

The Europeanisation of the Construction Sector

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Talking about the construction industry means both talking about an ordinary mostly privately run sector, which is working just like other sectors do, and talking about an extra-ordinary industry regarding to quiet a few peculiarities.

Those peculiarities are:¹

1), the location of production is mobile. Other than in ordinary industries the place of production has to be – in most cases – necessarily the place where the product is going to be used. Thus the working place is changing regularly with workers constantly moving from one site to another, cooperating with different partners and in different chains.

2), due to the identity of location of production and location of products, with products immobile, the construction market is mostly restricted to be local.

3), thus the construction market is dominated by small enterprises which perfectly meet the low-size scale of most sites or the specialisation of trade respectively and the geographic market. Being – quantitatively speaking – dominated by small and very small enterprises results both from and in specific – self-affirming so to say – peculiarities.

4), because the character of work is of temporary duration, labour contracts are very often of a fixed-term nature. Hence, insecurity of employment and payment is significantly higher than in other industries.

¹ The following list refers to: Clarke et. al. 2003; Goldberg 1991; Hochstadt 2002.

5), because the site of production is the site of product which has to be built yet, work in construction industry is mostly exposed to weather, and, therefore, to seasonal cycles and disruption. This lifts insecurity of employment and earnings again.

6), due to instability of the production process, its exposition to weather, and variable working environment, the incidence of accidents is significantly higher than in most – if not any – other industry. Unhealthy working conditions result in industrial injury and trade-specific occupational diseases. Construction workers typically have a below-average working life.

7), the construction industry is characterized by a high complexity of inter-company relations with a unique production chain, consisting of main contractors, supplying industries, subcontractors (specialised or not), and self-employed workers.

8), the complexity and, before that, the in-predictability of production process cause particular skill sets, which are received both in joint institutions and on the job. Due to high fluctuation between companies and the production process' outstanding dependence on a skilled labour force the provision of these skills is a major concern of the industry. Strategies based upon low-skill work-force have been successful only on a short term so far (as the examples of the UK and US clearly show).

9), the sector's *primal* character and the visible importance of physical work attract workers from abroad (i.e. less developed countries), who make the sector an international one with many immigrants working on the sites.

Finally, the state plays a sensitive role, because it acts as the major client, it is the legislative body setting the pre-conditions of production, and it is a partner in tripartite negotiations (which are commonly used in the sector).

For those reasons of peculiarity regarding the sector's production process including work organisation (and others) there are some – appropriate so to say – peculiarities in the construction industry's labour relations, with very often higher wages,

particular vocational training systems, social funds to compensate disadvantages caused by health and safety risks, disruption of earnings, and fluctuation with negative effects on earnings, vacation, and pensions. Thus and in addition, the sector is intensively regulated (and significantly more intensive than other sectors) in most European countries.²

Additionally both the way trade unions and employers' federations are organized and the way the labour relations are organized is different to most other industries, again following the sector's particular character. Strategies based upon corporate interactions instead of strategies of confrontation are predominant.³ Although the labour relations in the construction sector have come closer to what we know from other industries, there is still a big difference following a sector's instead of a company's logic.

But at the end one has to agree upon the fact that even this very special sector is an economic sector likewise others. Hence, it would not meet building reality if it was taken as not being dependent on economic conditions, while economic conditions are not explaining everything.

Thus, although the construction sector in Europe was not "Europeanised" at all for long times due to those specific characteristics, the European construction industry began to change its face, not in terms of "modernity" (copying the leading sectors) but with regard to the organisation of work, the work-force and the complexity of supply chains. There was hardly any cross-border cooperation to be found until mid of the eighties and the sector was last in European mergers. The construction market was a local and a regional market and even the big companies (with 1,000 employees or more) tried to act like a medium-sized local firm. Their branches used to act more or less independently (and they – somehow – still do so). But in the nineties the construction industry became number one in cross-border mergers and takeovers in Europe. All over sudden the economies of scale were found to be important in the construction sector.

² See, for example: Bosch/ Philips 2003.

³ See: Hochstadt 2002; Klönne 1989.

It has become a real European – if not global – sector resulting from a set of reasons.

- The big players, e.g. Swedish Skanska, French Vinci and Bouygues, or German Hochtief, to name only the biggest ones, act more and more globalised.
- The EU-enlargements (beginning in the eighties with Greece, Spain and Portugal) and the boom resulting from the German unification with a sudden lag of skilled work took place.
- The EU legislation, the European Union's official policy to promote European infrastructure with huge building sites ("Euro-sites") and EU's infrastructure programme itself have come into force.
- The European policy of liberalisation goes together with deregulation and privatisation.

In the 1980's, when *Europe* had not yet started for the construction sector, it was already stated as fragmented and therefore inefficient.⁴ The, therefore launched, obligation to invite tenders throughout Europe should lead to more transparency, to rising competition and to falling prices.

These five steps – Euro-sites / infrastructure programme, European law, ideology of liberalisation, EU-enlargement(s) and the sector's re-organisation – depend on each other. And they definitely resulted in a new face of the construction sector. It has become – as I already stated – a real European – if not global – sector, while – and this is important – remaining a local one.

It is this contradiction, which is to be seen as the major conflict both in economic and in social respect. Despite large-scale concentration, the world construction market is still highly fragmented, which means that the trend towards concentration will continue⁵ and that the interests between the companies differ more and more depending on their position in the production and added value process. To find a common point of view becomes more and more difficult. The former consensus concerning the need of a policy covering the whole sector becomes weaker.

⁴ In the so-called Cecchini-Report (Cecchini 1988).

⁵ See: IFBWW 2002.

Now that we have a European construction sector still most of the firms act only locally or regionally. But the way they act is very much given by the few big players (which are not as big as they used to be a decade ago). This is the core of the process of Europeanisation: The chain of work, the relationship and the interdependence have become more hierarchical. More and more both the production and the labour market is dominated by the big companies, which are not very important regarding their size (stock, turn-over, profit, number of employees) but which are very important regarding the organisation of the whole sector. Here more and more they play the role of an entrance to the market. Even smaller sites do have a system of general contractors and a chain of sub- and sub-sub-contractors. Not only in Britain but also in Germany and other countries labour-only contractors appear on the market, who have nothing to sell but their own already existing employability – there is no space for any development based upon a long-term strategy. Of course this is only a part of building truth, another part is still one of broadly skilled labour force keeping quality of products and level of productivity high.

In this system you find back to the old agreement (so to say) on sharing the market; according to that smaller companies did work on smaller sites, bigger companies on bigger sites. Now this agreement is rewritten because smaller firms work on a lower level, on which they are responsible for one trade (or a part of it) only and bigger firms work on a higher level organizing a few trades by contracting sub-contractors. The bigger the companies the less blue-collar workers they have, the more managing and marketing work they do. The production itself on the sites is sourced out to cheaper companies very often established in the new EU-member or in the South European states (and even companies in the former CIS states do start to play a part). This is very much a market hierarchy based on capital and know-how, which is backed by the policy of (obvious or hidden) privatisation. BOT-projects (build-operate-transfer) not at least gain strength because of shortages in public finances. Construction companies are diversifying into building-related services such as facility and airport management, supplies and waste disposal. Alliances between enterprises are becoming increasingly important, not least of all for the purposes of raising capital. The major construction companies are shifting their activities towards total enterprise and towards services. General and total enterprises garner market shares.

The large companies reserve for themselves the lucrative services (project development, project management, facility management etc.). Simple construction is being eliminated, with the result that there are more and more subcontractors and piece-workers present on building sites, and this in turn encourages labour migration. Those workers' job situation is often precarious.⁶ And they normally work in smaller firms, which have become the end of the decision making process, in which they find the decision made saying what their duties are: When to start and to end a certain work and in which way, to a certain extent they have lost their position as an independent market player. They have become a branch of another player but they have the whole risk. They and their employees – if there is any, being self-employed is quite normal here – are last in first out.

But talking about "Europeanisation" we have to recognize that this is only a part of the bigger trend towards globalisation and concentration not only in the construction sector but in all industries, not only in Europe but everywhere. And the pace of change has accelerated further. The globalisation of companies and economic areas also means increasing globalisation of labour. The result is migration flows of enormous proportions.⁷

In most countries, especially in the more developed ones, there is a long tradition of using foreign workers in the construction sector, thus migration is nothing we are faced with for the first time. In opposite, without foreign workers the construction sector would not have been able to develop the way it did. Quite regular it was confronted with an insufficient number of young persons wishing to work in the sector, i.e. because the work has a bad reputation (e.g. due to bad working conditions and to high incidence of accidents, but also because of general reasons). The reason why migration is now seen as a considerable threat is the real (measurable) and the potential (forecasted) volume of migration due to recent EU-enlargement (with ten new member states since May, 1st) and general pressure within and outside Europe on the one hand, and the huge gap regarding to wages, social protection, and others in the field of industrial relations between the more

⁶ See: IFBWW 2002.

⁷ See: IFBWW 2004.

developed countries in the West and the less developed countries in the East and in the South on the other hand.

But before that it is the way migration works in practice, which leads to problems: Individual migration has become less important and is increasingly replaced by posting of workers by companies in recent years. Especially Austrian and German construction industry (workers and trade union as well as small companies) fear a sharp confrontation with cheap competitors from the East. Southern countries as Spain and Italy but also France, Greece and Portugal already have some experiences with illegal workers from Africa and Asia.⁸

But the problem is not migration itself (either as individual or as posted migration) as it has ever been part of the building reality. It is the crisis in the construction industry which has started some seven to ten years ago in almost any country in Europe and which causes a growing unemployment – in Germany actually some 20-30% of construction workers are out of work. If in this situation a competitor gains by dumping social and monetary standards, the sector in total has got a major problem. Social dumping can occur in case workers from countries with lower labour costs are being posted to countries with higher labour costs. Workers will then not be covered by the protective rules in the host country. As a result companies are confronted with unfair competition concerning labour costs and rules governing working conditions.

In the EU posting of workers is based on freedom to provide services throughout Europe. This is the frame in which migration is working nowadays.⁹ To give an example: Although the total amount of posted workers in Germany has been falling since 1997 (after an all-time peak of 188.000 in 1996) to 118.000 in 2002 the percentage of posted workers (to workers employed in building trades) remained roughly the same: One in six construction workers in Germany was employed by a company based outside Germany.¹⁰ – And those are only the official data, we have not yet spoken about illegal or illicit workers or clandestine work.

⁸ See: Frydendal Pedersen/ Lubanski 2004.

⁹ See: Bosch/ Philips 2003.

¹⁰ Bosch 2004: 40.

The construction sector is sensitive to social dumping and unfair competition. This is caused by the special character of the sector as discussed previously. The existence of wage and social dumping in individual EU countries is related to the fact that in these high-risk areas even a relatively low number of workers offering their services in the labour market at much lower wages can upset the existing wage structure and can trigger a downward wage/price spiral.¹¹

This is the main reason why the European Union has introduced the so called Posting Directive a few years ago. There rules are set to fight unfair competition by posting workers. But in practice it works only partially, because the profit gained by dumping standards (very often using illegal practices) is still enormous. And even a low, illegal wage in West European countries is good money for most of migrant workers. The same counts for poor working conditions. This is a major field of politics to be dealt with in the next few years. The European construction industry is only first due to certain peculiarities but for sure not last. The construction companies' differing positions and, therefore, differing interests, with the whole system of labour relations being concerned, do not make it easier to find a solution in and for the sector.

Thank you for your attention.

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¹¹ Cremers 2005: 10.

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