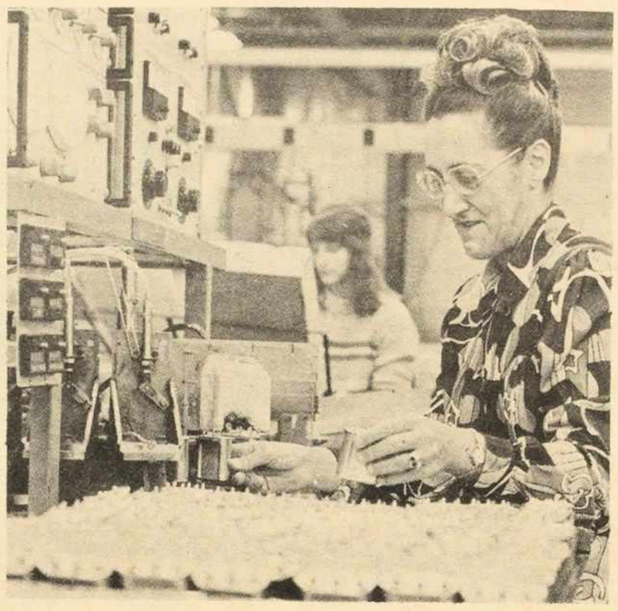
Runaway Shops:
Industry on the move



by Kim McLaren

Remember the last time you saw the big headlines trumpeting the relocation of a plant in Nova Scotia and read about all the job opportunities being created? Remember the not so prominent articles about the last plant that waved goodbye and moved on due to inflation, or the high cost of materials, or heavy competition, or the energy crisis? Remember the workers who joined the unemployment payrolls? Chances are good that we'd been hit by an international "runaway shop".

THE RUNAWAY PLANT

The term "runaway shop" is not new. It originates in the United States. In the 1930's, the huge unionizing efforts in the industrial north began to pay off. "As the workers' movement started cutting into profits, corporations packed up their machines and moved to non-union areas. In the deep south, the factory owners, aided by state governments, local police and the Ku Klux Klan, kept unions out of factories. They paid unorganized Southern workers one-half the wages of Northern workers. And they paid black workers in the south even less. The workers in the North called them runaway shops."

This evacuation process is occuring in many manufacturing industries, and especially in labour-intensive industries such as electronics, textiles, leathergoods and auto manufacturing. For example, 95% of radios and 50% of black and white TVs sold under American brand names are made outside the U.S. Over 60,000 U.S. electronic workers have seen their plants moved to Taiwan, South Korea and Mexico. In 1962 in Canada, over 2,000 workers were employed by Canadian General Electric, Philips and Canadian Westinghouse. Now only 10% of those jobs remain in Canada. Even with higher transportation rates it is cheaper and more profitable to ship component parts abroad, have them assembled there and ship them back for sale in North America. The real savings are made from the huge differences in wages paid to workers in the less developed areas.

All of these industries have several characteristics in common. Labour costs in the overall production are high. There is low capital investment in buildings and machinery which can be packed up and hauled off to a new location. The labour employed is often low-skilled and unorganized. Finally, the production process is not tied to any specific natural resource, such as minerals, but involves the assembling or finishing of materials or components which are easily transported. Because the Nova Scotia economy is underdeveloped, we are more vulnerable to this type of exploitation. There are two examples which stand out, the Aerovox Company and General Instruments.

AEROVOX

"Big Future for Company with Micro-size Outlook". Such was the headline in the Hamilton Spectator, March 4, 1968, when Aerovox Canada Limited, a subsidiary of Aerovox Corporation of New Bedford, Massachusetts, completed the research and development of a new micro-circuitry system for TV and radio, on a 50-50 cost sharing basis with the Defence Research Board in Ottawa.

In 1970, two years after the headline, Aerovox headquarters in the U.S. informed the Canadian plant that it would have to shut down. Company officials claimed that sales for the total operation had dropped $8.5 million between 1966 and 1970. Competition was stiff from cheaper electrical components imported from Taiwan, Japan and Portugal. Shortly after the company announcement, the Federal Department of Regional and Economic Expansion announced that it would grant $236,000 for the plant to move to Amherst, Nova Scotia. The uneconomical position of Aerovox looked suddenly much brighter. The company general manager had stated that, "We just can't face the labour rates in Hamilton". Wages in Hamilton had been influenced by a strong labour union which had brought rates up to $3.26 an hour. In Amherst, labour rates were considerably more attractive, at about $1.25 an hour. Unemployment was being exported from Nova Scotia to Ontario. (Aerovox was just one of the crowd that year. C.G.E., Westinghouse, Dunlop and Kelvinator plants left Ontario, and Philco-Ford's radio assembly in Oakville left for Brazil).

The government response was that this was regretable but that certain areas of the electronics industry in Canada are now obsolete and should be phased out, while newer technologies are developed to take their place. Since the Canadian electronics market has always been small, we can not profitably produce electrical parts and still be in a competitive position with imports from Japan, Taiwan and other low-wage areas. The irony of this situation is that many of these foreign imports which undercut our own electronics industry (which is largely foreign owned), are themselves products of U.S. branch-plants abroad which have run away to avoid high labour costs at home. It was the intention of Aerovox to follow suit. But low wages in Nova Scotia and other government incentives helped the company to change its mind. In 1974, after three years of operation in Nova Scotia, Aerovox employees continued to work without a union, at a base rate of pay which was 15c above minimum wage levels.

GENERAL INSTRUMENTS

In 1967 a new electronics assembly plant opened in Sydney. Negotiations with the provincial development corporation, Industrial Estates Limited, had been successful, and an agreement had been reached. Manpower found the women whose families needed a second income and I.E.L. came through with the funds. A low-rent plant was built, $75,000 of free services (water and power) was offered, a ten year municipal tax rate of 1% was arranged, (the Sydney homeowners paid 3.5% at the time), and an interest-free loan of $2,900,000 was granted by I.E.L.

General Instruments is a large U.S. based company with headquarters in Chicopee, Illinois. The plant in Illinois had been shut down with a loss of 1,400 jobs. General Instruments has invested instead in branch-plants in low-wage areas such as Taiwan, where 12,000 workers are paid pennies an hour.

The Cape Breton plant was to build radio tuners for automobiles. The parts were made in the U.S., shipped to Sydney for assembly, then shipped back to the U.S. where the radio cabinets and buttons were produced by Ford and Chrysler. Company management was interested in only one thing, a cheap supply of labour. The company lawyer, a Mr. Shapiro, had stated that once labour rates in Nova Scotia rose too high, the company would move to another country. In 1967, the wage paid to the hard working female workforce, was 85c and hour.

From 1967 until 1974, the company and the union, the International Brotherhood of Electrical Workers, carried on an intermittent pitched battle over wages and working conditions. Not until 1973 did the union succeed in winning a clause to keep wages 10c above the provincial minimum.

In March 1974 the final word came. General Instruments was leaving. As the Cape Breton Highlander stated, "Exit General Instruments: Cape Breton Can't Match Mexico". Wages had gone up to $2.10 an hour. In Mexico, the company's next stopover, the going rate was 55c. As the Chronicle Herald reported, "General Instruments' biggest competition comes from plants, many of them sister subsidiaries of giant international operation, in Mexico, Taiwan and Portugal. Low labour costs give the competing plants an edge in bargaining with the big customers. The division manager stated, 'with a 35-45% cutback in markets and steadily rising costs, the foreign labour market begins to look more enticing." Thus was the move explained, even though the last of General Instruments' 14 managers, Mr. Woodhouse, had confided to an employee that at least during his time at the plant, the company was making money. All efforts by the union, I.E.L., and the Department of Development to keep the company here were in vain.

So what did General Instruments leave behind? What are the lasting benefits from its presence? There are no new industries linked to it, no markets dependent on its product. There is only an empty building and 1,200 now skilled and experienced women out of work - a labour force which is demoralized and potentially a prime target for another General Instruments. It should now be clear that plants like General Instruments do little or nothing to overcome our situation of underdevelopment. If anything, they contribute to the province's financial and social indebtedness to outside industry and control. Regardless of their immediate needs, workers in Nova Scotia, especially those with experience in such plants, will have to face the fact that to work in these sweatshops, under such miserable conditions, is against their long-term interests.

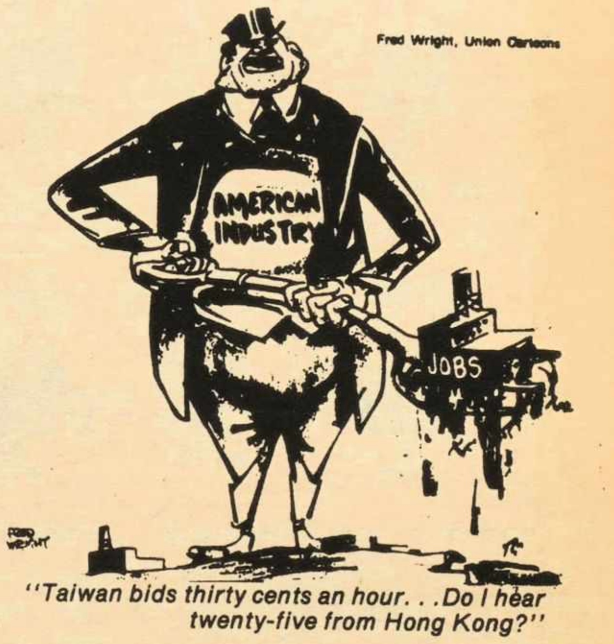
NOVA SCOTIA AS HOST

These two plants moved into Nova Scotia to take advantage of a vulnerable economy, firstly with respect to labour costs and secondly in accordance with stated government aims and policies. Although government incentives are not the most important element in a decision to relocate, they help pave the way and make the move more appetizing to big business. Often, provincial governments compete with one another to attract industry to their areas. So a company planning a move will assess which of these "bait-packages" is most lucrative. As an official of Canadian General Electric put it, "In this free trade environment the basic manufacturing of goods will move to the location in the world where the particular commodity can be produced most efficiently. The rate at which this happens can only be influenced by the short-term attitude of governments involved, and the utilization of controls like tariffs, non-tariff barriers, quotas, subsidies, etc." It's a kind of tradeoff, 'we'll stay and provide you with the jobs, if you make it worth our while'. The Canadian government and the provincial governments have scrambled all over themselves competing with one another to follow this advice. It all happens in the name of development. We can't afford to do it ourselves, so we import it.

We must maintain, so the argument goes, a good climate for industry. The importance of maintaining a stable, dependable and submissive labour force is reflected in the following statement by the Atlantic Development Council, "The manner in which labour exercises its role in the industrial, social and economic community will be a crucial factor in the performance of the economy in the decade ahead. Harmonious labour-management relations are crucial to a successful development effort in the region, and ways must be found of minimizing industrial discord and friction."

THE COST TO US

What have we paid for this experiment in economic development? About one-third of the companies that have been assisted by I.E.L. have failed or moved out. Risks are high in this type of venture, but debts incurred by I.E.L. have often been covered or forgiven by the province. The government picked up the near worthless shares in Clairtone and Deuterium when these plants were in trouble. Clairtone subsequently went broke at tremendous public expense. According to the calculations of Dalhousie economist Roy George, between 1958 and 1971, I.E.L. lost a total of $63,000,000. In some cases, I.E.L. loans have been give-aways. The prime example is Michelin, which



"Taiwan bids thirty cents an hour. . .Do I hear twenty-five from Hong Kong?"

was loaned $50,000,000 at about 3 1/2% below what I.E.L. needed to cover its own borrowing costs. Over the life of this loan, I.E.L. will lose about $30 million or about $350 per family in Nova Scotia as of March 1971. But then there are those jobs, and that's what sells the public.

Underdevelopment is a vicious circle. Because Nova Scotia is underdeveloped it attracts certain kinds of industry, interested in exploiting local resources and relying on our weak bargaining position. These industries, by their actions, by our dependence on them and by their responsiveness not to our needs but to those of their head-offices, in turn contribute to our economic and social underdevelopment.

As the Atlantic Provinces Economic Council states, "Such labour-intensive industries may be of limited significance in closing the income gap with the rest of the country: often they are low-skill, low-wage industries. Moreover, increasing wages discourage further entry by labour-intensive industries and may ultimately lead to the departure of existing industries to new low-wage areas."

It is clear that economic development cannot be furthered by adherence to present policies and practices. If development is what we want, then Nova Scotians, especially labour organizations, must demand a say in determining what kinds of industry we need, who controls and owns it, and ensure that it serves our long-term interests. Until we are organized to fight against such exploitation of labour and resources, we can only expect a dreary future of more of the same.

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