of manpower programs among the member nations.

It is difficult to draw any firm conclusions concerning the success of West European manpower policies. Most government spokesmen are long on theory and philosophy and short on statistics. However, since the availability of data should never infringe upon academic freedom, a few general observations can be made.

First, the number of persons who have benefited from manpower programs in most European countries has been extremely limited, even in terms of the size of the total labor force. In 1962, there were 26,000 adult trainees enrolled in government-sponsored programs in France, 4,603 in West Germany, 2,400 in Belgium, and 3,300 in Great Britain. The most extensive use of government training is found in Sweden, where approximately one per cent of the labor force, or 30,000 persons, were enrolled in some kind of course in 1964. Many of these courses involved basic skills, but

it is noteworthy that a high proportion of the trainees in all countries except England were being prepared for jobs in building construction, where labor shortages were particularly acute.

Second, some of these programs have been effective in drawing people into the labor market who might otherwise be reluctant to enter it. Thus in Sweden many of the trainees are women or "disabled" workers whose talents might not be utilized without some prior instruction. In West Germany government programs have focused primarily on marginal groups who, for reasons of nostalgia or personal disability, have not been able to find a place in the booming labor market.

Third, programs to promote the geographical mobility of labor generally have not succeeded. In Sweden, about 50 per cent of the people who moved under government auspices returned to their original homes. In France, the suggestion that workers moved from the sunny South to the North where jobs were waiting was greeted with incredulity. In one heroic case, two out of 5,000 displaced coal miners relocated in the Lorraine, and they probably were expatriate American poets. This does not mean that there is little mobility on the part of West European workers. As in the United States, there has been a steady movement from the country to the city. These results do suggest, however, that those workers who were disposed to move were likely to do so autonomously, and that the government programs have largely embraced the homebodies.

Fourth, because of this apparent or presumed immobility, the focus of manpower policies has sometimes been changed so that now the objective is to bring the job to the man rather than vice versa. In France, Belgium, England, and even Sweden, increased attention has been given to area redevelopment as a technique for matching men and

jobs. The stated reason for this shift in emphasis is the desirability of preserving the “infrastructure” of the community. This elegant term formally embraces canals, streets, schools, and other elements of “social capital,” but in reality it is more likely to reflect the concern of local politicians, priests, and cafe owners. In the French case noted above, vacant jobs in the coal mines of the Lorraine and Pas du Calais areas were filled with Moroccans while the government hastened to provide jobs for the inert coal miners by subsidizing umbrella factories and similar enterprises in an area that has been described as “an economic accident.” An American observer should not be too quick to make harsh judgments: umbrella factories can be located anywhere except the Sahara desert, but French cafes are notoriously bad travelers. Nonetheless, to the extent that manpower policies reflect these political considerations, they will lose some economic effectiveness.

Hopefully, we have come a long way since our initial flirtation with the mythical Italian actress. However, professional integrity requires some comment on the alternative natural endowment-method of construction hypotheses posed at the outset of this discussion. As might be expected from a professor, the answer is neither and both. That is, there is nothing in the character of West European labor markets per se that would induce the striking record of full employment. The causal factors for this performance undoubtedly lie with broader economic and political considerations. On the other hand, the availability of large labor surpluses in southern Europe and the ability of labor market institutions to facilitate mobility and use this labor effectively probably have helped to sustain a high level of economic performance.

With this final note of deference to our shapely analogy, it must be admitted that the lessons of the West European labor market are pragmatic rather than esthetic.

First, the record of the past decade provides a vivid reminder of the powerful ameliorative effect of full employment on a wide range of social and economic problems. While we are wringing our hands-and the national budget-in order to provide some solace for the poor, sustained full employment in Western Europe has permitted the absorption of the most marginal groups into the active labor force. To be sure, some people will be "unemployable" in some absolute sense, but this view is more congenial to the musings of a social worker than the conventions of economists. Compared to the Turks, Spaniards, and Southern Italians who man the steel mills and automobile plants in Western Europe, many of our jobless are the equivalent of Harvard MBA's.

Second, the West European labor market has shown the capacity to adjust effectively to pervasive changes in economic conditions. Paradoxically, this flexibility appears to be related to the stability of the employment relationship. Because the employee has some assurance that he will not be displaced with each economic tremor, he is probably more likely to accept change. At the same time, the high degree of organization among employers promotes a statesmanlike attitude on the part of management and helps insure some uniformity in questions of virtue as well as mischief.

The capacity for adaptation also applies to the utilization of new entrants to the labor market. The emphasis on apprenticeship and related procedures has helped West European employers to quickly bring untutored recruits up to minimal levels of competence. In contrast, many American employers have let their training skills languish during the recent, prolonged period of less than full employment.

American employers don't normally train retail clerks to count trading stamps, but they may insist upon a high school graduate to carry out this task, even though a diploma is no guarantee of arithmetical competence. As we edge toward full employment, the business press is rife with accounts of the intractability of low-quality labor. The West European experience indicates that perhaps we are doing an injustice to both our own managerial talents and the potentialities of the green hands.

Third, West European labor market policies offer few positive guides to effective methods for dealing with some of the economic problems of full employment. Thus, "incomes" policies promise only short-term relief from insistent pressures on wages. If these policies haven't worked in West European countries where institutional arrangements are favorable for their implementation, the prognosis for their success must be pessimistic in the United States, where wage determination is highly decentralized. A "guideline" may be an effective device in handling a Texas heifer, but it will have little restraining effect on intransigent breeds of labor leaders.

The use of manpower policies may have more lasting effects, even though they probably will never be a major factor in the operation of the labor market. While West European efforts in this area probably have been oversold in the United States, they are distinguished by the fact that training and related programs have been closely linked to specific job opportunities and career patterns. In the United States, on the other hand, the administrators of the Manpower Development and Training Act are still seeking methods to align government training activities with the demand for labor in the leading sectors of the market.

Lastly, it is clear that labor market institutions in the United States do not suffer from

any great deficiencies in comparison with those in Western Europe. In terms of the range of vocational choice, occupational mobility and the general sophistication of industrial relations practices, we probably are far ahead of the Old World. However, while we value change almost in its own right, the West European experience can provide some lessons in the constructive uses of stability. But in seeking to attain this goal, there is no persuasive evidence that we should drastically overhaul those institutions which, on balance, have served us well.