Restrictive Labor Practices on Railways in Developing Countries

Eric W. Beshers

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Discussion Paper

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# RESTRICTIVE LABOR PRACTICES ON RAILWAYS IN DEVELOPING COUNTRIES

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## ABSTRACT

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Restrictive labor practices on railways limit enterprise productivity and output. They generally fall under the following categories: fixed staffing ratios, rigid craft divisions, pay structure and basis of pay, difficulty of dismissal, working standards or customs, difficulty of using temporary labor, and pension arrangements. A number of these practices directly prevent the reduction of the labor force, while others operate indirectly by limiting management’s ability to reward positive behavior or punish negative behavior. The most important barrier to reform in many developing countries, however, is often the political and institutional environment which offers the managers themselves few incentives to increase efficiency and, in fact, encourages excessive hiring.

Reform of restrictive practices must concentrate on changes that affect management’s motivation and its ability to motivate its employees, such as reform of pay structure and promotion policies, and on the removal of practices that create labor redundancy and directly curtail efficiency, such as unneeded members of train crews. Some reforms, such as changes in the level and structure of pay and in regulations governing hiring and firing, may be possible only at the national level, while others can be tackled at the enterprise level, perhaps in negotiations with workers. Which type of problem is more amenable to change will depend on the individual country and enterprise, and these may change over time, so it is important to be flexible and to keep in mind the whole range of possible reforms.
RESTRICTIVE LABOR PRACTICES ON RAILWAYS
IN DEVELOPING COUNTRIES1/

I. INTRODUCTION

This study defines restrictive labor practices as follows:

Those practices, whether established by government regulation, operating rules of a firm, labor agreement, or custom, which cause an enterprise to operate in a less productive way than would otherwise be possible and reasonable.

The last word, "reasonable", is added to take account of the fact that there are ways of using labor which would be harmful to the health, safety, or welfare of the workers or others. This puts a subjective element into the definition, but does not hamper this discussion.

It should be noted that restrictive practices often originated in arrangements that were sensible, perhaps optimal, under earlier technological or economic conditions. A nineteenth-century American train, pulled by a steam locomotive, sometimes carried as many as seven men in its crew, including: the engine driver and the fireman, the latter loading wood or coal into the boiler; a conductor who had overall command of train and crew; and as many as four brakemen. The brakemen had a number of jobs. One of them was to work the hand brake on each car; they got on top of the moving cars and went up and down the train, each man handling as many as ten cars. They saw to the manual coupling and uncoupling of the cars (a steel pin had to be inserted or removed between each pair), and they helped with the loading and unloading of freight. They fed and watered any livestock carried on the train; they had a role in snow removal and they sat on the front of the train to sprinkle sand on the tracks. If the train broke down, one of the brakemen would have to find a horse and ride for help.2/

Automatic air brakes and couplers were introduced before the turn of the century; in 1893, Congress required that trains be equipped with these devices. Steam engines rapidly disappeared after the end of the Second World War. One man can operate a modern train with diesel-electric locomotives; some think a second man in the cab enhances safety, because social interaction keeps the driver's attention from wandering on long runs. If the train is going to do much picking up and dropping off and requires a conductor, he could serve as the second man in the cab. Yet as late as the 1960s, American trains were run by

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1/ This survey is based on interviews with Bank staff members and consultants and on some internal Bank staff papers. It is not an exhaustive search of the topic. Statements that a particular practice is to be found in certain countries should never be construed as meaning that that practice is not to be found in any other countries.

six-man crews (the full steam engine crew, but with three brakemen). That size (or "consist") had become embedded in the contracts between unions and railway companies, even though the fireman and the brakemen were completely redundant.

This American example is offered because it provides a vivid illustration of how changing technology, rigid labor unions, and lethargic management, aided by regulation, can produce an absurd result. However, readers familiar with North American railway practices should be cautious about applying their concepts of restrictive practices in the context of developing countries. In the North American context, restrictive work rules, embedded in union agreements or government regulation, are often the primary barriers faced by management seeking to eliminate excess labor. If such a rule can be changed, then the way is open for a reduction in the labor force, whether immediately or through attrition.

The findings of this survey suggest that the relationship between restrictive work practices and excess labor in the developing world is often not so direct. Such rules are certainly to be found in developing countries, but they may not be the immediate block to shedding excess labor. Railway managers in these countries often operate in an institutional and political framework that does not reward, and may actually punish, moves toward economic efficiency. In many countries, there is strong and pervasive pressure on managers to maintain or expand the labor force, not to reduce it. Thus, restrictive work practices must be viewed not as the sole barriers to greater efficiency, but as part of a set of barriers, all of which must be dealt with sooner or later.

This survey has two objectives. The first is to produce a guide to restrictive practices (broadly defined) that would help Bank staff and governments diagnose the causes of low productivity in railway operations and identify the key practices that must be changed to allow productivity to rise. The second is to provide an input into the broader study of labor redundancy in transport enterprises financed by the World Bank's Research Committee. This study will ultimately provide guidelines on how to identify and reduce labor redundancy and prevent its recurrence; removal of restrictive practices is expected to be a key element in many cases.

3/ Ibid.
II. RESTRICTIVE PRACTICES

Restrictive practices found in this survey may be classified in the following way:

- staffing ratios
- rigid craft divisions
- pay structure and basis of pay
- difficulty of dismissal
- working standards or customs
- difficulty of using temporary labor
- pension arrangements.

Before going into more detailed discussion of these practices, some general observations can be made. Several of them operate in part indirectly; this is true of some of the effects of craft lines of separation, of pay structure, and, to a degree, of difficulty of dismissal. All of these reduce labor’s productivity, because they limit management’s ability to reward positive behavior or punish negative behavior (e.g., not coming to work), or by limiting any incentive for management to operate the railway in an efficient manner. Some work directly to reduce productivity by preventing the shedding of excess labor.

Staffing Ratios

The size of the crew required to move a train, the object of so much railway management attention in North America, does not seem to loom so large in developing countries. Two man train crews are common, for example, in francophone Africa. Examples may be found, however, of overmanning. In Ghana, three man crews are the rule, the third being a guard in the caboose. A stationmaster seated at his desk can see the caboose and the guard’s red flag as a train goes through. In order to dispense with the guard, new technical equipment would be needed for the train and work customs would have to change: stationmasters would have to walk out to the platform to look for the marker light on the last car. Ghana Railways Corporation (GRC) yard locomotives carry two men, one of whom is redundant. Zaire has redundant crew on its trains which carry three men (and no caboose). In Uruguay, three man train crews are the rule (management is currently negotiating with the union in an effort to reduce them to two) and freight trains in Thailand carry a crew of four or five.

Stations may also be overmanned. Many countries still have three or more staff in each station, despite the fact that radio signalling obviates the need for most of them.

A somewhat related problem in another area is found in Tunisia, where efficiency has been constrained by a requirement that the ratio of managers to foremen to workers be 1:4:16. This has tended to lead to too few managers and, in any case, fixed ratios limit the ability of the enterprise to adjust to changing operating conditions. The rule in Tunisia has been loosened somewhat in recent years.
Rigid Craft Divisions

Rigid craft divisions cause two problems. One is the direct effect on the size of the labor force and on efficiency that results from having to use specialized labor when there is not enough work to keep the specialists busy. For example, the following practice obtained in Ghana before recent changes: if a window on a passenger car were stuck, then it had to be fixed by a carpenter; if water were not reaching the faucets in the lavatory, a plumber had to fix it; and if no current were reaching a ceiling light, an electrician had to fix it. If there were not enough work to occupy fully the members of each craft, some of them spent some of their time idle. Also, there could be delays in getting repair work done when a man with the required specialty was not immediately at hand.

A new agreement has been made which allows cross-training of the specialists, e.g., a carpenter might be trained in basic plumbing and electrical work so he could deal with the defective faucets in the washroom and the bad connection in the ceiling fixture. He is paid a 20% bonus when he is called on to work outside his craft. The change was negotiated in a committee chaired by the labor ministry with both GRC and the union represented.

Craft lines tend to be less rigid on railways in francophone Africa than they are in anglophone Africa, reflecting differences in practice in the former colonial powers. Nonetheless, problems with specialization are common in former French territories. A reform on a new suburban commuter service for Dakar allowed the same man to sell tickets in a station and then get on the train and serve as a trainman, perhaps getting off the train occasionally to throw a switch. It is estimated that because of this, productivity on the new service was some 20-30% greater than on the existing service.

Korea’s railway management is burdened with legislation setting the number of people in each job series and pay classification, with a consequent restraint on its ability to use its people in a rational way. Multiple crafts have also been a severe problem on Mexico’s railway. Among other problems, they generated inefficiency in the repair shops that significantly reduced the availability of rolling stock. In 1983, the railway management took advantage of the economic downturn to press the union to accept a restructuring of the shop crafts into three pay classifications; a real pay increase was offered which was particularly effective at a time when real wages had been falling. This combination of pressure and incentive was successful.

The second difficulty with rigid craft separation has to do with employee morale and management’s ability to reward and promote staff members. The problem results from outmoded lines of promotion based on narrow specialties; some crafts have upward promotion channels and some do not. Efforts have been made to solve this problem in Senegal and in Ghana, where workers at a certain level are now allowed to retrain and make a lateral shift into another specialty and where lines have been merged above a certain level. Nigeria was cited as a place where the craft lines caused the loss of needed people by block-

4/ British Railways eliminated many of the conventional job demarcations and introduced more versatile general purpose grades (in exchange for higher pay) in the Pay and Efficiency agreements of 1968.

ing promotions, but where the system was changed to remove the blocks. Tanzania's railway was mentioned as one where craft lines are still a problem. The problem of blocked promotion channels has also been cited in Mexico; there, the strict lines of separation run up through the management layers and have the added effect of bringing people with only narrow experience to top management.

One other sort of inefficiency from specialization was noted in Ghana, where there have been instances of a shop being kept open to provide a job for a coppersmith (coppersmiths were needed for steam engines), because the man could not be transferred into another craft.

**Pay Structure and Basis of Pay**

Pay scales and basis of pay issues cause problems with staff motivation and staff retention at all levels. On the most fundamental level, some railway enterprises have difficulty getting their staff to come to work or do anything once there, because the pay is so low. The extreme among the examples mentioned was Tanzania where it was said that nearly everyone on the payroll had a second job, and for many it was not moonlighting; they showed up at the railway only enough to hold their positions, which carry benefits such as health insurance and retirement pay.

Although many of the workers who do not show up may be redundant, there are clear instances of needed work not getting done. For example, maintenance-of-way workers in Zaire will do little without overtime pay. Similarly, pay on the Zimbabwe railway is so low it is difficult to get anyone to do any of the really hard work.

Because of the pay system, there have been problems with getting enginemen to move trains in a number of places. In Senegal, the engine drivers were on salary with only a small bonus (5-10% of base), and thus little incentive, for miles driven. The drivers exploited the rules on sick leave, vacation time, etc. to spend the absolute minimum time at work. There was a chronic shortage of drivers on duty, and train movements were often far off schedule. The cure was to increase the distance-related bonus to 30-40% of base salary; train movements increased dramatically. In Uruguay, the system has just been changed to relate part of engine drivers' pay to distance driven; the union objected on the grounds that it gave management the power to reward its favorites by assigning them the longer runs. The issue is under discussion again as management tries to reduce train crew sizes. In Ghana, where the drivers get salary plus overtime and feel little pressure to move trains, a distance-based pay or bonus system is now under discussion. There is a similar problem in Tanzania.

While in some cases using distance as part of the basis of pay for engine drivers is a step towards greater efficiency, the use of distance as the basis of pay can have its own problems. In the U.S., a day's work for train crew was fixed at 100 miles in the nineteenth century on some railways, and it was reasonable then. The government extended this definition to all railways when they were under federal control in World War I, but only in the last decade was it changed, when the unions agreed to 108 miles, treating this as a

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6/ Wilner, op. cit.
major concession. More recently the Santa Fe and the Brotherhood of Locomotive En-
gineers have agreed to increase the standard to 120 miles.7/

At management levels, low and compressed pay scales generate obstacles to retaining
technical staff and create a general morale and motivation problem. Pay, as well as blocked
promotion channels, have been a problem in holding technical staff in Nigeria; some
correction has been made through salary upgrades. Low pay on the Egyptian railway has
led to the loss of technical people. When that railway contracted with private sector firms
for maintenance of track and signals, the firms that got the contracts hired the technical
people they needed off the railway, offering much higher wages than a public-sector enter-
prise could pay. Korean National Railway, essentially a government agency, is able to
attract qualified graduates for most technical specialties, but cannot compete with private
industry for university degree holders suitable for its Research Institute.8/

In the Sudan, some engineers are paid less than the senior shop workers that they
supervise, and this has a strongly negative effect on the engineers’ morale. Pay compres-
sion is cited as a major depressant on morale in Ghana and Tunisia specifically and in
Africa generally, since mere seniority will bring many workers as much reward as merit.
Ghana was particularly cited as a place where grade overlap and tight compression virtually
eliminate any incentives. At GRC, the ratio of top pay to bottom is 2.8, and the ratio of
top pay to modal pay, 1.6. In Tunisia, the top/bottom ratio has been as high as seven, but
is coming back down, reflecting political pressure for raises in the lower ranks, but little
support for raises in the top layers; the top/bottom ratio is now 4.7.9/ Ratios as high as ten
or twelve are found in some well-run public enterprises, and in the private sector, the ratio
can easily go as high as fifteen or twenty. Very low top/bottom or top/modal or /average
ratios may be statistical signals of a railway with management and labor redundancy prob-
lems.

Difficulty of Dismissal

Barriers to dismissal of workers are widespread. Their immediate impact is to make
it difficult to shed labor in the face of falling demand. In Senegal, for example, dismissal
for economic reasons requires an application to the government which can take up to 60
days to process.10/

In combination with the pay structure issue, barriers to dismissal give management
few incentives, positive or negative, with which to motivate people. Difficulty in dismissing
workers was identified as a general problem in francophone Africa where, it was remarked,

7/ Journal of Commerce, November 28, 1989 and December 18, 1989. Using distance as the basis of
pay does not necessarily lead to absurd results, since a "day’s" pay may be set low enough that train
crews covering twice the standard distance may actually be earning only a normal income.

8/ World Bank, op. cit.

9/ K. Viswanathan, "Labour Redundancy in Railways - A Case Study of Tunisia Railways - A Discussion

10/ Jan Svejnar, "Overview of the Main Labor Market Issues in Senegal," unpublished World Bank paper,
October, 1985.
a railway may often have too many people in the administrative offices but have difficulty mustering enough men for track maintenance gangs. People do not turn out for the unpleasant work, and management has little leverage over them. Tunisia's railway was characterized as having a mild problem; there, 30% of unscheduled leave is not legitimate (the rest is sickness or injury). With Mexico as an example, it was pointed out that absenteeism leads to inefficiency in the use of the people who do show up; the foreman of a maintenance gang cannot plan his work well, because he does not know how many men, or which ones, are going to turn out on any given day. In Ghana, where the law does not prevent railway management from firing people for not coming to work, absenteeism is not a problem.

Working Standards and Customs

The definition of a day's work by the distance traveled can constrain labor productivity as train speeds increase and the distance covered in a normal day grows. If crews are restricted to a given distance, then too frequent crew changes and too many staff will be used as trains cover greater distances. Crew change points established under one rule may be in the wrong places when the rule is changed.

Local customs may cut the length of the actual working day substantially below the nominal time. Tea or coffee breaks are common, and they can be extended, one way or another, until the total time lost is significant. Such practices may be endemic in a country's industrial life, and in no way limited to railway work. They may be closely linked to the lack of incentives inherent in some of the practices listed above. This type of inefficiency was cited in Thailand, where men arriving in the repair shops have coffee immediately, stop work well before the lunch break, and so forth; the men in these shops may not do more than four hours of actual work in a day. A similar problem was noted in Yugoslavia, where the real working day in industrial enterprises of all kinds is thought to average around four hours.

Difficulty of Using Temporary Labor

When railway management must carry out a sizable project of limited duration, e.g., upgrading or extension of a line or installation of a new facility of some kind, the use of temporary labor would normally be a desirable expedient. However, there are laws or regulations in much of Africa and India and in Pakistan that negate any gain from this approach by virtually forcing the eventual conversion of the temporaries into permanent employees if their initial employment lasts somewhere from six months to a year. This may result either in growing labor redundancy or in a too rapid turnover of workers who are fired before they can become permanent, thus necessitating additional training (and lower efficiency) for new staff. Turkey was cited as a country in which this is specifically not a problem; there is no limit on the time that a temporary can work, and new workers coming in to the railway today are coming on contract, not as civil servants. The problem can be overcome in some cases if the railway engages a general contractor so the extra employees

11/ Viswanathan, op. cit.
are never on the railway’s payroll, a form of privatization. The Bank made this a condition of a project in Pakistan. However, this option may not always be available.\footnote{In the U.S. automobile industry, for example, where contracting out has been a common practice, a recent collective bargaining agreement requires consultation with the union before any more work is contracted out.}

**Pension Arrangements**

Features of pension plans may operate to keep people on the staff too long. In Yugoslavia, for example, there is a lack of provision for disability retirement on conditions acceptable to the workers. It was said that the Novi Sad railway has as many as 1,000–1,200 disabled workers out of a total of 12,000. The provincial parliament refused a railway management request to let these workers retire early on the national scheme, so they must be kept on until they are eligible for ordinary retirement. Failure to index pensions for inflation could also keep staff on longer than they might otherwise choose to work.
III. POLITICAL AND INSTITUTIONAL BARRIERS TO REFORM

In the course of the survey, almost everyone interviewed stressed the critical importance of the political and institutional environment in which the managers of an overstaffed railway operate. A great many observations were made along these lines, usually about whole groups of railway firms. Following is a summary of characteristics that observers frequently cited as destructive and prevalent:

- Managers perceive themselves as civil servants running a government agency.
- They are not well paid, but they feel their jobs are secure. They feel they are expected to keep the railway going more or less as it is.
- Efficiency is not something they are concerned with; in fact, the prevailing pressures are often in the other direction.
- In many cases, the general manager is not from the railway, but is a senior civil servant serving a three or four year tour of duty. His career advancement depends on causing no trouble during his tour and on maintaining and increasing his network of friends and political allies. Even when the top man is from the railway, his political relations with the government will be vital to his career.
- There is often strong political pressure to take on people quickly. The staff so hired are likely to be unskilled labor or office staff, since they can be found easily.
- Manpower and investment requirements are not based on analysis but on extension or increase of existing force. Traffic projections, when used, are not analytical but are budget-supporting material, just as in a government office, designed to justify hiring more people and to justify investments which, in turn, help justify more people and may have other political value.

In this context, cutting staff will do nothing for a general manager's career, but hiring staff will do a lot for him as long as he pays attention to whose friends he is helping and observes unwritten, quite possibly unspoken, regional or tribal quotas. A general manager is likely to be an intelligent man who knows he runs an inefficient railway; but he knows what he has to do to keep his career going, and attacking inefficiency is not a priority.

Some governments guarantee employment to everyone in the labor force or to certain groups, such as secondary school graduates. In this case, there is pressure everywhere to hire beyond efficient levels. In Egypt, for example, the level of excess labor in the railways is estimated to be about one-third. In Yugoslavia, the railways are obliged to train one school leaver each year for every 40 existing staff. Although the formal obligation is only to train, the result has been a steady increase in staff, as supervisors were reluctant to lay these people off.

The government of a country with a near-stagnant economy may not be troubled by the railway's inefficiency. Politically, disguised unemployment is much more desirable than
undisguised unemployment. A gain in railway efficiency is of little benefit compared to the political pain of putting a lot of people out of work (or, at least, out of income). In this case, the railway’s bloated staff is not a problem; it is a solution.

This attitude is in no way peculiar to governments of developing countries. At one time or another in recent memory, virtually every government among the advanced nations has had a similar attitude; and those attitudes only changed when the cost of the railway’s inefficiency became both painful and obvious. In the U.S., the government created a state-owned railway, Conrail, after the Penn Central (PC), the principal rail carrier in the Northeast, and several other northeastern railways went bankrupt, but failed to do anything about the inefficiencies, including a bloated labor force, that the political system had imposed on the PC. Virtual lifetime protection for the existing labor force was an explicit and unavoidable part of the political bargain that created Conrail. When it became obvious that it would need an indefinite subsidy on the order of nearly $400 million a year, and when the labor unions saw their power declining, the U.S. Congress finally removed the political restraints on the management and pushed the enterprise toward privatization.13/ Similarly, in many developing countries, severe budgetary difficulties in recent years have brought the problem of public enterprise inefficiency to the fore.

IV. REFORM OF RESTRICTIVE PRACTICES

A number of approaches to the modification or elimination of restrictive practices are possible. One is to concentrate on changes that affect management's motivation and ability to control what actually goes on in the railway, i.e. to motivate its people. In the course of the survey, motivation was the dominant theme in the comments of virtually every person interviewed. The message is simple: if the railway's managers will not strive for greater efficiency, no one will, and they will not do so without incentives. Therefore reforms to pay structure and promotion policies will be important. Any measure that reduces compression and introduces factors other than seniority into promotion decisions is desirable.

Any change that moves the railway from the status of a government agency towards that of an enterprise, albeit state-owned, and the status of the employees, including highest management, from civil servants to employees of a firm is also desirable. If there is an arrangement where the top man always comes in from outside the railway, serves a three or four year tour of duty and moves on to another senior government job, that should be a target for elimination. (In some cases, however, such an arrangement may be warranted on a one-time basis to solve specific problems.) If complete privatization is impossible or undesirable, contracting out of certain jobs or functions, whether new construction, maintenance or operations can circumvent some of the more onerous public sector regulations and help place the enterprise on a more commercial footing.

Management's ability to motivate and direct the work force is affected by restrictive practices that relate to difficulty of dismissal, rigid separations among crafts, and pay arrangements. Managers will have a hard time trying to run a tight ship if they can't fire people for clear cause, such as not coming to work, or if they have to spend substantial amounts of their own time making a case to the labor ministry in order to do so. Aside from being directly unproductive, overly rigid lines between crafts can limit promotion channels, thus dampening motivation among the employees.

Inadequate pay, in combination with lax discipline, can make it very difficult for managers to get people to come to work or to take on dirty jobs (e.g., maintenance of way), once they are there. In the same vein, basis of pay problems relating to overtime and the actual distance an engineman drives a train, which make it hard for management to cause trains to move, should receive attention.

With this last issue, pay of train crews, we cross a frontier of sorts between restrictive practices that dampen the motivation of management and workers alike and practices that create labor redundancy and directly curtail efficiency. Into this second category fall unneeded members of train crews, pension schemes which hold unwanted people on the rolls, working customs that turn eight-hour days into four-hour days, and temporary labor that becomes permanent if it stays too long. Some practices, such as excessive restrictions on firing workers, fall into both categories; they affect motivation, but they also limit the immediate ability of the railway to remove excess labor.

Reforms that do not involve laying off staff are likely to be the most appealing to politically sensitive management. If more hours a day can be secured from the men in the repair shops, repairs will be done faster and better and the railway will be better off due to
the shorter turnaround for equipment repair and reduced downtime which should result from better repair work. (This assumes that the railway was not grossly overstaffed to start with. If, in fact, additional workers had been hired to compensate for the short hours, then redundant labor will be a problem.) If the railway can find a way to use temporary staff without having to keep it indefinitely, it can at least avoid taking on some future redundant labor. It may also avoid the possibility of work not being done or being delayed because management does not want to take on temporary workers that may become permanent.

Many of the reforms discussed above are outside the control of the individual enterprise. Changes in the level and structure of pay and in regulations governing hiring and firing, including the use of temporary workers, must often be made at the national level. Another set of problems can be tackled at the enterprise level, either unilaterally or in negotiations with workers. Changes in basis of pay, crew size and pension schemes generally fall into this category. Decisions on contracting out some of the work may or may not be within the purview of the railway management. As for the elimination of tea breaks or long lunches, the answer lies in motivation. Employee-ownership plans, profit-sharing plans, links between productivity and wage increases, or any similar schemes might help to get more effort out of workers. Which type of problem is more amenable to change will depend on the individual country and enterprise circumstances, and these may change over time. Therefore it is important to be flexible and to keep in mind the whole range of possible reforms when entering discussions on the topic. For example, changes in work rules may have no immediate impact on productivity if redundant workers cannot be dismissed for fear of political and social consequences, but they may facilitate reductions in the labor force at some later date when the economy picks up and other jobs are available. Furthermore, it may be easier to obtain concessions from the workers at a time when there is no immediate threat of dismissals.

To recapitulate, efforts can be made to improve the motivation of management, to help management to direct and motivate their staff, and to eliminate specific practices which block improvement. Among the reforms, those that give management a direct interest in efficiency are likely to have the most lasting effects. Changes that allow for the removal of excess labor and that prevent its build up may be necessary as a first step to get the railway on a sound financial and economic footing, but once that has been done, it will be the motivation of management and their ability to motivate and control their own people that will preserve the new status.
A Note on the American Experience

Recent experience of American railways illustrates the power of motivation. Although they have always been in the private sector, U.S. railways were subject to close government regulation until 1980 when Congress enacted substantial deregulation (the Staggers Act). Up to that time, rail managers worked in an environment somewhat comparable to that of a regulated public utility. Cost increases were more or less automatically passed on to customers, and trying to be more competitive was either unrewarding or forbidden. Passage of the Staggers Act changed all that, and productivity growth of American railways since then is striking. In the more than 30 years from the end of the War to the Staggers Act in 1980, U.S. rail labor declined by 66%. By 1987, just seven years later, rail manpower dropped by another 46%. Ton-kilometers of freight per worker went up by 85%.

The fact that management now has an incentive to try hard to compete undoubtedly is a major factor in this change. Despite the deep cuts in labor they have already made and despite the fact that these railways are, by a wide margin, the most efficient freight-hauling rail carriers in the world, the managers of all of them know they are over-staffed and give a high priority to cutting the rolls further. For American carriers, getting rid of restrictive practices is not only a cost-saving measure. The myriad rules embedded in the union agreements reduce the quality and responsiveness of the service the railways can offer their customers. Arbitrary points at which trains must stop to change crews or carry out certain safety inspections, restrictions on which crews can move a train through a yard, and dozens of other arcane rules hamper U.S. railways. This especially hurts when they try to compete with the reliability and flexibility of trucking firms in the market for merchandise traffic. The magnitude of the problem is illustrated by the fact that CSX found it worthwhile to offer its labor force (both those who would stay and those who would leave) half the gain from the elimination of restrictive work practices and unneeded positions.

