

Demos

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Contents

FEATURES

**Seven steps to ending unemployment:
bringing work to life** 1

The end of unemployment: bringing work to life
Charles Leadbeater and Geoff Mulgan

The end of unemployment 5
Charles Leadbeater and Geoff Mulgan

The economics of unemployment 43
Martin Wolf

Employability and job security in the 21st century 47
Rosabeth Moss Kanter

**Why Western employment policy is going around
in circles** 55
Paul Ormerod

The Demos index: facts on the world of work 67
Compiled by Geoff Mulgan and James Purnell

The rising cost of exclusion 75
Edward Balls

Clinton's national service plan: lessons for the UK? 81
John Mohan

Creating a twin economy 89
Geoff Mulgan

The employers view 97
Christopher Haskins

Wetware issues 103
Peter Robinson

REGULARS

**Archives – 'It seemed like a good idea at the time':
4 ideas on unemployment** 107
James Purnell

Big ideas – Arguments on the unemployment 111

UK Policy – Demolition: The National Commission on Education 115
Douglas Hague

Project Reports 123

The Millenium Project 126

The end of unemployment: bringing work to life

Charles Leadbeater and Geoff Mulgan

Across the political spectrum it has become a conventional wisdom that unemployment is here to stay. Proposals for higher infrastructure spending or new ways of tinkering with the labour market excite little confidence. There's a feeling that they've been tried before and found wanting.

But is it acceptable simply to accept permanent unemployment and all the social costs and tensions that it brings? We think not.

Instead we make the case for breaking out of the fatalism of thought and the paralysis of policy on unemployment. In this special issue we set out the starting points for an approach which could cut unemployment, revive society's belief in itself and bring work to life. These are the main elements:

- Forecasts that we will become a leisure society have proved false. Work is central to our culture, the main source of meaning, learning and life satisfaction for millions of people. Consumerism has not led people away from work. Instead they want work to be like the best leisure: engaging, challenging and transforming. That is why it so damaging for millions to be without work and so disabling for millions of others to have insecure jobs that do little to develop their capacities.
- Chronic unemployment results because the institutions which make up the labour market have failed to keep pace with rapid shifts in technologies, demographics and industrial requirements. Schools are not producing enough employable school leavers. Adult opportunities to learn are inadequate, while childcare support for parents who work is woeful. The labour market has failed in its central task of generating jobs and matching people to them.
- Old remedies for unemployment do not work because they do not recognise that its causes are complex: as much to do with culture and politics as economics. Simple macroeconomic solutions lost credibility long ago. Deregulation helps create jobs (especially for women), but leaves a large pool untouched. It can fuel crime. Training is essential, but cannot of itself create jobs. Reducing working time, or years in work, can easily make unemployment worse. By cutting public revenues such policies can make it harder for governments to raise money to invest in learning or job creation.
- The new policy framework has to be broad, radical and imaginative. It must cut across traditional ideological divides and break with stifling conventional wisdoms. Its unifying goal must be to help many more to take part in useful, remunerated and fulfilling work and so revive our society's claim to offer opportunities for all.

- Unemployment can be dramatically reduced. It is no more natural than rising crime and no more inevitable than inflation. The demand for a new approach is rising as ever more people's lives and jobs are prey to the insecurity generated by global competition and sweeping technological change. The policies are also available: to redirect the tax system to create jobs rather than penalise them; to generate a culture of mass enterprise; to promote learning publicly and privately throughout society; to generate new webs of security using taxes and insurance, training and welfare benefits and finally to provide new routes to work through the burgeoning informal economies which those in and out of employment increasingly rely upon.

We have called this 'Bringing Work to Life' because unemployment is not just an issue of economics. Effective job creation would dramatically improve the quality of life for millions of people without jobs. It would also help the overworked and over stressed, and the many millions trapped in unskilled, unfulfilling jobs. Above all, it would help our society regain a lost sense of vitality and common purpose. That is why this is now the central task facing Britain today: the litmus test of political leadership.

Seven steps to ending unemployment

What could be done to bring a serious reduction in unemployment? We propose seven main areas of action, all of which will have to form part of any credible programme of reform.

1. Serious Learning

Economic success today depends less on materials in the ground and more on the gold in people's heads. We need a fundamental shift in resources and priorities towards the learning which has become the foundation of economic success. The same commitment that made monetary stability such a paramount concern in the 1980s now needs to be devoted to learning in all its forms. But far-reaching changes are needed in the ways in which education is organised if extra resources are to be well-used. We propose: new measures to insulate education spending from short-term political interference; rethinking the role of schools to create greater porousness to society and economy; a redefinition of the role of teachers; a shift in the curriculum towards learning how to learn; much wider access to new communications networks at home as well as at school; closer links between employers and schools; a mentor for each child throughout their schooling and early working life; a relative shift in resources from post-16 to pre-16; income contingent loans guaranteed by government for career development after the age of 16; and the stimulation of a much larger private sector education market of after-school tutoring services. Above all education reconceived as an infrastructure offering millions of gateways of opportunity for people at all stages in their lives.

2. Secure Flexibility

Security no longer comes from length of service or status. It comes from employability. The old institutions of collective security—state welfare schemes and trade unions — offer temporary support, and limited protection. Welfare benefit systems are too rigid, training systems too feeble and the expectations we have of the unemployed too low. New frameworks of security are necessary to enable people to cope with the much greater turnover likely in the labour markets of the 21st century. One element will be a reformed education system. A second will be a new social contract at work with employers encouraged and cajoled to enhance the value of their employees through everything from external internships and job rotation to new indicators of achievement. But benefits also need to be adapted to make it easier to get into work. We propose: a more imaginative mix of benefits and income from work to help part-time workers who are also primary carers for children; requiring large employers to advertise vacancies for part-time workers as well as full-time; an employment promotion bonus paid to employers who take on the long-term unemployed; a family employment policy, designed to encourage entire households back into education, training and work; a parenting and community service allowance payable to full-time parents or people involved in registered community services.

3. Mass Enterprise

The new jobs will not come from large firms and big government. We therefore need to make it easier for people to create jobs and to learn self-reliance. There is no substitute for a culture that values enterprise and risk (and does not stigmatise failure). Skills of entrepreneurship should be taught and encouraged, not just for the young and middle-aged, but also for the old and for marginal groups such as women and ethnic minorities. There should be no moves to reregulate the small firms sector. Public and private support is needed to provide easy and more stable access to capital and advice through banks, community development banks, venture capital and loan funds. We also need financial safe havens, possibly based on TECs, to help smaller firms survive downturns.

4. Ways to Share

In the future as in the past fuller employment will not be possible without resources. In Japan it was the willingness of urban consumers to pay subsidies to an inefficient service sector and farming that sustained high employment. In Scandinavia it was the willingness of citizens to pay higher taxes to soak up jobs displaced elsewhere. Genuinely full employment will not be possible without new connections or 'sharing mechanisms' of this kind. But there is little prospect of channelling more resources to the unemployed through the existing tax system. We need more direct, local and transparent mechanisms to facilitate this transfer and to establish a sense that the privileged insiders and the excluded outsiders share a common future. Unemployment has to be paid for somehow, either through the direct costs of social fragmentation-crime, family breakdown, educational under-achievement – or through measures to promote social cohesion. We propose; greater local discretion over taxation to promote novel approaches to employment creation; hypothecated taxes targeted at training and community services which could be paid in time and skill as well as through money.

5 Wise Taxes

Taxes on work, in the form of income tax and national insurance, are a major source of income for government. Given the scarcity of good work it is foolish to penalise it through taxation. The tax system should be overhauled to turn into an employment generator. We propose a long term strategy to shift the burden of taxation away from scarce work, particularly social security taxes on labour such as NICs, and towards other bases such as consumption, property and energy. Tax incentives need to be used to foster an active market in education and training. The tax cuts on income that fuelled a consumption boom and a mushrooming PSBR in the 1980s and early 1990s need to be replaced by fiscally neutral tax cuts on work to promote sustainable growth.

6. Twin Economies

Policy must build on the solutions which society is reaching for. The cash-in-hand and informal economies now count as a major sector of the economy. Fostering this sector must become a deliberate aim of policy. We propose: the creation of a parallel, non-money, voucher sector of the economy where services are traded in kind; encouraging the cash-in-hand economy by raising the VAT threshold for companies and transactions, as well as creating registered cash-in-hand workers; a framework of national community service, covering three groups; those in the last year of compulsory education; the unemployed; and taxes on time involving everyone.

7. Working Ethics

None of these will be possible without profound shifts in our culture and values to match the economic and technological upheavals which have reshaped work in the past two decades. We have become obsessed with consumerism and now need to rebuild the traditional sense of achievement and expression through work, and a work culture that is as engaged, diverse and rich in identities as the consumer culture that boomed in the 1980s. We need work ethics which give higher status to a much wider range of contributions, especially caring and parenting. Sovereignty must come from human capital and work as much as consumption. And just as we consume products and services from all round the world, we need to borrow and learn from different. Above all, new working ethics must link individual sovereignty to a new sense of responsibility and membership in society.

The end of unemployment: bringing work to life

Charles Leadbeater and Geoff Mulgan†*

‘If work were so great’ quipped Mark Twain, ‘the rich would have hogged it long ago’. They have, Mr Twain, they have’.

Paralysis has set in. Unemployment has risen relentlessly in the past 20 years, following an alarming pattern. Recessions have bequeathed permanent rises in unemployment and economic expansion, however impressive at the time, has delivered only short-lived reductions. Massive job creation has not compensated for the combination of massive job destruction and the growing desire of many more people to find paid work. Meanwhile governments look on from the sidelines, believing themselves to be powerless.

We all know that persistent unemployment (and non-employment) wastes talent, undermines public finances and unravels social cohesion by fostering crime and forcing the jobless to the margins of society. But its fundamental challenge is to the legitimacy of developed societies. Work is now more central than rank or inheritance to how our societies distribute wealth, status and power. Secure, fulfilling, well-paid employment, over the full span of a working life, has become a rare and precious good. This is one reason why, contrary to all forecasts, people with jobs in the UK are spending more time at work.

Yet along with the greater centrality of work has come deep division. There is a growing divide between those forced into the idleness of unemployment and those stressed by high-paid, high-pressure jobs; between work-rich families, which bring home several incomes, and on-work families in which every member survives on a mixture of welfare benefits, undeclared cash in hand payments for odd jobs and petty crime. Charles Handy puts it well in his book *The Empty Raincoat*: ‘If work were so great’ quipped Mark Twain, ‘the rich would have hogged it long ago’ They have, Mr Twain, they have.’

Western governments have offered little but palliatives. The public regularly ranks tackling unemployment as its top priority. Yet the political world has proven unable to offer credible solutions. There are plenty of good ideas, but nothing that matches the scale of the problem. Across the spectrum, from the free market right to the green left a depressing conventional wisdom has taken hold – that high unemployment is inevitable and irreversible. It is blamed on impersonal, global economic forces which are beyond our control or on the moral failings of individuals who are not prepared to look hard enough for work. We rarely recognise it for what it is: the failure of much of the culture of work and many of its institutions to adapt to sweeping change.

The consequences of the failure to confront the causes and effects of unemployment are far-reaching. The problem is not just that governments lose public confidence in their ability to manage the economy. It is much more fundamental. As long as millions are excluded from finding work, let alone secure and fulfilling work, liberal democratic societies will be unable to sustain the claim that they are committed to equality of opportunity. Indeed it’s worse than that. Without any conscious design a new basis for our societies is being created, founded on inequality and exclusion.

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The choices are stark. To tolerate high unemployment while maintaining social stability means accepting authoritarian measures to police a society divided against itself. To restore legitimacy to our society's claim that it is committed to meritocracy and equality of opportunity means attacking unemployment with a verve and imagination not yet dreamt of.

The deficiencies of existing options

Current attempts to deal with unemployment suffer great weaknesses. Our first task is to understand them.

First, training: although skills training is a necessary part of any programme for making people employable it is not sufficient. Training in specific skills may be less important than learning more general competences. Training for adults may come too late if they leave school inadequately prepared. It will be worthless unless jobs are created. Any programme that depends too much on training provision without tackling other dimensions of work is doomed to failure. At worst training linked to welfare penalties – workfare – can simply make crime a more attractive option for young men. Even Sweden, often cited as a model of active training-based labour market measures, kept unemployment low primarily by high public sector employment.

Second, macroeconomic intervention. Bad macroeconomic policies can harm employment, particularly if they lead to unnecessarily heavy shake-outs and the loss of accumulated experience and organisational capital. Once jobs are lost in a recession it is very hard to get them back again. But macro policies on their own can do little to create jobs in the long run. Over the past four decades there has been no simple correlation between growth and unemployment, and no guarantee that demand expansion creates sustainable jobs.

Third, deregulation. In the United States, policies to deregulate the labour market have helped to generate jobs. But the costs have included growing wage inequality, strong incentives for young men to go into crime and a huge increase in the prison population.¹ Deregulation in Britain has helped to promote women's employment in part-time jobs, but it has done little to reduce male unskilled unemployment. The unskilled in Britain are competing directly with low wage economies such as southern China. The wage reductions needed to compete are so great that they are virtually inconceivable, not for economic reasons but for social and cultural ones.

‘To restore legitimacy to our society's claim that it is committed to meritocracy and equality of opportunity means attacking unemployment with a verve and imagination not yet dreamt of’

‘Virtually every worker in the modern economy now faces the risk of some period of enforced underwork, whether through involuntary part-time work, early retirement or bouts of unemployment’

Fourth, regulation. The prevailing social democratic approaches to employment have lost credibility. Overregulated labour markets have preserved wages and security for some only at the cost of high unemployment for others. Non-wage labour costs, such as social security contributions, have reached levels which are unsustainable for developed economies facing mounting competition from the rising economies of East Asia. Many European countries are moving towards deregulation.

Fifth, alternatives to work. The imaginative approaches of the greens and advocates of the postindustrial leisure society welcome a shift away from work and call for a basic income to be provided for all. These approaches pose a vital question – can we find alternatives to work as a source of status and income? Many advocates of this approach simply assume that work will inevitably become less central to our lives. Much of the evidence points in the opposite direction. There is also another good reason for doubting the potential of simplistic schemes to reduce working time or years in work. Already the movement of many under 25 and over 50 out of the workforce is exacerbating fiscal strains and, paradoxically, making it harder for governments to act on unemployment.

Sixth, demographics. Some now hope that falling numbers of young people entering the labour market will take unemployment off the policy agenda. But although demographic trends will make it easier to cut unemployment (and possibly crime) in the years ahead, there is no evidence that they will in any way be adequate to a problem which has far deeper roots.

The weakness of these approaches is reflected in confusions about the goal of employment policy: is it to create full employment, with full-time jobs or should we be preparing for a leisured post-industrial society? Should we be attempting only to create high wage and high skill jobs, or encourage the growth of a relatively low skill, service sector? Is the key statistic the proportion of the population in work, the official rate of unemployment or the level of private sector job creation? Moreover, should employment policy be conceived solely in economic terms or should we think more holistically, acknowledging its links with crime, education and culture? Are we attempting to create work for all, to provide greater security for people when they are out of work or to promote sources of incomes and status which come from outside the world of work?

The goals are so confused and the policies so feeble because they flow from an exhausted reservoir of ideas about the causes and cures for unemployment. We can only restore balance to our society with new policies based upon new ideas. Our starting point is understanding why unemployment stubbornly has remained so high.

Why is unemployment so high?

The key facts are these: since 1950 five million jobs in the UK have gone from the goods producing industries. About eight million new jobs have been created in services, both public and private.² But this has not been enough to prevent unemployment rising, partly because the new jobs have not been taken up by men made unemployed and partly because many more women have taken up work.

Meanwhile, the structures of work have been transformed. Many jobs at the bottom and top of the scale remain relatively unchanged: the manual services of cleaning, cooking and caring on the one hand and the jobs of top civil servants, lawyers and even businesspeople on the other. But in the middle a revolution has taken place: old, semi-skilled repetitive industrial jobs have gone; repetitive, white-collar jobs, filing and form-filling, have been replaced by computer systems; jobs demanding very specialised skills, particularly knowledge jobs have become more common. Jobs which could be easily done by anyone, and jobs dependent on physical strength, have disappeared in their millions.

The long-run patterns are striking. Since 1950, the railways have lost 300,000 jobs, buses and trams 120,000, ports and waterways 80,000. For manufacturing as a whole a slow decline became a rout: a third of all jobs disappeared after 1979. Jobs in distribution, restaurants and hotels have gone up 1.7m since 1950. Jobs in finance, insurance and property rose by 2.34m, including over 700,000 in the 1980s. Jobs in community, social and personal services increased 3.5m, including a million in health and 1.2m in education. Perhaps surprisingly, 1.25m of these new public service jobs were created after Margaret Thatcher came to power in 1979.

These patterns are set to continue. During the 1990s it is forecast that employment will fall 24% in primary and utilities, 12% in manufacturing and 3% in construction. By contrast, according to the Department of Employment, there will be 16% more jobs in business and other services, and 8% in public services.³ In all, 850,000 jobs are set to go in manufacturing, primary industries and utilities, and 1.36m jobs will be created elsewhere, the great majority requiring computer literacy. Part-time work will also continue expanding, partly because it suits employers, and partly because it suits many people: across the EU three times as many full-timers want to go part-time as vice-versa.

‘The full employment policies of the 1940s were part of a much larger programme of reform which embraced education and the welfare state, for those in and out of work. Policy today must be equally ambitious’

The brunt of the collapse of industrial employment has fallen upon the shoulders of the less skilled. About a third of unskilled men are without a job, for two reasons. Male employment fell by 2m between 1977 and 1991. But in addition to those unemployed and seeking work, an even larger group has withdrawn from the labour force altogether. The official unemployment rate among men is 9%, but 18% of working age males are without jobs.⁴

Not only are unskilled men more likely to be unemployed, they are likely to remain unemployed longer. The inflow into unemployment in Britain is lower than in the United States: fewer people become unemployed. Yet once unemployed, people in Britain remain jobless for much longer.

By contrast women’s employment, particularly part-time employment in the service sector, has risen sharply in the past two decades, for two main reasons. The combination of rising aspirations and employers’ demand for worker with higher skills has brought droves of qualified women back into the labour market and women have been prepared to take up part-time, low wage, jobs that men have spurned.

But women have not entirely escaped the concentration of long-term unemployment upon the unskilled. Employment is increasingly unequally divided between households. Women are much more likely to work if they live with a man who works. About 60% of women with working husbands are also in jobs, compared with only 24% of women with non-employed husbands.

Although the burden of unemployment is concentrated on the least skilled, the threat of unemployment is spreading to virtually all jobs and classes. As technological change accelerates and widens in scope, and as international competition penetrates more areas of the economy, so more jobs – white-collar administrative jobs, managerial jobs, skilled software jobs – will be vulnerable.

Virtually every worker in the modern economy now faces the risk of some period of enforced underwork, whether through involuntary part-time work, early retirement or bouts of unemployment.⁵ This may be why workers in most countries now value security even more than income, particularly British workers who, according to a recent survey of 12 OECD countries, feel the least secure in their jobs.

The story behind all of these figures is not simple. It is a combination of a worldwide shift away from old forms of production and old jobs; particular problems of competitiveness and poor education for societies like Britain; and cultural barriers preventing men from adapting to new types of work.⁶

Imbalances between work and consumption

Behind the shifts in technology and industry and the rising tide of economic insecurity, there is another cause of the unemployment crisis: a deep seated imbalance between work and consumption. This has been refracted through a sustained failure of the central institution of work: the market for labour. Chronic unemployment stems from a long-term inability of the labour market and its attendant institutions, such as the education and welfare benefits systems, to generate skills and match them with social needs and consumer demand.

The past two decades have exposed an alarming gap between the speed at which different markets, cultures and institutions respond to change. Financial capital moves vast distances in seconds. Its productivity is measured in minutes. The microelectronics revolution has radically reduced the useful life of physical capital, machines and computers. Consumer goods markets are in constant flux, subject to rapid shifts in demand, from product proliferation in periods of boom to basic value-for-money products in recession. The rapidity of these shifts in the finance, capital and consumer goods markets has penetrated deep into everyone's economic life and they have brought with them equally rapid shifts in the competitive standing of countries, regions and companies.

In contrast, the labour market – which includes the way we prepare people for work, generate skills, set pay rates and retrain the unemployed – has moved only slowly. Schools have not produced enough employable school leavers, government has not done enough to match the unemployed to potential jobs, and the market has not found a way to link the huge array of unmet needs with a vast potential labour force.

The dislocation between these markets is not purely economic. It reflects a cultural and political imbalance. The financial markets are awash with information and analysis, measuring minute movements in financial assets. Consumers have a plethora of information and advice on what to buy, ranging from high impact advertisements to more objective advice from bodies like the Consumers Association and consumers magazines. In contrast the labour market is malnourished. There are more television programmes and magazines devoted to food and drink than there are to work and jobs. For most people there is little easily available information about the quality of employers, about training and education or likely career opportunities in five or ten years time. We are well abreast of the latest developments in the currency markets, fashions for clothes and cars, but often quite clueless about technologies which will soon revolutionise – and perhaps abolish – our jobs.

'If the old, Keynesian way to tackle unemployment was to dig holes, the modern way is to fill brains and release potential'

Nor has much been done to create a public infrastructure to support the labour market. Encouraging lifelong learning remains a pious aspiration with little serious policy backing. And while deregulation has encouraged millions of women to enter the labour market, there has not been a parallel commitment to providing the support they and their partners need—above all, good provision of childcare and education. In Denmark 80% of women aged 20–39 work, regardless of whether they have children. The UK, by contrast, has the highest rate of work for women with no children, over 90%, but a much lower rate (50%) for those with children.

The cultural imbalance between consumption and work reflects a shift in values and the standing of the institutions which impart them. The 1980s elevated the satisfaction of consumerism above the value of honest work. The traditional institutions of work – the trade unions, and in a different way the professions – were humbled, in part through their own inability to change. Meanwhile the power of groups based in other markets – particularly the financial markets – grew enormously. Governments which used to fear the power of trade unions now run scared of foreign exchange dealers. Economic debate focuses on the politics of the exchange rate. The fate of the millions out of work attracts only a guilty conspiracy of silence, broken by occasional bouts of hand-wringing.

The centrality of work

Although the customer may be king at the supermarket, today's citizens are often still treated as disposable commodities at the workplace, where they are caught up in repeated waves of technological and organisational change. The costs are both psychological and economic. Job stress is thought to cost the UK up to 10% of GDP annually, through sickness, poor productivity, staff turnover and premature death. We lose more days to illness than any other EU countries (bar one), while working longer average hours than any other.

These figures should serve as a warning. For the vast majority of people work remains a far more central part of their lives than consumption, occupying half of all waking hours on a typical day. Compared to consumption, work is a more important source of satisfaction⁷, learning and socialisation and a better creator of meaning and purpose.⁸ But more in Britain do mindless, repetitive work than in comparable countries, and fewer workers in Britain feel that their job is of value to society than in other societies.⁹ Much socially vital work is undervalued, in terms of both money and status. And far too few people have made the transition from simply doing jobs to developing their talents in a career.

The conclusion to be drawn from these developments is clear. Chronic unemployment is particularly acute for groups made vulnerable by their lack of flexible transferable skills. But it is only the bleakest manifestation of a wider problem: work is becoming ever more insecure, demanding and pressurised for anyone exposed to competitive markets shaped by technological change.

The consequences for policy are equally clear. The full employment policies of the 1940s were part of a much larger programme of reform which embraced education and the welfare state, for those in and out of work. Policy today must be equally ambitious. It must pull in tax and benefits, as well as education and families, the needs of the employed and the unemployed. It will only succeed as part of a raft of measures to ease the central tension in our society: that despite work's increasing insecurity, it is ever more central to our lives. It is to these measures that we now turn, setting out the seven main areas where change is needed.

1. Serious learning

The economic base of our society is ever less embodied in buildings and machines and ever more in people: in what the Japanese call the 'gold in peoples heads'. A profound change is underway in the asset base for our economies. Alongside financial capital, the most important assets in the modern economy are knowledge and skills, underpinned by culture and values.

This change in the nature of economies has underway for a long time. It has been estimated that the amount of labour (and raw material) needed for an incremental unit of output in manufacturing has been declining at a compound rate of 1% a year since 1900. By contrast, the incremental amount of knowledge labour and information needed for each incremental unit of GNP has been going up at 1% compound.¹⁰

Those societies which invest effectively in these will be better placed to secure high skilled, high income jobs in the international economy. They will also be more secure in a world where security depends more on brainpower than on weapons (one reason why the UK should worry that it has the highest ratio of military spending to spending on education of any OECD nation). And brainpower is only partly a matter of qualifications. Peoples' confidence and capacity to shape change are just as important.

Investment in the 'hard' infrastructure of transport and telecommunications like will generate some jobs, but probably fewer than investment in less tangible, 'softer' assets like organisational innovations or education. All the institutions involved in generating those soft assets – families and schools, companies and the state, the tax system and the training system – will have to adapt and to learn new priorities. These, in outline, are some of them:

- First is finance, a necessary though far from sufficient condition. In the 1980s many nations believed that stable and independent control over money would provide the key to prosperity. Today, skills and knowledge have become the currency of the modern economy. The value of this currency needs constant care and long-term dedication. As with money, this may require some insulation from day-to-day politics. This might be done under the aegis of an arms length board for education policy, insulated from short-term pressure but with lines of accountability to parliament, as is the case with independent central banks. It might be achieved with a budget rule for education spending to ensure that it rises and is then maintained as a share of GNP as the average of the top three education spending nations in the world. It might be best secured through the use of local and national taxes earmarked for education. What is important is to signal and embed a much greater commitment to learning and human capital formation.

'Chronic unemployment is only the bleakest manifestation of a wider problem: work is becoming ever more insecure, demanding and pressurised for anyone exposed to competitive markets shaped by technological change'

- Such commitment has a corollary: that we need to reassess the role and purpose of schools and other institutions that spend public money. Education standards need to be raised, especially for the vast majority of middle-achieving children under 16. To do this we need to rethink the purpose of schools. In tandem with stressing standards and league tables, schools need to develop as more flexible and porous institutions. The key skill the modern economy demands is the ability to understand and shape change. Schools should become more individualised to promote excellence in different forms of intelligence, whether mathematical, linguistic, musical or interpersonal. The enhancement of those forms of intelligence needs to be linked to different types of work experience, with much more systematic links between schools and employers. Larger companies should have an obligation to involve themselves in school programmes, by providing staff on secondment as teachers and counsellors or providing regular placements for pupils. Above all, schools should teach children not just about bodies of knowledge, but also about how to learn and adapt.
- Next we must radically rethink the task of the teacher whose role as imparters of knowledge is losing its centrality when facts (and learning tools) can be more easily accessed by computers. Instead they need to become ever more like tutors or brokers matching childrens' competences to courses, and helping them prepare for a rapidly changing labour market. Only with this transformation of the teacher's role can there be a long term enhancement of the pay, conditions and status of teachers and trainers, whose public esteem has fallen to an appalling low. We need more people involved in delivering education but probably fewer yet far better paid teachers than we have now.¹¹
- We also need to create much better screening and selection mechanisms to match the diverse array of intelligences and competences to the different types of useful work in the private, public and voluntary sectors. A careers or jobs advisory service should be one of the highest status institutions in the land. Instead, the careers service is poorly run by the local education authorities, and is now suffering an inept attempt at privatisation. We should develop a system of mentoring and coaching, so that children spend time with a mentor throughout their schooling. Mentors would then help them deal with employment and further education institutions outside the school.
- We need to rethink the sources of social equity. The UK spends less than half as much on an unemployed trainee as on an undergraduate. Sweden by contrast spends the same. This is one reason why its income distribution – like the East Asian societies and Germany – is much more equal than the UK. We must shift spending away from tertiary education (which currently spends 75% more per capita than primary and secondary education, and much of which could be financed through loans repaid from future incomes) to universal pre-16 schooling, probably starting at the age of 3.¹²

- Britain's problem is not that its private education sector is too large but that it is too small. Like Japan, Singapore or Korea, we need to create a much more active, broadly-spread education market outside school, with private tutors and small companies providing local education services, especially in the hours between the end of the school day and the end of the working day for many parents. Private investment in education should become the norm, not the exception. The state could provide collateral for career development and education loans, which families or individuals could take out to spend on private tuition outside school or work, as already happens on a modest scale in many countries.
- New technology – interactive, multi-media technologies linking computers and televisions can deliver huge improvements in learning to the school, the workplace and the home. As a result the organisation of, and provision of access to, these multi-media networks is becoming a central public policy issue. The Clinton government's recent reforms to foster universal access both through home and school, provide an important model for a rounded education policy that does not stop at the school gate.

These are just a few of the prerequisites for developing the economic base for the 21st century. We might have added the radical transformation of the universities and support for all those institutions that have taken over much of their role in developing and disseminating knowledge and ideas.¹³ We might have stressed school's evolving role as a community hub, not only for parents but also for the unemployed, single parents and the elderly. These too will be essential to securing our economic base in the future. For if the old, Keynesian way to tackle unemployment was to dig holes, the modern way is to fill brains and release potential.

2. Wise taxes

Most of the responsibility for improving education falls upon national or local government, or their agents in the form of Training and Enterprise councils. But much will also depend upon employers, individuals and families taking more responsibility for their own learning. Encouraging this will mean tax changes.

In the 1950s and 1960s, the role of fiscal policy was to deliver enough demand to ensure full employment. In the 1980s the focus was on tax cuts to create incentives for the well-paid. Apart from periodic proposals for subsidising the wages of unskilled workers there has been little debate about using the tax system as a tool to make the labour market more responsive. Something far more radical is now required.

The tax system should be overhauled, shifting its bias towards human capital creation. Tax concessions for property should be given instead to brain power – providing clear incentives for those taking time out of work to gain new qualifications in accredited institutions. Incentives currently targeted at physical machinery should be redirected to companies which are certified as good trainers and educators. Public purchasing could be skewed towards companies which meet basic standards of employee development, perhaps defined in a BSI standard.

Although there is a strong case for increasing the national insurance principle – that is using the tax system to help people save collectively for periods without work through hypothecation – over the medium term government should aim to reduce payroll taxes that act as a disincentive to job creation. This can be achieved through making national insurance less regressive and through a longer-term strategy to reduce income tax. Tax and accounting rules should also be reformed to encourage training expenditure, through a combination of requirements to spend (perhaps through a levy/rebate system) and tax credits for expenditure. These will work best where there is some employee influence to ensure that resources are committed to employability as well as performance of existing jobs. Institutional shareholders, too, should be pushing for much better reporting of the true long-term sources of future value – the brain power of employees.

‘In the future the main source of security will be an individual’s employability rather than their employment by a large, hierarchial employer or protection by a trade union’

Tax increases on consumption, property and environmentally damaging activities should allow sustained tax cuts on jobs without a deterioration in the public finances. In the 1980s taxes were cut to promote consumption, undermining public finances. In the 1990s we must cut taxes to promote employment growth while protecting the public finance through raising other taxes.

3. Mass enterprise

Sweeping reforms in learning will provide the base for a strong economy. But this alone will not create new jobs. That will require matching workers’ abilities to the wants and needs of consumers.

The OECD estimates that one in ten jobs ‘dies’ each year. Even standing still requires massive job creation. The past record suggests that this will not be easy, particularly in Europe. The two great generators of jobs after the second world war – the expanding public sector and large companies – will not provide job growth in the future. Public sector’s expansion is constrained by political limits on public spending and taxation. At the same time most large companies are shrinking their work-forces. The number of people employed by the UK’s top 1000 companies fell sharply from 8.6m in 1992 to just over 7m in 1993.

Our economic culture is moving towards more flexible, smaller-scale forms of employment. This is only partly due to the decline in employment in large plants and large firms. There is also a cultural change underway. Nearly half of young people want to be self-employed. Much of the hostility to wealth creation which used to characterise Britain’s elite has diminished.

In this environment, job creation doesn’t come from big firms branching out but from small firms reaching up. Maximising this entrepreneurial capacity is a top priority. For without a fertile enterprise culture it will simply not be possible either to create anything like enough jobs to replace those disappearing elsewhere or to meet the aspirations of millions more, whether women or the semi-retired, who want to have some paid work.

One element of such a culture is a fairly loose frame-work of regulations, making it easy to create firms and to take on staff. Any moves to re-regulate the economy should be viewed with great caution. Another element is a well-functioning market for finance for small firms, run by people able to judge competences and with good understanding of the nature of business and technology; over-centralised systems of appraisal, of the kind that have become the norm in many banks, do not work well in this respect.

In addition to creating new firms, we also need to help businesses to grow. Without that support an enterprise culture can be seriously undermined by a bad recession. Some shakeouts are inevitable and desirable. But the UK has a particularly bad record of unnecessary business destruction, primarily because of bad macroeconomic management. Another well-known factor is that far too much small firm finance is in the form of overdrafts (58% of debt compared to 14% in Germany), and too little in the form of long-term loans or equity: these exacerbate the vulnerability of smaller firms to shocks and down-turns. The government and the banks should now start discussing the measures that could be taken to prevent future downturns leading to shake outs of small companies beyond the normal vicissitudes of a competitive market.

A longer-term, more equity-based relationship between financial institutions and small firms would obviously help. But much could be achieved by giving greater autonomy and financial clout to more accountable TECs, perhaps based on overt membership by local companies and merger with Chambers of Commerce, to help small companies grow. Reformed TECs could be empowered to create holding companies, backed by a mixture of private and public finance, which could become safe havens for small companies during periods of recession. The addition of public finance would be designed to prevent the banks foreclosing on companies with a promising future.

Those out of work should also be trained more effectively to create jobs. This can be particularly helpful for ethnic minorities and women, who are already at the forefront of new firm creation as they try to escape the discriminatory hierarchies of larger firms. Entrepreneurship has become a skill vital to everyone. The image of the entrepreneur as a young, well-dressed male, with slicked-back hair and a mobile phone, is deeply misleading. All of us at some point in our lives may be dependent on a small company that we set up or work for and increasingly self-employment is becoming an option for the old and retired as well as the young. They too will increasingly need access to specialised venture capital, community development banks and loan funds.

4. Secure flexibility

Few expect the work environment of the next century to be anything other than insecure, fast-moving and unpredictable. As Rosabeth Moss Kanter points out on page 47, in the future the main source of security will be an individual's employability rather than their employment by a large, hierarchical employer or protection by a trade union.

At the workplace this will require a major shift in attitudes. Moss Kanter argues that employers should now be offering a new social contract based on the concept of employability. This will mean recruiting people with potential, not just the narrow skills to fill existing slots; providing abundant learning opportunities at work from lunchtime seminars to formal training; rotating jobs and work experiences; measuring performance in ways beyond numbers, and sharing data to allow learning by doing; recongnising team and individual achievements, to build external reputations and tangible indicators of value; setting up educational sabbaticals and external internships; finding job opportunities in the firm's network of suppliers, customers and venture partners; and, crucially, ensuring full pension portability.¹⁴ For trade unions it implies a much greater commitment to helping people become employable, rather than protecting them in existing jobs.

But security will also depend on a larger, public-sponsored framework of insurance to provide income and training during periods without work, one which is likely to be turned to by a far larger proportion of the population in the future than in the decades after Beveridge. To balance a much faster moving and more flexible economy we must have greater certainty and diversity in the structures of public support.

‘The fundamental issue is political, or moral, rather than economic. How much are people prepared to share, and how effective are the means for them to do so?’

All benefits systems share many aims, such as reducing poverty, protecting children or increasing equity. But in a world where good jobs are particularly sought after one aim should be to make it easy for people to move in and out of work, and to acquire new skills when an old job disappears. A range of policies is now needed.

One priority is to help part-timers. With the growth of part-time work among women (and men) who work as well as care for school-age children, we need to provide a more imaginative mix of social security benefits and income from work by relaxing earnings rules for claimants who are also primary carers.

A second task is to help women into work. To reduce competition for low skill jobs it should be made easier for educated women to take up more skilled jobs. One obstacle they face is inflexible employment patterns within companies which mitigate against skilled part-time work. As a result 60% of male graduates do managerial jobs, while 60% of women graduates do clerical and administrative jobs, rising to 67% among part-time jobs. Providing single parents with state subsidy for child care support, combined with requiring employers to offer part-time or jobs sharing opportunities in current posts to people with primary child care responsibilities, would be first steps to make it easier for women to take up skilled jobs.

A third task is to help the long-term unemployed. An employment promotion bonus should be paid to employers for a year if they take on a long-term unemployed person, combined with loans for courses which the recipient repays if they earn an above average income. Public and private finance could be combined to provide training and education loans and guarantees (perhaps through the Inland Revenue or the Banks) to help people through periods of insecurity while they are out of work. At present the Inland Revenue simply collects money; it could become a much more rounded institution to offer services, such as loan guarantees secured on future income designed to improve employability.

A fourth, for families which have slipped out of work, is a year-long family start package designed to move entire families onto a better mix of work income, training and benefits. This could have the following ingredients: a learnfare element linking entitlement to higher benefits to training; a marginal employment subsidy allowing family members to combine income from work with normal benefits, payable for a year; a more flexible approach to benefit, payable for a year; a more flexible approach to benefit entitlement and hours of work, allowing work hours to be shared among family members thereby reducing the risk of benefits being withdrawn. Families without work are the most disadvantaged in the labour market. We need to strengthen families – adults caring for children – as educational and cultural units through a family employment policy.

Extending eligibility

There is great confusion about criteria of eligibility for benefits. We believe that although eligibility should not depend solely on willingness to work in the formal economy, those who wish to receive support from common funds should also be prepared to do socially valuable work. In a society built around work, a balancing of rights and responsibilities is essential.

We propose two key extensions

Firstly, any government really serious about families and the quality of parenting should through benefits offer proper recompense to the parent taking primary full-time responsibility for raising children.¹⁵ Secondly, in addition to job seekers in the formal economy, benefits should also support people doing genuinely useful work in the social or community economy.

These two shifts have far-reaching implications; they could not be implemented rapidly. But a clear recognition that societies depend on work done in the home or the community as well as jobs done in the formal economy is long overdue. So too is an acknowledgement that while entitlement to benefits depends upon making a contribution to society, that in turn requires that it is easy for the unemployed to contribute.

5. Ways to share

The measures already discussed would do much to cut unemployment well below current levels, as well as improving the quality of work. But they would still leave a gap, a significant pool of people who would like to work but cannot.

Recent history suggests that the only societies that have achieved full employment for long periods have deliberately fostered a sector of job creation and absorption. Typically, the first part of the economy has been outward looking, competitive and efficient, based on world class firms. The second part has been less efficient, effectively subsidised by the first, and able to absorb labour when necessary.

The best examples are Scandinavia and Japan. In countries like Sweden, government acted as the second economy, rapidly expanding employment in the 1960s and 1970s to absorb jobs displaced from manufacturing. In Japan, the second economy has been in agriculture and services, both of which are protected, highly labour intensive and relatively inefficient.

Each system had a sharing mechanism: a means for those in the first economy working for successful firms like Ericsson and Mitsubishi, Toyota and Volvo, to pay for those in the second economy. In Sweden they paid through taxes and in Japan they pay through higher prices for food and services. In other countries other mechanisms achieve the same effects: for example in Korea the big industrial chaebols, not government, take responsibility for retraining and redeploying their employees.

These examples show that the level of employment is largely a consequence of how a society is organised: whether the open competitive sector of the economy is large enough, and whether those working in it are willing to make sacrifices to support those in the more protected areas of work.

The conventional wisdom that governments cannot create jobs misses the point: given the resources any government can create useful jobs. The huge increases in public employment in fields like community care, and the government's forecasts even now of a further 8% rise in public sector employment by the year 2000, confirm that a long-term trend is continuing. The barrier to public job creation is the level of taxation required to pay for it.

Tax in one form or another is likely to be the way to transfer resources in the absence of the kinds of very powerful conglomerates or regulatory frameworks that do it elsewhere. But given the strong resistance to tax increases it seems likely that new transfer mechanisms will be required to provide for the education or employment of those that otherwise would not be employed.

‘Society is already responding to unemployment by promoting work in the cash-in-hand, localised service economy’

The existing pooled tax system is too monolithic, too opaque and too at odds with the rest of our culture to make clear our choices and to make good the connections we need to transfer resources efficiently.¹⁶

This task of creating sharing mechanisms, linking different parts of society, depends on political leadership. In a society such as modern Britain, where traditional sources of hierarchy and solidarity have declined, and with weak and inarticulate political leadership, this will not be easy. But we can see some of the elements that it will require:

First, electorates must be offered credible choices between spending on unemployment benefits and spending on job creation or between spending to cope with the costs of social fragmentation (through higher policing or security) and spending to give those out of work a chance to participate in useful, remunerated work.

Second, partly leaderships must be open to the potential of hypothecated national taxes, levied with cross-party support, and politically separated from general tax and spending issues, to provide resources for community service, training and other initiatives. The costs and options need to be made much more transparent.

Third, local councils must have much greater discretion over tax, so that a town could opt to finance a work creation programme and benefit from some of the reduction in unemployment costs to the Treasury, currently estimated at £8,000 per person per year. Subject to tight accountability, other agencies such as TECs could also be empowered to seek funding for job creation schemes from the citizens in their area.

Fourth, we need flexible systems to encourage work-sharing within companies and public sector bodies, assisted by linking work-sharing schemes with entitlements to learn and use other public facilities during the working day.

Fifth, charities and private firms must get more involved in creating jobs, with government as a purchaser rather than a provider, to help legitimate schemes of this kind.

The fundamental issue is political, or moral, rather than economic. How much are people prepared to share, and how effective are the means for them to do so? Without addressing the related questions of political leadership, shared culture and structures of redistribution, no programme for employment is complete.

6. Twin economies

These ideas are mainly about money. But they also suggest an important evolution in the idea of job creation. In the 1990s and beyond, governments’ role should no longer be conceived in the model of the 1930s, as an orchestrator of great armies of the unemployed. Instead it should play a more subtle role— managing the ecology of different types of work and economy to help create work for people excluded from the formal economy.¹⁷ Society is already responding to unemployment in this way, by promoting work in the cash-in-hand, localised service economy. The development of this sub-sector should now become an explicit aim of government policy.

The reason is the loss of the capacity to absorb labour. In past eras labour displaced by productivity rises in one sector was taken up in others. Improvements in agricultural productivity led to jobs moving to manufacturing. Productivity in private manufacturing in the 20th century saw workers being displaced into services, partly through the growth of the public sector. At other times the armed forces and the construction industry have played a vital role in soaking up labour. Gender inequality has been another traditional means of enforcing sacrifices on one part of the population to benefit another. Women have often been excluded or removed from the labour market to curtail unemployment. In Japan, one reason why employment is relatively stable is that women bear the brunt of downturns. This is no longer an option in developed Western societies, in part because women will not accept such a role and in part because many employers are now deeply dependent on women's part-time-work.

The economy's lack of a sector which can perform this task of absorbing labour displaced from the internationally competitive sectors highlights a new purpose for public policy: to synthesise a new absorptive sector. Such a sector is being created de facto by displaced workers falling into long term unemployment, inactivity and the unregulated, cash-in-hand economy. We argue that public policy should aim to go further, fostering a range of different types of economic sphere to take on the role which in other societies is performed by the state, the family and the service sector.

We envisage a policy which would develop several overlapping sectors which would be relatively labour intensive, with slower technical change than the internationally competitive sectors, and made up of a string of very localised markets. They would require novel approaches to the exchange of labour for services, measures of the value of those services and methods of paying for them. In addition these new areas of activity would need to be connected with the lives of those in the formal economy to avoid them becoming simply a ghetto of special schemes for the unemployed.

How could such a sector be synthesised? We propose three very different approaches

One, is the deliberate creation of a parallel, protected economy which would be separate from the fully monetised market economy. This would involve the provision and exchange of services – particularly domestic services – with payment in kind or through special vouchers which could be converted into hard currency or used to pay for other services. These would be offered as an alternative to cash to the unemployed and other benefits recipients, and to public institutions like schools and hospitals. They would be used to purchase informal services and underused public assets such as offpeak travel. The goal would be to create a parallel economy protected from the uncertainties generated by the international market, building on the many experiences of parallel economies worldwide. These include the economies organised with in large companies, the money systems devised in places as diverse as the towns of 18th century northern England and interwar Austria, and the more than 200 Lets (local exchange) schemes currently functioning around the UK. A fuller explanation of how a twin economy could work is provided on page 89.

Two, a range of more imaginative policies to promote the cash-in-hand economy as a distinct and vital sector of the economy. Some parts of this economy are criminal and exploitative: the growth of drugs and prostitution for example. But in general the development of the cash-in-hand economy is a sign of how society and the market are coping with change. Rather than attempt to restrict or curtail it, the government should be attempting to manage its development. Virtually no household in the economy is entirely insulated from the cash-in-hand economy, whether through small acts of tax avoidance or payment in cash for services. Its scale is substantial, particularly domestic services, spending on which rose 5 times in the last decade to over £3 bn. There are now twice as many nannies as carworkers in the UK.

‘Migration, particularly from areas like Hong Kong, and openness to diverse cultures of enterprise and education could do much to strengthen the cultural asset base of an enterprise economy’

While unemployment remains high, the cash-in-hand economy needs to be promoted as an alternative to theft and burglary. Several simple ideas are worth considering such as raising further the thresholds for VAT payments, relaxing corporate registration requirements for small businesses and allowing people to register as cash-in-hand workers. In return they would get a much higher tax allowance for cash-in-hand earnings, but they would lose all entitlement for benefits and face a much higher marginal tax rate if they were found to be earning more than the limit.

Three, a sphere of community service, organised not as a sink for the long-term unemployed but as an activity in which all would participate at various times in their lives. This would have three main components.

First, participation in it would become part of general compulsory education, providing a much broader range of experiences, and greater social mixing than existing secondary education. Its possibilities are set out in the article by John Mohan in this issue, and by Amitai Etzioni in *Demos Quarterly*1.

Second, it would provide an option for those out of work to receive payment above ordinary benefit levels for full or part-time work carried out for charities and other voluntary organisations.

Third, it would become a requirement for all in work to contribute a minimum of two days a year to activities organised in this sphere. These would be funded half by the employee, and half by the employer as a tax paid in time. They could be accumulated over periods up to 5 years.

Such a sphere of community service would not be operated by government, nor by the military who have little interest in such schemes. Instead government would provide a framework for others to bid to run programmes, whether universities, charities or private firms. It would become a purchaser of activities rather than a provider. The virtues of such a sphere would be many: it would provide a pool of labour, both unskilled and highly skilled, to direct to common social problems. It would provide a common interest, removing the stigma that attaches to many community service initiatives. And it would link the idea of individual sovereignty over work with a sense of membership in a society.

7. Working ethics

Attitudes to work have gone through enormous changes. Tilgher described them in his classic book *Work: what it has meant to man through the ages*: 'to the Greeks work was a curse and nothing else. Their name for it has the same root as the Latin sorrow ... coloured with the sense of a heavy burdensome task which we feel in the words fatigue, travail ... [By contrast] it is in work that the man of capitalist civilisation finds his nobility and worth'. This, the importance of work to human development, used to be well understood by the economists. Adam Smith wrote that the 'understandings of the greater part of men are necessarily formed by their ordinary employments' and that the person engaged in repetitive industrial work 'becomes ... stupid and ignorant'. Alfred Marshall too wrote that people's characters are formed by how they use their faculties at work. But their modern counterparts have lost interest, even as quality has become a central concern in so many other areas of life. The result has been a failure to understand the importance of the cultures and ethics of work.

For just as the once dominant forms of work are declining so are the cultures and values which went with them. The public sector's ethic of public service is embattled, as is the voluntary sector's ethic of care. The values of traditional skilled manual work, which were embedded in craft unions and apprenticeship schemes are dwindling. Even the professional ethics of doctors, accountants and lawyers are less confident than they were, more a defence of privileges than a code of behaviour and a sense of social responsibility.

The decline of these work ethics has had a tremendous destabilising effect. They helped to define who someone was both at work and in society.

But those settled cultures are no longer tenable. As a result of their decline much of our culture seems rootless and individualised, feeble and ephemeral-the high-achieving ethic of the well paid, the job skipping cultures of computer programmers, the money culture of the financial markets. None of these individualised achievement cultures matches the comprehensive old work cultures which embraced obligation and responsibility to others as well as personal achievement.

That is why we now need to cultivate new working ethics which bring together personal advancement and social responsibility, sovereignty and security.

There are two keys: revitalising and strengthening the notion of sovereignty as self-reliance; and developing more flexible, diverse and malleable ways to insure against the periods of insecurity which are now inevitable parts of everyone's lives.

Sovereignty

The ideal of individual sovereignty and autonomy is deeply embedded within our culture. Yet it is increasingly confined to consumption and leisure. The idea that work is a vital domain for individual action and self-expression has been virtually written off. Neither of the dominant political traditions has much to say on the subject. The right talks of the authority of management, the sovereignty of the consumer and the ultimate power of shareholders. The labour movement mirrors this, its approach to work set by the trade unions defensive concerns to prevent abuses and exploitation.

What we need now is a more rounded sense of sovereignty based on self-reliance at work. There will no single work ethic in future, just as there were a vast array of work cultures in the past. But it is likely that the emerging cultures of work will combine four key elements:

First, work, especially for the unskilled, will have to borrow increasingly from consumption and leisure as its model, in part because of dwindling respect for hierarchy and authority. People are spending more time at work; they want it to be challenging and interesting, enlivening and motivating.

Second, self-employment and small company employment will form the environment. Even in large organisations people will be working in smaller, less hierarchical groups, where they will take more responsibility for the outcome of their work as well as being judged more directly on their performance. People brought up to expect and respect protective hierarchies will struggle; people able to move laterally and work with others will prosper.

Third, where the old work cultures promised a predictable progress up an occupational ladder, the new work cultures must equip people to embrace uncertainty, switching careers and jobs, companies and locations. If the 20th century model has been employment in the large enterprise or government department, the 21st century model may be closer to self-employment for all: self-development through a range of different jobs and organisations.

Fourth, all economic activities are ever more being modelled on services rather than manufacturing, software rather than hardware. Increasingly people will not see the expression of their work in a physical product but in intangibles, such as consumer satisfaction. As a result the most useful models of work will change; the caring ethic, still associated with women's work at home and in services will be more relevant to the future than the physical strength and engineering skills traditionally associated with men.

'The dominant solutions on offer remain primarily economic. But unemployment is a multidimensional problem that cannot be solved with one-dimensional policies'

Security

This new culture of work based on self-reliance and service needs to be combined with a new framework for security. Security will increasingly depend on an individual's aptitudes and employability, their confidence and competence to move with change. The foundation for that must be greater self-reliance. But that will not be enough. People living with greater uncertainty need new measures of support and a new sense of membership in a larger society.

Industrialised democracies have tended to reduce this to the bare bones of citizenship: participating in elections, paying taxes and contracting to others the task of making society work. We need to develop a richer sense of membership – partly through more appropriate scales of engagement, partly through new structures of belonging at the workplace but also, and crucially, through involvement in common forms of work such as community service. We have already described some of the more diverse forms of communal contribution, support and insurance that will be needed, and the historical fact that all fully employed societies have been made possible only by a powerful sense of membership and mutual obligation. That needs to be recreated in the future based on the recognition that all of us share a common interest born from our common exposure to change and insecurity.

Above all, what we need is a new balance. On the one hand self-reliance – and the understanding that security depends on our own skills and competences more than the benevolence of a paternal state or employer. On the other, a reinvigorated sense of responsibility and interconnection with others.

Against fatalism

We have set out seven areas of far-reaching reform. All share the goal of increasing rather than decreasing the numbers of people engaged in paid work. All are about the quality of work as well as its quantity. And all are about shifting our attention from the familiar macro-economic indicators to the values on which all successful economies rest.

We have made the case for reforming education to make people employable; for making it easy to create new firms and new jobs; for taxes that stop discriminating against jobs; for rethinking security away from the workplace and towards the individual; for a political commitment to cope with those who nevertheless remain out of work; for new absorptive sectors; and, finally, to bind them all together, for new ethics, based on work and human capital, and linked to common goals and membership in a larger society. If all these things could be done it would become evident that there is nothing natural about unemployment—that it is just an effect of the failure of institutions to change fast enough to link peoples energies and potential to the vast array of wants and needs.

We harbour no illusions that these policies will be easy to implement. There are massive institutional and political barriers. Their success will also depend on more familiar facets of economic management: avoiding swings from boom to recession, shifting resources towards investment and maintaining a firm grip on inflation.

These seven elements of employment policy are also far from exhaustive. They suggest the beginnings of a debate not its conclusion. For the creation of a learning society must entail active learning from others' experiences around the world. The limited and confused debate about the European social charter, for example, should be just the start of a debate about how different countries' approaches to employment and economic security should be shaped. Continental European economies are moving away from highly regulated labour markets. Yet we still have much to learn from their approaches to training and the novelty of many of their approaches to job creation. The dynamic of the US labour market, partly fostered by migration, should also be studied, as too should East Asian investment in education and success in finding ways to match flexibility with social order.

Nations in relative decline have no choice but to import ideas, firms and people from elsewhere. Migration, particularly from areas like Hong Kong, and openness to diverse cultures of enterprise and education could do much to strengthen the cultural asset base of an enterprise economy. But we also need other cultural shifts. We need to refashion the male culture of unskilled work which disables so many men from taking up caring service sector jobs. And we need a much more egalitarian approach to gender and work that will enable women to take jobs and down the occupational alladder throughout their working lives.

We conclude with two thoughts. In 10 or 20 years time will it still be comprehensible that societies enjoying unprecedented wealth should have managed to convince themselves that they had no room for manoeuvre on employment? We think not. Instead historians will surely say that although huge shifts were indeed underway, they did not differ in kind from shifts which had taken place in the past and which some societies had succeeded in managing without trauma.

And will the political justification often given for policy paralysis remain relevant for very long? Although electorates have consistently put unemployment at the top of their agenda, the cynical view is that this means little: it is an issue people feel they should care about. This might have made sense a few years ago when unemployment was confined to one part of society. But today, when so many people of all classes have direct personal and family experiences of unemployment and of its impact on crime, it is more likely that the public has simply not been offered credible alternatives to the failed policies produced by the main political traditions.

This last point is really the key. The dominant solutions on offer remain primarily economic. But unemployment is a multidimensional problem that cannot be solved with one-dimensional policies. One of those other dimensions is culture: the willingness to take risks, to be self-reliant, to adapt and to learn. Another is politics: its quality of leadership, its legitimacy and its ability to unite disparate groups in a common purpose.

At present our political discourse is being corrupted by the claim that societies can prosper while accommodating persistent mass unemployment, without growing social fragmentation and much higher spending on policing, anti-crime measures, prisons and poverty. This deception is no longer sustainable. From now on any serious political leadership, which offers to make Britain content, prosperous and stable, must put combatting unemployment at the top of its agenda.

The views represented in these articles are the authors' and do not represent Demos' institutional viewpoint.

Notes

1. Anyone still in any doubt about the connections between crime and unemployment should read *Crime and Unemployment* by David Dickinson of the Dept of Applied Economics at Cambridge which provides a detailed assessment of the evidence and concludes that there is 'a close association between unemployment and offending rates of young men ...'
2. For these and other figures we are indebted to John Wells of Cambridge University.
3. Department of Employment, 1993
4. Many have simply been encouraged to go off the unemployment register and onto invalidity benefits. Since 1978/9 the numbers on invalidity benefit have risen from 600,000 to 1.6m.
5. In a Henley Centre Survey in 1992 the two groups least secure in their jobs represented both ends of the spectrum; professionals in management and government, and workers in manufacturing.
6. There are of course parallel barriers in the home. The average man working full-time spends about 15 hours a week less than his female counterpart on essential activities such as housework, shopping and childcare. Mintel, 1994.
7. According to a 1994 Mintel survey 4 in 10 men and women say that how well they do in their job is central self-esteem. An even higher proportion would carry on working even if they did not need the money.
8. For an extensive survey of analyses of the work experience and learning see Robert Lane's magisterial *The Market Experience* (Cambridge University Press, 1991).
9. This is evidenced in the recent *International Social Attitudes Survey*, SCPR 1993.
10. Peter Drucker in *Aspen Quarterly*, winter 1994.
11. See Howard Gardner 'Opening Minds' in *Demos quarterly 1*; and *Multiple intelligences* (Basic Books, New York, 1993).
12. If schooling is not improved it may be too late. What is in effect remedial training in low level vocational qualifications for those over 16 brings very poor returns. Research by the LSE team in *Paying for Learning and Learning should Pay*, published in 1992 and 1993 shows this clearly.
13. Many of these ideas are explored in Douglas Hague: *Transforming the Dinosaurs* (Demos, 1993).
14. Adapted from 'The view from the 1990s: how the global economy is reshaping corporate power and careers', afterword to *Men and Women of the Corporation* (1993 edition, Basic Books).
15. Some of the ways in which the valuation of parenting could be improved are set out in Amitai Etzioni, *The Parenting Deficit*, Demos 1993.
16. The more detailed case for reform of taxation and spending mechanisms was made in Geoff Mulgan and Robin Murray, *Reconnecting Taxation*, Demos 1993.
17. A good recent analysis of what this can mean is contained in *From the bottom up: toward a strategy for income and employment generation among the disadvantaged*, Fred O'Regan and Maureen Conway, Aspen Institute, 1993.

The economics of unemployment

Martin Wolf

In 1993, according to last year's World Economic Outlook (WEO) from the International Monetary Fund (IMF), unemployment in industrial countries was expected to surpass 32 m, 3 m more than in 1982, the trough of the previous recession.

The social and economic costs of this are enormous.

Little wonder, then, at the Clinton administration's plans for a jobs summit and little wonder, too, that the European Union, whose overall unemployment rate is projected by the IMF at close to 12% in 1994, is engaged upon its own analysis of the obstacles to employment.

Yet we already know something about both the employment problem and the possible solutions. First, as is emphasised in the WEO, the growth of unemployment since the early 1970s, particularly in the EU, can be explained neither by accelerated productivity growth nor by faster growth of trade with developing countries.

Second, the relationship between the growth of output and employment has varied enormously across the leading industrial countries.

Third, those differences in labour-absorption have, as could be predicted, been inversely related to growth of real wages. Last, differences in the performance of overall employment have not had equivalent effects on the unemployment, still less on the non-employment, of unskilled males.

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The trend growth of labour productivity has fallen from 5 per cent a year in the EC of 30 years ago to a little over 1 per cent a year now. Nevertheless, unemployment has risen almost continuously, from 2 per cent of the EC labour force in 1970. Similarly, the growth of trade with developing countries has been insufficient to explain rising unemployment and deteriorating unskilled male employment. The failure has not been the loss of jobs but the poor capacity of these economies to generate new jobs in place of those that are lost.

Between 1972 and 1992, real gross domestic product rose by 61 per cent in the US, by almost exactly the same proportion in France and Germany, by a little more in Italy, and by a little less in the UK. Yet unemployment rose by 43 per cent in the US, and by very little in France, Germany, Italy and the UK (see chart).

If output growth is the same, while employment growth is very different, increases in real wages will, failing implausibly large shifts in the share of wages in value added, also differ.

Between 1972 and 1992 US average real wages fell by about 10 per cent. Over the same period, French real wages rose by some 76 cent, Italian wages by 68 per cent, British wages by 48 per cent and German wages by 43 per cent. It is not difficult, therefore, to see why Americans voted for a man who promised them more 'good jobs'.

Where the two different patterns seem to give roughly the same unhappy result is for male non-employment. Male non employment has risen almost everywhere.

Unskilled men will not take, or are not offered, the new jobs created in a US-style deregulated labour market, while there are few new jobs of any kind in the more regulated ones.

One response might be for unskilled males to be told firmly that their expectations are unrealistic, with employers neither needing brawn nor offering long-term, full-time employment to the unskilled. Quite a different possibility would be to provide job subsidies specifically for unskilled males.

The best possibility, however, would be to imitate the Japanese. Between 1972 and 1992, Japanese GDP rose by 119 per cent, Japanese employment by 25 per cent and Japanese real wages by 41 per cent, while unemployment remained negligible. The Japanese solution was the highest rate of formation of physical and human capital in the industrial world, combined with a labour market that gave new job opportunities to outsiders and job protection to insiders. This is the only route towards the magic trio of higher output, higher employment and better jobs.

Employability and job security in the 21st century

Rosabeth Moss Kanter

‘If security no longer comes from being employed, it must come from being employable’

The changing shapes and boundaries of business organisations, now familiar to the public, not only affect the work lives of men and women, they also present new issues for companies. To compete effectively in the global economy, business must attract, retain, motivate and utilize effectively the most talented people they can find.

But the job-tenure ideal of the past is colliding with the job-insecurity reality of the present. Institutionally dependent careers are declining. Self-reliant careers as professionals and entrepreneurs are proliferating, increasing the burdens on people. And women are joining men as peers in nearly every corner of the labour market. They bring new issues – inclusion, empowerment, accommodation to family needs – at a time when companies are struggling to stay afloat. The bond between person and company is cracking at every seam. Something has to be done to reconstitute it.

Copyright © 1993 by Rosabeth Moss Kanter, Harvard Business School. This article is drawn from Professor Kanter’s comments at the recent joint Commerce/Labor Department summit on the Future of the American Workplace. Some of this information is based on the afterword to *Men and Women of the Corporation* (Basic Books) and is also drawn from *When Giants Learn to Dance: Mastering the Challenges of Strategy, Management and Careers in the 1990s* (Simson and Schuster).

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Mobility in motion

In the second half of the 20th century, large employers were expected to provide – and guarantee – jobs, benefits and upward mobility. Long-term employment has long been considered a central component of high-commitment, high-productivity work systems. And corporate entitlements, from health benefits to pensions, were based on an assumption of longevity, especially as US employers were expected to offer benefits provided by governments in other countries. Now recessionary pressures and sweeping industrial transformations are forcing large companies to ‘downsize’ – a euphemism that masks the human turmoil involved.

The US has been fortunate in not depending solely on large enterprises. America has a vibrant entrepreneurial economy, a small business sector that creates a higher proportion of jobs than are similarly created in European nations. But employment in smaller organisations is inherently less secure, especially given the high failure rate of new small businesses. Such jobs often come without the benefits and safeguards mandated for companies with more than 50 employees.

Those counting on entrepreneurs to pull the country out of the economic doldrums would do well to remember that an entrepreneurial economy is full of churn and displacement. The fate of small companies is often linked to the fate of big ones which they supply and service.

As business globalises, local loyalties decline. Geographic mobility as well as moves between companies become facts of life. Global managers need to feel comfortable moving operations – and themselves – anywhere. Migrant managers' soon may become as common as migrant workers. And the decisions made by migrant managers often dislocate stay-put workers.

The flexibility trap

The flexibility for companies to restructure can hurt people. But stability can hurt them even more in the long run by depressing economies. According to the French economist Robert Boyer, job security was associated with higher productivity (though not with product innovations) in industrialized countries through the 1970s. But in the 1980s, this connection disappeared.

Structural changes in industries contribute to a mismatch between people and jobs. In many parts of the world, labour shortages and labour surpluses coexist. The work force has one skills profile, but jobs have another. According to a University of Michigan study, the US has too few electrical engineers, dentists, biological scientists and legal assistants – and too many telephone operators, butchers, barbers and plumbers. (Vocational counsellors are also in short supply; could that be part of the problem?).

Disturbing indications suggest that the mismatch is the result of a failure to upgrade and retain. There are too many data processors and statistical clerks but too few computer scientists, too many typists, stenographers and machine operators but too few computer systems analysts. Surely some of those handling the data could learn to handle the systems? Furthermore, traditional values are eroding – long-term employment security, the loyalty of the employer to employee and vice versa.

Some wonder how we can sustain productivity, quality and innovation under these circumstances. Don't these stem from the mutual commitment of employer and employee? Others wonder about human consequences of the inevitable displacement.

Toward employment security

New policies must reflect new forms of security while embracing the emerging realities of flexibility, mobility and change. If security no longer comes from being *employed*, it must come from being *employable*. *Employability security* – the knowledge that today's work will enhance the person's value in terms of future opportunities – is a promise that can be made and kept. Employability security comes from the chance to accumulate human capital – skills and reputation – that can be invested in new opportunities as they arise. No matter what changes take place, persons whose pool of intellectual capital or expertise is high are in a better position to find gainful employment – with the current company, with another company or on their own.

In many high-tech firms, people already acknowledge the new reality. They bet their future on continuing hard work and growth in skills that match changes in the industry. They find security in their own ability to generate income, perhaps as entrepreneurs themselves someday. Companies come and go, but the technical know-how can still find a home. What makes the current company attractive are learning opportunities – chances to grow on skills, to prove and improve one's capacity – that enhance a person's ability to remain employable. Challenging jobs on significant projects are more important, in this calculus, than promises about the future or benefits programs contingent on long service.

Some prominent companies have always been able to attract top talent even when they had stringent up-or-out systems for younger managers, with no security at all. *Reason*; They were seen as a good training ground, a good place to learn and a good place to list on a CV.

Society's role

Continuing upgrading of skills and pursuit of new opportunities is a lifelong proposition even inside a single corporation. And, it is an essential part of the corporate fitness regime for global competition. In the wake of restructuring and downsizing, when large employers shed jobs in bundles of ten thousand, the same proposition needs to be extended outside the corporation.

Social safety nets need to be extended to help people upgrade skills and deal with the costs of transition as they seek new jobs or plan new businesses. Helping men and women succeed as mobile professionals in the workforce is a matter of public self-interest. A society that encourages investment in human capital via continuing education, training and support for new venture creation can help people feel secure even when they move across companies or invent their own jobs.

Revaluing human capital

The rhetoric about valuing human capital is increasingly in place. Leaders speak of 'core competence', 'competing on capabilities' or say 'our most important assets walk in and out the door every day'. But accounting systems have not caught up with the shift that is needed – from measuring only the use of financial capital to measuring the building of human capital.

People can be committed and loyal, but money has no loyalty. As it speeds around the world and the last barriers to currency convertibility disappear, money earned in one locale can be spent anywhere. It does not have to be reinvested in building the future capabilities of those who helped produce the current wealth. Within corporations, financial measures can swamp other measures of performance and value and claim disproportionate time and attention. Yet this type of accounting is often a poor indicator of company health. *Reason:* Measures are focused on short-term profits rather than the building of long-term capabilities.

'Social safety nets need to be extended to help people upgrade skills and deal with the costs of transition as they seek new jobs or plan new businesses'

In the 1980s, debt lost its traditional moral sting, and money too easily became detached from purpose. But both business and society are endangered when people see themselves as making money rather than products, or growing rich from speculation rather than labour. Holders of financial capital are praised on ubiquitous lists of the world's richest companies and the world's richest people. Builders of human capital are not.

How often do we see lists of the companies that have created the most jobs or trained the most employees to build future capabilities? Even those indicators of social value that are starting to appear (like the 'most admired companies' lists) are published only once a year. Stock prices are available by the minute, every minute. Finding ways to value and measure human capital – skills, capabilities and know-how – is an important step in focusing managers' attention on people.

It is time for a new social contract based on the new realities. It should show people what the company is willing to do help build their own futures. It should be an explicit statement of how much people are valued. And it should be a commitment to specific actions. Imagine an agreement that every manager would sign And give to every person in the company that would read something like this:

‘Our company faces competitive world markets and rapidly changing technology. We need the flexibility to add or delete products, open or close facilities, and redeploy the work force. Although we cannot guarantee tenure in any particular job or even future employment, we will work to ensure that all our people are fully employable – sought out for new jobs here and elsewhere.

We promise to increase opportunity and power for our entire, diverse workforce. We will:

- Recruit for the potential to increase in competence, not simply for narrow skills to fill today’s slots.
- Offer ample learning opportunities, from formal training to lunchtime seminars – the equivalent of three weeks a year.
- Provide challenging jobs and rotating assignments that allow growth in skills even without promotion to higher jobs.
- Measure performance beyond accounting numbers and share the data to allow learning by doing and continuous improvement – turning everyone into self-guided professionals.
- Retrain employees as soon as jobs become obsolete.
- Emphasise team-building, to help our diverse workforce appreciate and fully utilise each other’s skills.
- Recognise and reward individual and team achievements, thereby building external reputations and tangible indicators of value.
- Provide three-month educational sabbaticals, external internships or personal time-outs every five years.
- Find growth opportunities in our network of suppliers, customers and venture partners.
- Ensure that pensions and benefits are portable, so that people have safety nets for the future even if they seek employment elsewhere.
- Help people be productive while carrying family responsibilities, through flex-time, provision for sick children and renewal breaks between major assignments.
- Measure the building of human capital and the capabilities of our people as thoroughly and frequently as we measure the building and use of financial capital.
- Encourage entrepreneurship – new ventures within our company or outside that help people start businesses and create alternative sources of employment.
- Tap our people’s ideas to develop innovations that lower costs, serve customers and create new markets – the best foundation for business growth and continuing employment, and the source of new funds to reinvest in continuous learning’.

Why Western employment policy is going around in circles

Paul Ormerod

Unemployment is moving back onto the political agenda. At the Tokyo economic summit in July 1993, on the initiative of President Clinton, a new emphasis was placed on job creation as a policy priority. At the end of last year, the European Commission brought out a White Paper on employment.

Newly fashionable policies designed to improve the quality of the labour force through education and training form part of every government's plans. Keynesian demand-management, as instanced by the latest tax-cutting package in Japan, is becoming respectable once again. But whether it is by making the economy more competitive through a better quality of labour, or by acting directly on the level of demand, the intention is to stimulate economic growth. By promoting the growth of output, it is widely believed that employment will grow and that unemployment will fall.

Contrary to received wisdom, both of policy-makers and of orthodox economics, there is little connection over time between the rate of economic growth and either the growth in employment or the rate of unemployment. Most emphatically, this does not mean that governments should cease to promote economic growth. But it must be recognised that growth is not necessarily a solution to unemployment.

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The connection between movements in output and employment over the course of the economic cycle – usually anything between four and eight years' duration – misleads people into believing that this relationship necessarily persists over the course of several cycles. In most European countries, the proceeds of economic growth in the past twenty years have not been used to generate new jobs but have been appropriated by those who have remained in employment.

The Spanish economy provides the most striking example of this. Since 1970, the Spanish economy has virtually doubled in size in real terms, yet employment is actually lower now than it was over twenty years ago. Chart 1 shows the total output growth in a number of economies since 1970, and the corresponding change in employment, and it is clear that there is no connection between output growth and employment growth over this timescale.

Similarly, there seems to be no connection between economic growth and unemployment. The experience of the twenty-odd years immediately following the Second World War misled people into believing that a rapid rate of growth is necessary to bring about low unemployment. But even during this period, very low unemployment was preserved with markedly different growth rates in a number of countries. For example, unemployment averaged just under 2 per cent in Germany, Norway and Britain, while average annual output growth rates were, respectively, 5.5, 3.9 and 3 per cent.

The underlying dynamics of unemployment cannot be accounted for by the large macro-economic models currently used for policy analysis, and which continue to attract large subsidies from the taxpayer.

Chart 2 plots the rate of unemployment in Britain over the period 1855–1993. There are a number of distinguishing features of this series, which are qualitatively similar in long series of data on unemployment in other advanced economies. First, unemployment has a tendency to settle into patterns of fairly regular cycles over long periods of time. For example, in the sixty or so years prior to the First World War, fluctuations occur in the data, each separated by similar, but not identical, lengths of time, and showing similar, but again not identical, movements up and down during a complete cycle. In the twenty five years after the Second World War, against a very gradual upward drift, the data show similar patterns, but at much lower levels and with much less fluctuation. And, as will be illustrated below, from the mid-1980s onwards there are signs of a regular pattern beginning to re-emerge. Second, the data are sensitive to shocks, and the path which unemployment follows at any particular time can shift markedly and rapidly.

‘The underlying dynamics of unemployment cannot be accounted for by the large macro-economic models currently used for policy analysis’

In short, unemployment shows regular fluctuations, but the size of the fluctuations, and the average level of unemployment around which such movements take place, varies in different periods. Established patterns of behaviour can, when shocked, shift rapidly, and following the shock behaviour is irregular for some years.

‘There is little connection over time between the rate of economic growth and either the growth in employment or the rate of unemployment’

These key characteristics of unemployment are seen in many data series from disciplines other than that of economics. In epidemiology, for example, epidemics such as measles and rubella often show similar features. In physiology, the initial symptoms of many acute diseases show themselves in marked changes and irregularities in previously regular rhythms of breathing. Patterns of river flows, which are crucial for agriculture in many developing economies, exhibit similar characteristics. And in climatology, careful reconstructions of the Earth’s climate are showing a history which has the pattern of periods of stable behaviour, with fluctuations of reasonable regularity, punctuated by irregularities before a new, stable pattern emerges.

The understanding of the behaviour of such data in these scientific disciplines has been increased substantially in the past ten to fifteen years by the application of a particular analytical technique: the use of very small systems of non-linear equations to comprehend the essential properties of the data being examined. The realisation that the underlying structure of apparently complex systems can be better understood through the application of non-linear mathematical techniques is perhaps the single most important scientific advance of the latter decades of the twentieth century.

In contrast, for all their apparent mathematical sophistication, the large scale macro-economic models which purport to explain the behaviour of the economy and which are used as the basis of analysis of macro-economic policy, remain essentially linear. Despite containing literally hundreds of equations, such models are quite incapable of generating behaviour similar to that which is exhibited by unemployment over long periods of time.

A simple graphical technique is often used in non-linear systems analysis, before any mathematics is used at all. This technique gives insights into the current problem of unemployment which faces most Western economies.

The usual way of presenting graphically the movement of a series such as unemployment over time is in a simple plot of the data, as in Chart 2. An alternative way is to use a connected scatter plot. The charts below construct a scatter plot of unemployment in any particular year against unemployment in the previous year. The resulting points are then connected together in sequence. For example, the points which link unemployment in 1992 and 1991, and 1991 and 1990 are marked on the chart, and then connected together.

Such charts can provide three pieces of information. First, whether the data tends to exhibit cycles over time. If so, the data in a connected scatter plot will appear in the shape of an ellipse. Second, the average value around which the series fluctuates. This is the point in the centre of any ellipse which, applying technical jargon, we can call the attractor point of the data. The data in the series is attracted around this point. Third, the chart shows the magnitude of the cycle around the attractor point. An ellipse which was very tightly drawn, for example, would imply that the data showed only small fluctuations over time.

The detection of attractor points in a rigorous way can be a difficult task involving some advanced mathematics, and it is a task which is further complicated in economics by both the relatively small number of observations which is available, and by a higher level of noise in the data than is usual in, say, the physical sciences. But presenting the data in this way can give a fresh perspective on the behaviour of a series.

Chart 3a plots unemployment in Britain in this way over the 1960–93 period. The period began with the economy moving around a low level of unemployment, marked by points in the bottom left-hand corner of the chart. But the impact on the economy of the oil price rise in 1973/74, and the specific reactions to it, pushed unemployment higher. It began to stabilise at the end of the 1970s, marked by the small cluster of points in the middle of the chart, and then rose dramatically in the 1980/81 recession. The data at the top right hand corner of the chart, however, is beginning to show signs of moving in an ellipse, centred on a attractor point of around 10 per cent unemployment.

Suitable health warnings need to be carried on such an interpretation, but it seems as if the British economy is beginning to settle into a pattern of reasonably regular fluctuations of considerable magnitude, centred around a high average level.

Chart 3b plots West German unemployment in the same way. As in Britain, unemployment was very low in the 1960s and early 1970s. The oil shock increased unemployment to around 4 per cent. But the German social market system absorbed the shock more easily than did the British economy, so that not only did unemployment rise less quickly, but a new attractor point emerged more rapidly.

French unemployment, plotted in chart 3c, exhibits a different pattern. Since the mid-1960s, unemployment rose almost inexorably. But just recently, as in the rest of the EU, an attractor point is beginning to emerge, around a high level of unemployment with large fluctuations around it.

Conventional economic policy is essentially concerned with trying to speed up or slow down the movement of an economy around the ellipse which it follows when locked around a stable attractor point. These movements correspond to fluctuations of the economic cycle. But unemployment cannot in general be dealt with permanently by the conventional instruments of economic policy. At best, these simply move the economy around a solution path centred on a particular attractor point corresponding to a particular level of unemployment. The real challenge facing policy makers is not to move the economy around the present attractor points of unemployment. It is to shift the attractor points themselves sharply downwards.

A number of economies have preserved low attractor points for unemployment, not just in the 1950s and 1960s, but after the 1973/74 oil shock until the present day. Japan, Austria, Norway, Switzerland and, until very recently, Sweden and Finland – all these countries which have preserved low unemployment have exhibited in their own ways a high degree of shared social values and social cohesion.

Such economies have continued to maintain a sector of the economy which effectively functions as an employer of last resort, which absorbs the shocks which occur from time to time, and more generally makes employment available to the less skilled, the less qualified.

‘Some economies have continued to maintain a sector of the economy which effectively functions as an employer of last resort’

There is, of course, a cost associated with this concept, of permitting the existence of sectors which by the standards of free-market individualism are inefficient, but it is a cost which societies with a high degree of social cohesion have been willing to pay.

The overall efficiency and performance of such economies has not been handicapped by paying the cost of their various types of social values. Both Japan and the smaller European countries outside the EC have performed well economically over long periods of time.

The idea of a strong, broadly shared set of community values is compatible with a range of ideological positions. It can exist equally well under governments of the centre-right and of the centre-left, and it is by no means an automatic recipe for high taxation and state interference.

Of course, in the Scandinavian economies the function of the employer of last resort has been carried out by the public service sector, which does imply the costs appear in the form of high taxation. But in Japan, it is the private service sector which has performed such a task. The cost of the employees carrying out apparently trivial or pointless roles in restaurants, for example, appears on the customer’s bill. By Western standards, the Japanese service sector is very inefficient, but it serves a valuable role for society as a whole.

The average rate of unemployment in the long-run – the attractor point in the diagrams above – is ultimately a question not of economics, but of social values. Whatever the motives of individuals in employment in countries in the EC, their behaviour in aggregate has meant that they form a cartel which excludes the unemployed from the benefits of economic growth.

There are a few positive signs emerging of important shifts of attitude towards work and leisure, particularly within Germany. Volkswagen, faced with a cyclical drop in demand for its products, introduced a 28-hour week for all the workforce, with commensurate cuts in pay, rather than preserve full-time working for some, whilst making others redundant. All vacancies in the governmental sector are now open to those wishing to work part-time or to share a job, as well as to full-time workers.

But elsewhere in Europe, faced with reductions in labour requirements, traditional attitudes prevail. Some workers are sacked, whilst the rest keep full-time jobs. It is this cultural phenomenon which must shift if unemployment is to be lowered permanently. Already, we can see many households in which the principle of shorter working hours or of work-sharing is being enforced in a compulsory manner; unskilled and semi-skilled males are losing ‘full-time’ jobs, and the responsibility for the family income devolves upon women in part-time work.

Shorter working weeks, shorter working years, or specific arrangements to share jobs are all needed to bring about a sustained fall in unemployment in Western Europe. This solution would require many – but by no means all – of the workforce to surrender income in exchange for leisure, and would entail a broad shift in social values.

Encouraging this shift entails a major challenge for the European political classes, accustomed as they are to being presented with detailed checklists of policies: ‘Change taxes by x per cent, public spending by y per cent’ and so on and so forth. But such policies are ultimately of little use without a decisive shift in social attitudes to work and leisure.

The Demos Index: Facts on the world of work

Compiled by Geoff Mulgan and James Purnell

- The EU estimates that it will need 25 million new jobs by 2010 to cope with the 15% forecast growth in the workforce.
- Sweden spends as much on an unemployed trainee as on a university student. The UK spends half.
- Britain spends only £200m on helping to place the unemployed compared to £350m administering unemployment benefit (let alone the costs of benefit itself).
- According to the Unemployment Unit unemployment is was 4m in October 1993 compared to 2.86m in the official measurement. There have been 29 changes to the official measurement since 1979. The Labour Force Survey suggests many more may be involuntarily unemployed: in addition to the 3 m it estimates to be unemployed (using the ILO definition) another 0.5 m men and 1.5 m women would like a job if it was available.
- In a recent survey of the strength of the Protestant work ethic, the UK came top.¹
- Job satisfaction correlates closely with many factors: overall life satisfaction (the lines of causality work both ways), the social status of jobs, and features of the work such as variety, autonomy, significance of the work, the degree to which work completes a satisfying whole and information on success.²
- Only 60% of EU workers are in employment, compared to 70% in the US and EFTA and 75% in Japan³. Employment in the UK has stagnated around 63% of the potential workforce-employment has grown by only 0.4% since 1979.⁴
- The OECD estimates that 10% of jobs 'die' every year.
- The US and Canada have created 30 million private sector jobs in the last twenty years, ten times more than the EU.⁵
- Charles Handy estimates in *The Age of Unreason* that whereas a generation ago people could expect to work around 100,000 hours – 47 hours, 47 weeks, 47 years – todays generation should expect to work an average of around 50,000 hours – 37 hours, 37 weeks, 37 years – but with a much more uneven distribution.
- Two thirds of jobs created in the 1980s were part-time.⁶
- It has been estimated that the average earnings of a woman with 2 children are 30% below women with no children.⁷
- Four out of five part-time women workers say they work part-time by choice.⁸
- Of 6.8m adults responsible for caring for sick, handicapped or elderly people, 1.4m spend at least 20 hours each week providing care and assistance.⁹
- The 1993 Budget assumes that 2.75 million will still be unemployed in 1996/7.
- Growth of 2.8% is needed to stop unemployment rising¹⁰ in the UK.
- 1 in 10 graduates were unemployed in 1991, twice as many as in 1988.¹¹
- 6% of the unemployed in the US have been out of work for more than twelve months – in Europe, more than half have.¹²
- Service sector employment in the UK rose by nearly a quarter between 1979 and 1992. But manufacturing employment has fallen more than a third since 1979 and now makes up only a fifth of the UK workforce.¹³

- Manual occupations still represent 34% of all employment, while clerical and secretarial occupations form the largest single occupational group, covering 16% of all jobs.¹⁴
- Forecasts of Job changes between 1991–2000 are of drops of 24% in primary and utilities, 12% in manufacturing and 3% in construction. By contrast, according to the Department of Employment, there will be 16% more jobs in business and other services, and 8% in public services (has anyone told Michael Portillo?)¹⁵
- Manufacturing employment is expected to continue to fall to below 10% in most OECD countries within 30 years.¹⁶
- Women's self-employment rose by 76% between 1981 and 1992 compared to 46% for men.¹⁷ By 2000 it is forecast that 13% of jobs will be in self-employment.
- In the last decade, the G5's share of world merchandise trade (mainly manufacturing) has grown from 38% to 44%. Of the G5, only the UK has not gained.¹⁸
- The average German manufacturing worker is offwork on vacations and public holidays for 42 days a year and misses an additional 19 days on sick leave. All told the German worker is off for 61 days each year – more than double the rate in the US and Japan – even excluding maternity leave and days lost through strikes.¹⁹
- Male employment in the UK has fallen by two million since 1977.
- Only half this fall in employment showed up in the unemployment count: the other half have given up the search for work. An estimated 1.8 million men are out of the labour force but excluded from the unemployment count.²⁰
- The non-employment rate – the percentage of working age men without jobs – rose from 9% in 1977 to 18% in 1991.²¹
- In 1971, nearly two thirds of the workforce were men. By 2000, about half will be women.²²
- In 1992 23.3% of the UK workforce was part-time compared to 17.5% in the USA, 20.5% in Japan and 15.5% in Germany.
- In 1992, almost 60 percent of women with an employed husband were in work, compared to only 24 percent of women with a non-employed husband.²³
- The Department of Employment estimates that within 4–5 years 10,000 people will be working from 250 tele-cottages around Britain.²⁴
- 60% of male graduates are in managerial or professional jobs, but 60% of women graduates are in clerical or administrative jobs.²⁵
- In recent years as unemployment has risen by a third, the Employment Department's budget has been cut by over a quarter.²⁶
- A 1989 survey in Boston found that over two thirds of young men believed they could make more money 'on the streets' than in jobs, up from a third in 1980. Badly educated young men can triple their take-home pay through crime.²⁷
- Only 27% of 16 year olds reach the equivalent GCSE grade A–C in Maths, English and a science, compared to 62% in Germany and 65% in France.²⁸
- By 1989, one in three unskilled men did not have a job – up by a quarter in a decade.²⁹
- 30% of the working age population have no qualifications.³⁰ Two thirds of British workers have no professional or vocational qualifications, compared to a quarter in Germany.³¹
- British workers are more than a quarter less productive than the Americans (GDP per person) and in some sectors (eg telecoms), barely half as productive.

- The Japanese are a third more productive than the British in manufacturing, but half as productive in retail.³²
- Official Japanese unemployment is under 3%. But the Keidanren (Japan's CBI) estimates that real unemployment is around 7% for adult males and 15% for adult women.
- The average European car producer takes 36 hours to build a car. Its average US counterpart does the job in 25 hours, and the Japanese in a mere 17. Yet Japanese car makers have on average only 60 defects per 100 cars, the Americans 82, and the Europeans 97.³³
- Between 1980 and 1989, earnings grew faster in the UK than in any other industrialised country with comparable data.³⁴ However, in 1993, unit labour costs fell 5% in the UK, but rose by 8% in Germany.³⁵
- Since 1979, Britain's proportion of GDP consumed by welfare has jumped from 24% to 31%.³⁶ Social costs take up 23% of Europe's wealth, compared to 14% in the US and 12% in Japan.³⁷
- Unemployment is estimated to have cost the UK £60 billion in 1993.³⁸ The Treasury estimates an annual cost of £8,000 per person unemployed.
- Full time UK employees work the longest average weekly hours (43.7) of all employees throughout the European Union.³⁹ The UK has twice the proportion of employees working over 48 hours per week (16%) of any other EU country.⁴⁰
- Job stress is thought to cost the UK up to 10% of GNP annually, through sickness, poor productivity, staff turnover and premature death.⁴¹ The UK loses a greater proportion of its working week because of illness than any other than Netherland.⁴²
- Only 1 in 3 workers now works a standard, Monday to Friday, '9 to 5' week.
- Developing country exports account for only 3% of manufacturing consumption in developed countries. They are not a direct cause of de-industrialization.
- The UK has the lowest number of public holidays in the EU.
- Workers in Britain are less satisfied with their work than in most OECD countries. More report coming home from work exhausted: 44% compared to 36% in the USA and 17% in the Netherlands. Fewer in Britain saw as one of the rewards of their job either its security or usefulness to society than in any of 12 other survey countries. British workers were also tenth out of twelve in feeling well-rewarded financially.
- Across Europe as a whole, 93% see security as the most important attribute of job: more important than income which 81% see as a 'very important' or 'important' attribute.
- In the UK spending on domestic services rose 5 times in the last decade to over £3 bn. There are now more nannies than carworkers.
- Poverty is predominantly a problem of lack of work. 56% of heads of household in the bottom fifth of the income range are either unemployed or retired. Only 4% are unskilled workers and 9% semi-skilled.
- Youth unemployment is 32.5% in Spain, 22% in France, 17% in the UK, 14.2% in the USA and 4% in Germany.
- According to the OECD only 33% of the British aged over 55 were in paid work compared to 27% in France and 11% in Italy.
- A survey in the early 1980s showed that three quarters of the workers sampled in the United States, Sweden and Israel agree that 'as a result of technological changes my work has become more interesting' and about three-fifths of the workers in West Germany and Japan also agreed.

- According to Juliet Schor in *'The Overworked American'*, the average American now works 164 more hours per year than 20 years ago. This is equivalent to an extra month each year.
- It has been estimated that the amount of labour (and of raw material) needed for an incremental unit of production in manufacturing has been declining at a compound rate of 1% a year since 1900. By contrast the incremental amount of knowledge labour and information needed for each incremental unit of GNP has been going up at 1% compound since 1900.⁴³
- Charities employ around 450 000 full-timers and part-timers, substantially more than the motor industry. In 1992, 26% of the population reported having taken part in a voluntary activity over the previous month: but the typical (median) time spent was only 45 minutes.

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The rising cost of exclusion

Edward Balls

The Organisation for Economic Co-operation and Development is not known for its publicity-seeking ways. Strong titles, racy language, bold conclusions – none of these are house-style at the industrialised countries' Paris-based think tank.

Yet, despite the usual diplomatic language and veiled prescriptions, a clear message shines through the OECD's draft report on employment and unemployment. The study, currently circulating among member governments, criticises continental European governments for their poor records of job creation and high long-term unemployment. But the OECD does not believe that the deregulated Anglo-American labour markets are the answer.

Far from it. The collapse in the demand for unskilled workers in developed economies, the draft report says, is a serious problem 'regardless of the form it takes – low paid, low quality jobs or overt unemployment'. Less regulation may mean more low-wage, low-productivity employment. But the side-effects of America's hire-and-fire labour markets – rising wage inequality and in-work poverty as well as male inactivity – are as economically and socially dangerous as the long-term unemployment they are supposed to avoid.

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What the OECD fails to point out, however, is that the US has not escaped the rise in joblessness. The reason is that the report continues to focus on comparisons of unemployment rates, despite the fact that they are a partial, and misleading, measure of the opportunities which are provided and withheld in modern labour markets.

Unemployment rates understate the fall in unskilled male employment in almost all developed countries over the past 20 years and they ignore the dramatic rise in female employment, particularly in English-speaking countries.

At the root of these changes lies an economic development which no developed country has escaped: the collapse in the demand for unskilled labour in manufacturing industry. The main cause has been technological change backed up by growing competition from low-cost developing countries. The main casualties have been unskilled men.

In the past, badly educated men could expect full-time jobs for life, paying relatively high wages. Now, the available jobs for the unskilled tend to be in the service sector, increasingly part-time and often paying low relative wages. In the US, where the falling demand has hit wages hardest, the real wages of the poorest 10 per cent of workers have fallen by a third since 1970. Not surprisingly, the evidence suggests that younger unskilled American men find crime an attractive alternative.

In Britain, too, the relative wages of young and poorly educated workers have also fallen, particularly for men. The wages of the top 10 per cent of male earners have risen from 1.67 times the median wage in 1979 to twice the median in 1993. Over the same period the wages of the poorest paid 10 per cent have fallen from 68.5 per cent to 58.2 per cent of the median.

The result of the growth of wage inequality in the Anglo-Saxon countries has been a sexual revolution in the world of work. The US has a far superior job-creating record to that of continental Europe, albeit at the cost of stagnant real wage growth and rising wage inequality. Britain has had slower employment growth than the European average when its two recessions are included.

But compared to continental Europe, both countries have managed to draw many more women into work, often part-time and in the service sector.

However, this Anglo-American female employment growth has co-existed with a sharp fall in male employment which is only partly reflected in the unemployment figures. The reason is that many jobless – or ‘non-employed’ – men have shifted from being counted as ‘unemployed’ to ‘economically inactive’. On average, in the 1980s, 12.1 per cent of prime-age US males and 14.9 per cent of UK males were out of work compared to 9.1 per cent in France and 11.3 per cent in Italy. US men without jobs are less likely to say they are actively seeking work, and thus be counted as ‘unemployed’, because they do not receive welfare payments if they do.

Sadly, the OECD does not seem to be willing to ask whether the free market policies pursued by the UK government or deeply embedded in the structure of the American economy also explain why they have comparatively low levels of investment in physical and human capital. Last year’s OECD Employment Outlook, for example, published research which finds a strong link between security of employment tenure and the willingness of both workers and managers to invest in training. But, while the draft report makes many suggestions for increasing the quality of education and removing obstacles to job creation, it does not tackle the question of whether flexible hiring and firing necessarily undermines long-term relationships and thus investment in skills.

Again, with a clear nod in an Anglo-American direction, the report suggests that ‘investment levels are too low in many OECD countries to provide the capital stock necessary to generate sufficient numbers of high-productivity jobs.’ But perhaps the low levels of investment in the UK and US are linked to the structure of Anglo-American financial systems, and the fluid relationships between managers, shareholders, banks and other stakeholders that they encourage.

The OECD’s desire to duck these issues is understandable – international comparisons of financial systems are fraught with difficulties. Identifying differences in corporate governance across country is comparatively easy: US and UK companies have few intercorporate or bank equity holdings, while the takeover threat means incumbent managers must focus on short-term results. German and Japanese companies are less vulnerable to takeovers because of cross-shareholdings while management decisions are supervised by committees on which banks play a leading role.

Yet the standard complaint from UK companies – that they do not have the same level of access to long-term bank finance as their German or Japanese competitors – is not borne out by the evidence. Oxford University economists Jenny Corbett and Tim Jenkinson have identified the net sources of funds available for physical investment over the period 1970–1989 after adjusting for bank deposits and purchases of bonds and equities.

‘The side-effects of America’s hire-and-fire labour markets – rising wage inequality and in-work poverty as well as male inactivity – are as economically and socially dangerous as the long-term unemployment they are supposed to avoid’

Contrary to the conventional wisdom, their research finds that internally generated profits are by far the main source of funds for investment in all four countries, as the charts show. US and UK companies actually depend more on bank finance than German companies. Market capital – bonds and equities – provides a small and dwindling net source of finance. For British companies, the development of the takeover market means that equity finance has increasingly become a net drain on resources.

Yet financial systems clearly make a difference to the time horizons over which managers and workers can plan. The pattern of UK investment is much less stable than in Germany, in part because of Britain's recent macroeconomic turbulent history. But the share of bank finance in UK investment also fluctuates markedly, rising when investment increases but then falling sharply in recessions as the profitability of lending falls and banks call in their loans. In Germany, by contrast, the banks' role as actual and proxy shareholders in the companies they lend to seems to deliver much more dependable bank finance.

The ability of German and Japanese stakeholders – workers, managers and shareholders – to take a longer term view and forgo earnings to invest for the future must also be part of the reason why profits and thus investment are consistently higher than in the US or UK. Who can blame British managers or workers for trying to extract as much as possible as fast as they can from the companies in which they work when the threat of takeover, recession or bankruptcy remains so immediate?

The long-term challenge of tackling unemployment, and creating more high-wage jobs, is not easily understood, let alone solved. But finding corporate structures which encourage managers, workers and bankers to take a longer-term view must be part of that solution.

But it is unskilled men who pose the greatest immediate policy challenge. Governments appear, increasingly, to have little option but to choose between subsidising the existence of the unskilled non-employed or accepting the US-style social costs that widespread male inactivity engenders.

Subsidising unskilled men either in public sector jobs or by subsidising private sector employment is certainly costly. But the US experience suggests that the social costs of excluding a growing mass of unskilled men from the legal world of work are much greater.

Clinton's national service plan: lessons for the UK?

John Mohan

'National services proponents want to revive the American civic republican tradition, in which the good citizen is not solely concerned with private matters, but actively participates in public affairs'

National service was central to Bill Clinton's election campaign. Tapping into a rising tide of youth volunteerism, he proposed engaging youth in national service, presenting it as 'the American way to change America for the better'. Youth will engage in socially-useful jobs, at minimum wage rates for up to two years, receiving postservice benefits of \$4750 per year of service. Despite cross-party support, the final version of Clinton's scheme was scaled down dramatically, from 100,000 participants to 20,000 per annum over three years, and from \$8 bn to \$1.5 bn.

There are so many arguments for and against non-military national service that it has come to be seen as the universal panacea of US politics (dubbed the 'Veg-a-Matic' after a popular ingredient). It certainly served to present Clinton's domestic agenda in a favourable light, allowing him to proclaim a rhetorical commitment to reciprocity in public programmes. National service's proponents want to revive the American civic republican tradition, in which the good citizen is not solely concerned with private matters, but actively participates in public affairs.

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Service is also advocated as a way of overcoming social divisions, segregation and incivility. Mickey Kaus¹ would 'drive home the point of social equality – and the ultimate moral arbitrariness of capitalist success – through the crude expedient of treating all citizens equally and the more subtle tactic of providing a part of daily life actually enjoyed by the various economic classes on this equal basis'. This could be achieved by strengthening public health and education systems and by introducing national service as a 'common civic endeavour'. Other rationales include: reducing dependence on loans for financing higher education; ensuring that socially-useful tasks, neglected by the market, will be done; and preparing future generations of citizens for participation in a democracy. Amitai Etzioni has cogently argued the case for national service on educational grounds and in relation to personal and social development.²

However, the conditions which have enabled the enactment of Clinton's legislation are specific to the USA. Campus-based volunteerism has been rising rapidly, while the celebrated American tradition of volunteerism, and the dependence of higher education finance on loans, have no direct parallels. Several pilot community service schemes, such as Boston's 'City Year', are highly publicised and oversubscribed, but American social policy persistently fails to generalise highly promising local initiatives. Note also the opposition: conservatives argue against the elements of compulsion and state intervention while deriding the expectation that engagement in mundane community work will transform American youth. Certainly, if it were simply a matter of doing socially-useful work it would be much cheaper to create a public works organisation without the educational benefits attached.

Perhaps the strongest arguments in favour of national service are those related to education for citizenship and political participation, to mixing diverse social groups on common ground, and to creating a sense of community and civility. Many of these social arguments apply equally strongly in the UK, which is why the experience of some of the pilot schemes in the USA may be relevant.

The Boston City Year is premised on the notion that, on leaving high school, young people should devote a year to serving their city. The corps members work on project related to schools, the environment, 'community building', at-risk youth, and homelessness. Participants must take part in an experiential education curriculum, designed to reflect on their service experience and to involve them in running City Year. They are also required to vote, obtain a library card, produce a CV, complete a workshop in tax return preparation, and – if they are not already a high school graduate – complete their GED school diploma within the year. The scheme is financed through a mix of federal, state and local government, and through private donations in cash and kind. Similarly, an integral part of the pilot 'Summer of Service' schemes in 1993, involving partnerships between universities, health care providers and community organisations, was a programme of service learning and education tied to the practical experiences of the participants. The embryo national service scheme will engage some 20,000 youths, primarily college-bound, in service programmes, again with elements of service learning and citizenship education built in. What is interesting about these programmes is their common emphasis on civic education and participation. Although service programmes in the USA have been criticised on educational grounds – from the left for teaching their participants to conform to social norms rather than challenging them; from the right for being politically-correct entitlement programmes³ – such an educational component is necessary if programmes are to go beyond what Jack Kemp dismissed as 'picking up beer cans in Yosemite' – in other words, to be anything more than public works.

If the enthusiasm for national service on America's campuses is indicative, the programme will easily be oversubscribed. We might consider an equivalent scheme in the UK; if we accept that higher education cannot continue to expand on the basis of maintenance grants to all, the notion of individuals contributing towards socially-valuable tasks in return for state assistance might help secure more support. It might help avoid the inequitable consequences of greater reliance on loans.

But how to develop a programme which would give participants a worthwhile and sustained experience of service, and which would cover more than a few thousand college students? A purely voluntary programme for university students would not achieve any degree of social mixing, while a compulsory programme targeted at a specific group (youth unemployed for more than a year, say) would justifiably be labelled as workfare.

The only conceivable way to make service 'national' – to obtain a wide cross – section of participants – would be to integrate it fully into educational programmes.' Etzioni suggests, in effect, raising the minimum leaving age for secondary education, so that all students spend a year being educated as citizens, during which they would undertake a lengthy period of community service as a prerequisite for school graduation. The combination of citizenship education and practical experience gained from service, he suggests, would arguably produce more rounded individuals, better prepared for adult life and civic involvement; Clinton clearly wants the experience to become the first stage in a lifetime of service.

'The only conceivable way to make service 'national' would be to integrate it fully into educational programmes'

Financing national service would be problematic. In no sense could something on this scale be described as cheap. It could only be justified if there were enough evidence that a programme of this type provided a level of educational and personal challenge that had significant benefits to youth. Part of the difficulty is that at present we have little evidence from the small-scale pilot schemes in the USA about what the long-term impacts are. All the participants, by definition, are zealots and evangelists, and there seems to be a tendency for service to be judged on its intentions, not its results. On the other hand, American advocates contend that, given the social challenges facing the USA it is too expensive not to do national service; the nation cannot afford growing fragmentation and isolation of its citizens, so it is essential to rebuild a sense of community.

There would be opposition on the grounds of displacement of workers – but this might be misplaced: participants in national service will be doing tasks which are not being done at present, especially in the broad area of human services, while careful regulation ought to ensure that participants are not used as substitute labour. There are parallels with Lipietz's idea of a socially-useful 'third sector'⁴, the participants in which would be guaranteed a statutory minimum income for employment by community-based organisations. Organised in a way which permitted maximum community control and management, such a sector could contribute to empowering individuals to control their own local environment. National service might need to be coupled to such a strategy for empowering the voluntary sector to respond to community needs.

In the wrong hands – notably, without its educational component – national service could be a coercive part of a workfare agenda. If so its potential would be lost; the strength of the American proposals is the emphasis on the production of an educated citizenry which actively contributes to solving social problems and is aware of the reciprocal nature of the social contract. That is the lesson which any British consideration of national service should absorb.

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Creating a twin economy

Geoff Mulgan

The formal, money-based economy has failed to provide useful work for tens of millions of people around the world. In what follows I set out a radical alternative to the conventional approaches to unemployment. Instead of seeking to squeeze the unemployed into the existing formal economy, it sets out how to lay the foundations for parallel or twin economies which would work in tandem with the formal money economy but which would be much closer in spirit to the informal economy and community exchange systems. These would have a very simple purpose, that of all economic systems: to establish working links between unmet wants and needs and unused resources.

To understand the need for such an approach it is first necessary to understand the nature of the late 20th century economy. At its heart is rapid obsolescence. As the economy goes through ever faster shifts in technological and organisational change, ever more labour, land and machines becomes obsolescent. The most visible result will continue to be high unemployment. Other visible effects will be rapid turnovers of dereliction and development in and out of cities, and huge quantities of rejected machinery, ranging from computers to trucks.

I am indebted to Pat Conaty's ideas on 'renewable monies', Claus Offe's work on alternative monies in Germany and Robin Murray's work on municipal money.

There are three conventional responses. The traditional *free market* approach, waits for the first economy to create new jobs and uses, with changing relative prices as the means of ensuring that all resources find an appropriate use. The role of public policy, according to this view, is to help the market adapt, perhaps through freeing up the labour market or reducing planning restrictions. The second approach, traditionally associated with *social democracy*, is for the state to pick up the pieces that become obsolescent, through supporting those rendered unproductive. This is achieved through unemployment benefits, large capital schemes to redevelop land and subsidies for declining industries or public sector job creation. These are financed through taxes on the first economy; individuals earning incomes and companies earning profits. The third, more recent approach, is to use *workfare* disciplines and incentives to bring people back into the first economy. The state's role is to provide the sticks and carrots for (in theory) full participation in the first economy.

All three accept the premise that it is possible to involve the whole population in 'economically viable' activity, preferably through investment in human capital. Unfortunately, for reasons discussed elsewhere, there are few grounds for having much faith in any of these strategies as sufficient ways to cut unemployment. All available evidence suggests a strong likelihood that there will be a substantial number of people who will not have the skill or competence to participate fully in the 'first economy' for the foreseeable future. This is particularly true in the UK where training and educational institutions have consistently failed to produce a workforce suitable for new industries.

Yet given the extent of unmet needs and wants, it should be possible to bring the great majority of the population into useful and personally fulfilling productive activity. The great majority of those out of work have the capacity to do socially useful work. So if integration within the first economy looks impossible in the foreseeable future, and integration in the state unlikely because of fiscal limits, is there an alternative?

Parallel economies

Most of us are so familiar with the idea of the economy as a single entity that it comes as quite a surprise to discover that the idea of parallel economies has a very long history. Small scale examples include the local monies of 18th century England (such as Buynes' Trade Tokens) and the Worgland and other experiments from the interwar years, where municipal monies were created in order to generate work. More recent examples include the various LETS (local exchange) systems which have spread across the USA, Canada and Australia, and now the UK, which provide a framework for people to exchange hours of babysitting, roofmending, carpentry, allotment food growing etc. Other examples of twin economies can be found in Israel, Finland and the USA, all involving the creation of partially insulated economies in which people can work with a degree of autonomy and self-respect. Within some Japanese corporations one also finds corporate monies, designed not only to build loyalty but also to produce goods at low marginal costs. Within countries like the UK, some ethnic groups organise economies which are in practice at one remove from the formal economy, its rules and taxes.

There is a long, if largely forgotten, history of imaginative thinking about money. Silvio Gesell, for example, argued that instead of interest rates there should be circulation fees (and Keynes in the *General Theory* wrote that 'the future will learn more from Gesell than from Marx'). Galbraith has written about a circulation money in Maryland. Others, in the Islamic world have shown how money can work without the assumptions of interest, through risk sharing. Hayek argued in 1978 for money to be denationalised.

But there remains deep resistance to such ideas: money is oddly seen as something akin to geology or the weather, obeying its own laws. Yet this has never been the case and is even less the case now with smart card and other technologies which make money potentially far more malleable, more customised and, oddly, both more universal and less fungible than ever before.

Creating a twin economy

Drawing on these experiences, public policy should now be looking at whether parallel economies of this kind can serve as an alternative to chronic unemployment. The aim should not be to replace those existing policies which are designed to give people the skills and confidence to work in the formal economy. It is rather to complement them and at the same time to develop new means for people to participate in useful, rewarded work, whether they are the 30 year old unemployed, the 70 year old who has long retired from formal work, or the 15 year old school child eager to enter the world of work.

The ultimate target should be a *twin economy* with all the attributes of a normal economy: the use of a money, markets and competition, investment and exchange. Its foundation would be a twin pound or T£ for short. Its goods and services would primarily be those already exchanged in informal economies – childcare, domestic and manual services – and some public sector goods such as public transport, municipal facilities etc. Like existing monies, this money would be produced by, or at least with the agreement of, national government (or rather the Bank of England) which would retain its rights of seigniorage.

The primary role of twin money would be to create demand, and thus economic activity, without inflationary consequences for the formal economy. It would be used to purchase goods and services produced in the informal economy, and using spare capacity within the public sector. This non-inflationary demand creation would be achieved because of the partial or complete insulation of the twin economy from the formal economy in all relevant markets such as labour, goods, money and capital.

How would demand be created?

The twin money would be put into circulation by government in the following ways. The state would offer recipients of transfer payments choices between cash and a proportion of payments in the form of twin monies. For example an unemployed person might have the choice between £40 and £25 + T£20. Pensioners could also be given a similar choice between having purchasing power in the formal and the twin economy.

State agencies would also be offered alternative funding packages which would include some twin monies. The implicit rate of exchange between normal money and twin money would vary according to the level of unemployment, with an adjusting £ : T£ exchange. Where unemployment is rising the funding packages would offer greater incentives to schools and hospitals to take twin money, and to use this to purchase labour from the unemployed.

What would T£ buy?

Twin pounds would be used initially by the unemployed (or pensioners) as an alternative to money to purchase goods and services from accredited institutions and individuals. The unemployed would be encouraged to produce for this demand: providing labour-intensive services such as driving, food, cleaning, child-care, labouring, mending and building without jeopardising their entitlements.

In addition there would also be some state-provided services, particularly those which involve low to zero marginal cost; for example off-peak travel, education and training classes, marginal housing. Some marginal goods would also be made available such as old furniture or equipment. Some local telephony services would also be provided (with the added advantage of assisting the working of the labour market). Over time the range of goods and services would grow to include some manufactures, crafts and home produced goods; a range of goods and services with relatively low capital requirements. Support would be given for market infrastructures for the twin economy. For example, free access for stalls on derelict land for weekend markets and ultracheap building accommodation.

Agencies could be contracted to organise employment creation, with some small subsidies for the directors and training costs. Otherwise their task would be to provide a structure for offering informal services. Such agencies could be specialised for different age groups.

The goal would be to produce circuits of production and consumption, with only relatively small injections of normal money, in the form for example of payments for raw materials, provision of used equipment or furniture. Based on this twin money, all the normal attributes of an economy would come into play: salaries, investment, credit, money supply, inflation, discount rates.

The one crucial difference would be that all twin money transactions would be free from taxation, at least up to a fixed level of annual income. Moreover activity in the twin economy would in no way jeopardise entitlements to benefits or pensions. Exchangeability would be limited by preventing public and private companies from trading in twin monies.

There would, inevitably, develop a black market, considerable 'leakages' and varying informal exchange rates. This need not be too major a problem; to some extent the more it develops the more it encourages demand for goods and service from the twin economy and the more it increases the velocity of circulation. What is essential is that its inflationary impact on the various markets of the first economy is constrained. There would also be a danger of stigma. But so long as twin pounds remain an option, rather than being imposed on recipients of benefit, this would be greatly minimised.

The role of government

The creation of a twin economy would have obvious benefits for government. It would provide a means of creating demand and work without having to borrow cash from international markets. It would provide a creative solution to some of the problems of public spending. It would shift the trade-offs between inflation and unemployment, to the extent that these still function. It would involve many arms of government in solving unemployment without creating 'fake' jobs, since it would still be in the interests of agencies to buy labour with T£s only if that was useful to them.

An imaginative national government would develop a range of different uses of twin monies, and different arrangements with the private sector, financial institutions and local government to develop new uses.

In order to experiment with feasibilities the T£ concept could be introduced initially at a local level in a handful of towns. This would be assisted if central government was to offer an incentive to local institutions to create new work by rewarding them with a share of the savings on benefit payments.

It might be necessary to experiment with different levels of 'leakiness'. One option would solely use electronic cards, so that only the unemployed could buy goods and services in the twin economy. The smart cards being developed by banks like NatWest provide one possible infrastructure for more flexible monies. Such cards would guarantee minimum leakage. It might be necessary to test out different types of taxation regime, for example with different minimum levels at which income would have to be declared. A variety of experiments could also show how a twin economy would fit into the culture of different areas: ranging from teenagers in inner cities to over-50's in rural areas.

Putting a novel concept into practice is never easy. It is always best to experiment with ways of overcoming the many practical and conceptual problems involved.

But practical complexities should not deflect attention from the potential of this approach. Properly constituted parallel monies offer a way of reducing unemployment by creating real jobs rather than false ones. They offer a way of using market forces within a parallel market, rather than expecting government to solve unemployment by itself 'creating' jobs. Moreover they may turn out to fit better with the culture of much of modern Britain, and in particular the cultures of the young unemployed, than traditional solutions.

The employers view

Christopher Haskins

‘In manufacturing industries we have relied on a low-wage, low-skill workforce to maintain our competitiveness’

Despite recent falls, the prospects for a substantial reduction in unemployment are not good. Manufacturing industries are not investing heavily because they judge that sufficient capacity exists to deal with future market trends. The property boom of the 1980s, which created a strong demand for unskilled workers, will not be repeated, and although the service industries will clearly benefit from a return to growth, a severe reduction of the banking network and the latest developments in IT will reduce work opportunities in retailing and administrative occupations. More women will also be looking for jobs.

On the other hand the increased demand for higher education and the relentless trend towards earlier retirement will probably reduce the numbers of people who are actively seeking work. Part-time work will grow and the numbers of hours which individuals work will decline, creating job opportunities for more people. The provision of more education, from nurseries to universities, will create more skilled work as will the caring needs of an ageing population.

But present Government and industry policies offer little prospect for most of the unemployed. The Government believes that high unemployment is the main weapon against inflation. Industry has no appetite for the increased levels of investment needed to sustain growth, increase exports and restrain imports. The electorate is fatalistic on the issue, with the well-to-do hopeful that physical segregation of the unemployed and the poor, aided by an efficient police force, will keep the problem at bay. In this they are mistaken. A society which condones permanent poverty and unemployment for a substantial minority of its citizens is in danger of jeopardising its democratic institutions.

Others will suggest policy options for Government to improve employment. My task is to examine why British business continues to under-perform, under-invest, and neglect the human resources of the country.

There are two striking reasons for Britain’s relative failure – the poor quality of the people who work in British industry from the boardroom to the shopfloor and the inability of its capital markets to support long-term investment in innovation, future capacity and productivity. If we are to achieve sustained economic growth, which is the only credible way of creating more employment, we must tackle both these issues, but for the purposes of this argument I propose to deal primarily with the first.

In manufacturing industries we have relied on a low-wage, low-skill workforce to maintain our competitiveness. As a result, training has been neglected by government and industry. British trade unions historically have resisted technological advances which might jeopardise jobs. They have preferred to maintain a huge membership of unskilled workers. The unions, like the employers, paid lip service to modernisation and training. Such Luddism was still rampant until 1979. Since then, tragically, the chickens have come home to roost, as uncompetitive, overmanned and under-invested factories have become unviable, and as deregulating government has allowed the free markets to take a terrible toll of British manufacturing industry. That is a crucial reason why over two million unskilled young men are unemployed in 1994.

However, the ultimate responsibility for the collapse of British industry must lie with its leaders. Good leaders would have persuaded the workpeople to support investment in productivity rather than wobble when industrial action threatened. Good leaders would have developed compelling long-term strategies, which even the fickle institutions of London would have supported. Good leaders would have exercised more self-restraint about their own wages.

But now difficult decisions must be made. Improved productivity inevitably means fewer jobs and shorter working weeks. That has to be faced. Those remaining in the enterprise will require new skills to manage new technology and so will have to be retrained. Companies must address this matter and reward the retrained, better-skilled workers. Despite high unemployment, Britain suffers from widespread skill shortages. Further more, if investment in productivity succeeds and generates higher sales then eventually more jobs will be created to meet the higher demand.

These more prosperous workers will spend their money in a variety of service industries and in property. More jobs, many of them with low-skill requirements, will result. Every new job in manufacturing is said to create three or four in services.

While business must pursue improved productivity, the government must ensure that those who lose their jobs are given proper protection. In addition to generous unemployment benefit, government must provide retraining and job opportunities for those out of work for more than six months.

Intelligent business people will recognise that the increased number of working women, and the parallel increases in part-time work should be seen as an opportunity for constructive productive improvement without exploitation. Women are more suitable for much of the new work available, for example in caring, leisure and information technology. However, women also find part-time work acceptable and practicable, whereas men have yet to come to terms with part-time work. Good employers have recognised that part-time work can enhance the enterprise. People who work shorter hours, and have a balanced life outside work appear to be more productive. Shared work, and less overtime, must make productive sense and spread employment more widely. Establishing part-time workers with the same rights as full-time ones, and developing industrial patterns which satisfy the needs of part-time workers is good business and the most effective way of improving employment prospects. But exploitation must not be allowed.

Unscrupulous businesses can, by employing staff on a temporary or part-time basis, avoid most of the social obligations which arise from recruiting permanent staff. Temporary staff have no entitlement to holidays, pensions and health provision, and of course can be summarily dismissed. Whilst the evidence suggests that enterprises which pursue such practices do not succeed because their badly paid staff understandably offer little commitment to quality and productivity, greater legal protection for this category of work is clearly needed. The argument against regulation is that employers will be more reluctant to hire staff in the first instance. The argument in favour is that if the cost of making staff redundant is great, then employers will try harder to find other work for these staff before deciding on redundancy. Besides, if employers can dismiss people at will and with no compensation, the government is automatically left to support the victim through unemployment and other social payments. Over-regulation of employment may be a problem in other parts of the European Union. The reverse is true in Britain.

‘The key to making the best of new opportunities is that the institutions, the boardrooms, stock markets, trade unions and the many instruments of government, reform themselves’

Lastly we need to address the problem of communication and consultation in British industry. There has long been a suspicious and awkward relationship between British managers and their shareholders. Even more destructive has been the atmosphere of confrontation between British managers and their employees. The mutual antagonism between unions and management in the 1970s has been replaced by an increasing disregard for the rights of workers. The raiding of pension funds, the inexcusable widening of earnings with top salaries far too high and the poor getting poorer, are proof of this trend.

We need to restructure the financial institutions so that they become more active shareholders and seek Board representation. We need to establish formal consultative Boards in companies where shareholders, employee representatives and managers can agree strategies which embrace all their interests. Profit sharing should become a normal part of compensation. Wage-setting should be agreed, by all the parties, consistent with the performance of the enterprise, and taking account of the consequences of inflationary settlements. In a small enterprise such consultation can be informal, but the law needs to protect the individual's rights. In the larger, perhaps multinational, companies, the consultation process might have to be European, at the highest level, but also on a plant-by-plant basis to enable ordinary workpeople to comprehend and identify with the strategies of the enterprise.

The present trend to treat human beings at work as costly statistics must be reversed if we believe that well-motivated, well-paid workforces are the key to success in a market economy.

Demographic trends, technology, and the GATT agreement will mean massive changes in the nature of employment in the years ahead. Some industries will suffer from the reduction of tariff barriers, others will gain. There will be a chronic surplus of unskilled labour, but there will also be a growth in the demand for skilled work. The more labour intensive service industries will create work opportunities, particularly in the areas of leisure and care. The growth of technology in manufacturing industry will reduce the labour element but will be the cornerstone for successful competition in global markets.

But the key to making the best of new opportunities is that the institutions, the boardrooms, stock markets, trade unions and the many instruments of government, reform themselves. Only with far-reaching change can we ensure that the UK flexibly adapts to the changing world, whilst at the same time taking care to protect those who will be victims of change.

Wetware issues

Peter Robinson

How we have failed the IT challenge

The public gnashing of teeth over BMW's take-over of Rover would be usefully applied to the imminent extinction of British information technology. For while the former delivers ownership of a piece of the twentieth century into the hands of a more powerful competitor, the latter gives up our influence on the future.

Such mistaken priorities reflect the fact that our industrial establishment has completely underestimated the nature, speed and scale of the information revolution and has prepared neither our social framework nor our business strategy for the massive changes which are underway.

Peter Robinson is Managing Director of PRPR Limited, a consultancy specialising in communications and marketing for technology related businesses. He is currently working on a study of the social and human impact of information technology.

So what are the realities of the IT age?

First, it will create massive white collar unemployment – secretaries and clerks are already obsolete, but this is only the beginning. As more sophisticated systems emerge throughout industry, the bleatings of senior professional staff will be drowned by the sound of floppy disk drives.

Expert systems, which make decisions by applying rules distilled from the knowledge and experience of human experts in a given field, are already widespread in areas such as insurance, stock control and air traffic scheduling. More are on the way in most other areas and will cut out humans from management jobs.

People who remain employed will operate in radically different ways. Treated as *wetware* by information systems staff, many humans will in future work in symbiosis with an organisation's IT systems.

Successful *wetware* will apply judgment to the information which passes in front of them in order to improve the quality of – or *add value* to – output produced by computers. Some air traffic controllers, for example, will be needed in case the air systems fail; live doctors will be required to interpret and verify the output of expert diagnostic systems. Even in the insurance industry, customers prefer to buy from people.

The most successful *wetware* – or *knowledge specialists* – will be those with knowhow and experience which cannot be built into a computer program. These people will work both inside and outside organisations as analysts, teachers, designers, communicators, researchers, consultants and so on.

The new breed of workers will generally not need to be physically present from nine to five in specific locations, and new technologies – ranging from a simple telephone divert to fully wired telecottages – will enable many to work from home.

Work based in cities will rely increasingly on *entrepot* offices providing services, technology and a network of complementary workers who may come together in *virtual corporations* on specific projects.

Many governments – such as those of the USA, through its information on the highway project, and France, through its support of Minitel – have intervened to create competitive advantage in this new international market for information services. Other countries are certainly no less prepared than us, and in the truly international information market this makes us very vulnerable.

For if competitively priced teams of well-trained international teleworkers based in the Far East can provide knowhow services at a fraction of the cost of technologically disadvantaged British wetware, our knowledge industries will rapidly follow our manufacturing capabilities into oblivion.

Archives ‘It Seemed Like a Good Idea at the Time’: 4 views of unemployment

James Purnell

Since the Great Depression a multitude of explanations and cures for unemployment have been suggested. We examine four famous examples.

1. The Fabian Society and public control

In 1932, The Fabian Society published *Currency, credit and the Unemployment Crisis*, by Gilbert Slater. The crisis was clear: unemployment had climbed to over 21% four times the pre-war average. Slater argued that unemployment would only be cured by putting the banks under public control.

His analysis was twofold: first, wage earners depend on capitalists and landowners for employment. Second, the banks had caused deflation by artificially restricting the money supply: capitalists and landowners were being forced to produce less and wage earners were paying the price in unemployment.

Slater related both problems to the banks: as long as banks continued to serve the rentier class, neither would be solved. Instead, Slater argued, the banks should be put under public control. Parliament should dictate currency policy and a public department should execute it. Government appointments should be made to the boards of the ‘big 5’ banks. And industry should be reorganised under rational lines.

These new public powers would be used to stabilise the currency and then increase the money supply. By managing capitalism better, the Government would reduce unemployment. But unemployment would persist until capitalist society was replaced by a new society ‘born again of a nobler spirit, the spirit of justice and mutual service’.

That tension between managing capitalism and abolishing it persisted after the Second World War. Bank nationalisation bobbed in and out of left-wing manifestos and was still a key left-wing demand to the Wilson Committee’s investigation into the City in the 1970s. However, in practice, Labour governments had little inclination to abolish capitalism, believing that the science of economics had given them the ability to choose levels of unemployment and inflation by managing demand.

2. The Phillips curve and demand management

The economists and Treasury officials who served post World War Two governments thought they could fix the rate of unemployment by monetary and fiscal policy. They followed Keynes in believing that involuntary unemployment existed and that it could be eliminated by boosting aggregate demand.

The Phillips curve gave this creed practical expression. Introduced in 1958, the original Phillips curve suggested a trade-off existed between inflation and unemployment and backed this claim up with statistical evidence from the United Kingdom. This suggested that an acceptable level of inflation could be delivered with unemployment at 2–3%, the holy grail of full employment.

Clearly, this paradigm has not stood the test of time. Initially, the inflation and unemployment results of the 1950s and 1960s backed up the theory. But the stagflation of the 1970s contradicted the Phillips Curve: rising inflation and unemployment were incompatible with the view that lower unemployment could be achieved at the cost of slightly higher but stable inflation.

It became accepted that when governments seek to exploit the Phillips curve by trading off price stability in the hope of obtaining reduced unemployment in return, they ultimately engender expectations of regularly increasing wages. Such an increase in the expected rate of wage inflation shifts the Phillips curve up: broadly, each level of unemployment corresponds to a higher level of inflation.

3. -Milton Friedman and the natural rate of unemployment

There was always a rival neo-classical explanation for unemployment. With the stagflation of the 1970s, it came to the fore, most clearly through the work of Milton Friedman.

Friedman can be credited with overturning the then orthodoxy of demand management and converting a significant number of its disciples. As Samuel Brittan, a once devotee of demand management, has said: 'It was Milton Friedman who removed the scales from my eyes ... He did so with one paper: his 1968 Presidential Address to the American Economic Association.'

In this paper, Friedman argued that governments do not have the power to choose the level of unemployment. Instead, the minimum sustainable level of unemployment is determined by the labour market – that is, the economy gravitates towards a natural rate of unemployment. Attempting to push unemployment below this natural rate leads not merely to inflation, but to an increasing rate of inflation and ultimately to price collapse.

Instead, governments should concentrate on steady demand growth with low levels of inflation, and labour market reforms to reduce the natural rate of unemployment. Placing a wishfully determined level of full employment as the central target of policy is self defeating.

4. -Samuel Brittan and the end of full employment policy

This pamphlet was the first publication of the Centre for Policy Studies set up by Sir Keith Joseph. It is arguably one of the most influential texts on employment ever produced in the UK. Following on from Milton Friedman, it set out to demolish the prevailing orthodoxies of demand management which had first been put forward in the 1944 White Paper on Employment Policy. It argued that unemployment should no longer be considered in terms of targets or demand pressures. Instead the focus of policy should be on the working of the labour market: training, mobility, union power and other rigidities. Contrary to orthodox Keynesian thinking there was no stable trade-off between inflation and unemployment, the main determinants of which were microeconomic.

Brittan helped introduce many concepts and approaches that became conventional wisdoms in the 1980s, such as the emphasis on levels of unemployment that can be sustained without causing accelerating inflation. The supply side focus has become OECD orthodoxy.

As policy prescription however, the arguments set out in 1975 have not been an unambiguous success. Brittan's analysis of the Phillips curve suggested that a large increase in unemployment would be needed in order to shift the whole curve downwards, to lower levels of trade-off between inflation and unemployment. The effect would be to free up the labour market and to change attitudes as well. The rise in unemployment would therefore be temporary.

This was what happened in the early 1980s, as unemployment rose rapidly alongside measures to deregulate the labour market. The great disappointment for Brittan's followers was that unemployment did not then fall, but remained well above the levels which his pamphlet sought to address. Worse, the underlying unemployment rate seemed to rise relentlessly in tandem, rather than in inverse correlation, with labour market deregulations, falling only to 1.6m even at the peak of the boom at the end of the 1980s. The wholly economic analysis also failed to bring out many of the other dimensions of unemployment in the 1980s: the problems of adaptation of regions and towns experiencing shocks; the cultural barriers to change; the gender shifts in employment; and the law and order costs associated with unemployment.

Big ideas Arguments on unemployment

Pay versus Jobs in the 1990s

by Patrick Foley, Lloyds Banks Economic Bulletin, July 1993

- The 1980s saw significant changes to the labour market designed to make it more flexible and increase productivity. The evidence shows that although manufacturing productivity improved, economy-wide productivity has not risen, nor have earnings been clearly affected by unemployment levels. Foley argues that because earnings have kept pace with productivity growth, the UK's unit labour costs have continued to rise relative to those of the G5.

Two theories for the failure of markets to clear have been put forward: *insider-outsider* theories argue that information and labour turnover costs allow those in work to bargain their wages above those that the unemployed would accept to do the same jobs. *Efficiency wage* theories stress the incentive effect of high wages on better productivity and lower labour turnover.

Foley believes that the labour market reforms of the 1980s had a mixed effect. By reducing the power of trade unions, they may have lowered the premium that insiders are able to extract. But by shifting pay bargaining to the workplace and the individual, the reforms may have increased the scope for efficiency wages.

Although the reforms of the 1980s may have beneficial long term effects, Foley believes that profit sharing would also help direct the UK towards full employment. The effect of the Government's fiscal incentives to profit sharing have so far been disappointing.

Converting Unemployment Benefits into Employment

Subsidies by Dennis Snower, American Economic Review (forthcoming)

- Dennis Snower of Birkbeck College and CEPR argues that unemployed people should be given part of their unemployment benefit in the form of employment vouchers for the firms that hire them. The vouchers would depend on duration of unemployment and training. The unemployed suffer particularly from the disincentive for firms to train: the benefits of training can be taken by other firms which poach employees after training. The unemployed also face credit constraints which make it hard for them to pay for training.

This 'benefit transfer program' idea has been implemented in the UK 'workstart pilot schemes' (though many commentators see the way it has been introduced as deliberately stacking the odds against success) and on a larger scale in the 'jobstart' initiative in Australia.

In Snower's model the longer a person had been unemployed the higher would be their voucher. After getting a job, the voucher would gradually fall in value. Larger vouchers would also be given to firms that could prove they were using them entirely for training.

Snower has also extended the idea to other parts of the welfare state, suggesting that other recipients who opted out of state benefits would receive 70% of the cost of the relinquished entitlements. For example people could opt out of pensions in return for government bonds with an average maturity commensurate with the costs. Parents with school age children would be able to pay for private education due to an immediate tax reduction. All taking these various options would have to be tied to compulsory insurance against sickness, disability or old age to ensure that they do not subsequently become burdens on the state.

Snower argues that this scheme would not undermine the welfare state either economically or politically. By tying the rebates to the real costs of provision to the government there would be no incentives to vote for a run-down of the state sector. Instead the result would be a complementary balance between public and private provision.

Unhappiness, Unemployment and Economic Policy

by Andrew Oswald CEP, LSE and Andrew Clark, CEPREMAP, Paris (forthcoming in The Economic Journal, 1994)

- This study examines the popular idea that large numbers of people are voluntarily choosing unemployment because of the generosity of financial aid. Given the importance of this issue for policy, it is remarkable how little it has been tested. Economists have preferred to rest on a priori assumptions (about utility maximisation) rather than testing their theories with real people.

Using data from the British Household Panel Survey, Oswald and Clark aim to fill this gap. They show that the unemployed have much lower levels of mental well-being than those in work. If unemployment was voluntary the jobless should be roughly as contented, other things being equal, as those with jobs. Instead, joblessness increases mental distress more than divorce or separation.

This distress is not uniform. It is worst for those with higher education. It is not as bad for the young (who have less experience of gaining meaning from work), and for the old. Regions of relatively high unemployment show lower levels of mental distress amongst the unemployed. The long-term unemployed also show lower levels of distress when compared with those who have recently lost their jobs.

The lines of causation are not immediately obvious: eg unhappy people may find it harder to get a job. The authors suggest, however, that most available evidence implies that the causation is primarily from unemployment to unhappiness rather than vice versa.

The authors conclude that policy measures aimed at reducing voluntary joblessness by cutting financial benefits would be misguided, and rest on theory rather than empirical research.

UK Policy Demolition: The National Commission on Education

Douglas Hague

'It has a bureaucratic recipe for almost everything and an intellectual grasp of almost nothing'

One of my favourite aphorisms is that the British establishment has never missed a consensus yet. Since, the National Commission on Education largely represents the education establishment, together with business and civil service hangers-on, it is not surprising that this report of its findings represents a consensus view. Unfortunately, like most consensuses, it has fundamental flaws.

It shares the strengths and weaknesses of reports from large, arthritic organisations. Its strength is that it provides an enormous amount of detail about the economic and social background to education, on current developments and future possibilities. It also has painstaking lists of issues, action points and recommendations. Its weakness is that it reads as though written by bureaucrats for bureaucrats. Perhaps because of this, it misses the big questions. It has a bureaucratic recipe for almost everything and an intellectual grasp of almost nothing. It fails to enunciate forward-looking principles to underlie education in the next century and is actually less aware of what that century will require than was Alvin Toffler in *Future Shock*, back in the 1970's.

It is easy to identify five crucial issues which have been missed. First, like most bureaucrats, the Commission has no sense of history and fails to point to Victorian legacies which we must lose. Second it seriously misunderstands the role of nursery education. Third, there is a similar misunderstanding of the position of universities in the new market place for knowledge. Fourth, it has no real appreciation of the importance of learning nor, fifth, of the key sources of innovation in the knowledge society.

Legacies of History

One of the oddest things about *Learning to Succeed* is that its careful reporting of general trends somehow manages to exist in a vacuum. As a result, the Commission fails to see that many defects in today's education system are a result of our inheritance from the Victorians.

Before UK manufacturing developed on a large scale, private and church schools concentrated on rather academic training for the professions or for leadership in national or imperial institutions. Apprenticeships, in craft and other guilds, trained craftsmen.

Universal state education, when it came in 1870, aimed at none of this. It sought to produce workers who would willingly operate machines, clerks who could read and bookkeepers who could calculate. It could not guarantee stamina, but it did try to inculcate good timekeeping and amenability. Britain had designed a mass-production school system, with carefully standardised syllabuses, and regular time-periods; signalled by bells. The school was a simulated factory. Workers were trained for manufacturing; they were not educated.

The Victorians also lumbered us with the belief that by the time we leave school or university we have already acquired a whole lifetime's learning and that there is an impenetrable boundary between class-room and business. In a knowledge society where individual initiative and learning are now key skills, the remaining vestiges of that inheritance must go. The industrial revolution may have made us the work-shop of the world but, until we shake off its legacies, we shall remain, in the Commission's words, 'the dunces of Europe'.

Nursery Education

The Commission is a leading proponent of universal nursery education and there is a real danger that Britain's new found enthusiasm for nursery education will turn out to be simply one more of the panaceas we espouse so willingly. It is already being credited with the ability not just to free single mothers for work but to turn teenagers against antisocial behaviour, crime and drug taking.

We have to doubt the Commission's judgement because its second basic failing is to have ignored important new principles being enunciated in Cambridge, Mass., not least by Howard Gardner of the Harvard Graduate School of Education, who wrote perceptively in Issue 1 of the *Demos Quarterly*.

The Commission rightly reports his finding that there are several kinds of intelligence, though they do not work through the implications of that for the development and status of children who are weak in linguistic and logical-mathematical intelligence. This is a real problem in Britain, which sets too much store by 'academic' achievement.

More importantly, the Commission appears unaware of Gardner's other important book *The Unschooled Mind*. In it he reminds us that children are naturally inquisitive. By the time they reach school most of them have, of their own volition, learned large numbers of words and created their own mental models and semi-rational learning methods.

The Commission insists on the need for self esteem. What is more damaging to esteem than to be told, implicitly at least, on starting school that what we have taught ourselves as small children is worthless; that we must start again in the 'right' way. The Commission has not recognised, let alone tackled, the crucial educational question which this raises, namely, how to create as seamless a link as possible between pre-school and school learning.

The biggest task for nursery education (and for primary schools) is to so arrange this transition from home that far fewer of us end up, in Gardner's words, with 'a five year old *unschooled* mind struggling to get out and express itself'.

An anecdote clarifies the issue. A local vicar recently spoke to a class of five-year-olds and began by asking: 'What is grey, eats nuts and has a bushy tail?' Met with total silence, he repeated the question and in the end got a timid response: 'I know the answer is Jesus, vicar, but it sounds like a squirrel to me.' That is what the experts call 'correct answer compromise'!

Universities under Threat

The worst part of the Report is that on universities, the reason for this appearing at the very beginning of the chapter. 'In a society in which knowledge and applied intelligence are central ... universities have a mission to pursue and transfer new knowledge; to help to manage and apply the international knowledge explosion.'

The reality is that, with increasing numbers of clever people outside the universities, they are now far from central to the country's intellectual life. Think tanks, the media and multitudes of small knowledge businesses are pushing them towards the periphery. The main reason is that businesses have to be more practical, alert and ruthless. Most parts of most universities do little to prepare students for the pace and focus of knowledge businesses.

The Commission therefore overestimates the strength of universities as knowledge producers and when it comes to knowledge transfer, the universities' position is even weaker. It is not only that, with outstanding exceptions like the Open University, academics have yet to come to terms with the invention of the printing press. Lectures are still seen as a superior medium in too many faculties. Very soon

'If a camel is a horse a designed by a committee, perhaps conventional wisdom is radicalism devised by a commission'

television, video and audio tapes as well as multi-media systems will link interactive computers with film. They will give everyone access to the world's best presenters at the touch of a switch.

Even so, the really significant erosion of the universities' position will be in the more general transfer of knowledge. *The Economist* put it dramatically (December 25, 1993) in a splendid piece on universities. Developments in information and communication technologies 'have succeeded in divorcing knowledge from institutions'.

People and businesses will increasingly get information, and knowledge, from wherever it happens to be and increasingly that will not be in universities. The only effective protection which the universities still have against competition is in teaching, via the monopoly in awarding degrees and we have seen why one must ask whether that will remain intact in the information age. We already have Unipart University. How long will it be before we have Granada College and IBM University?

Not a glimmer of these threats to the university or of the edge which its competitors will have over it in the twenty-first century appears in the Report. It implies that universities will remain a combination of teenage ghetto and ivory-tower research laboratory. An outstanding opportunity to air vital issues for the country's development – academic and business – has been missed. The impression given is that far from being fundamentally threatened, British universities remain, as Adlai Stevenson said in another context, 'approximately wonderful'.

Learning to learn

The Commission emphasises the need, especially in schools, for training in thinking. It would have been more to the point had it called for learning, yet even that would not have been enough. Even for those who will pursue 'academic' careers, and certainly for everyone else, what is needed is preparation for a knowledge society where most people will work for learning, organisations. What is needed is therefore higher-level learning (meta-learning) where all learn at every stage not simply what they have learned, but how they have learned and therefore how to go on learning later in life.

Most important, we should recognise that as children grow older, learning must increasingly be about the nature of the systems which they will deal with, especially at work. These are not simply technical – like computer systems; they are sociotechnical, with people, machines, computers, markets and money all related.

More businesses are recognising the need for 'systems thinkers'. Even the Civil Service will have to do so in the end. The kind of thinking instilled by study of the classics is out of fashion because it is not systems thinking. Nor can scientific thinking alone handle the issues of people and markets. To enable students to learn multi-disciplinary systems thinking must be a vital objective of twenty-first century schools.

The knowledge society will therefore call for continuous learning throughout one's life and the role of schools and universities in this will have to be much more powerful than the Commission envisages in its wishy-washy discussion of 'Learning through Life'. There will be exciting challenges: because schools and universities will have to be much more open; because those from outside will have much to offer as teachers as well as students; because most people can learn how to learn if helped to do so.

In its unperceptive way, the Commission gropes towards this, but for it the school and especially the university remain the locations where teaching and learning happens. But will they? The most difficult question of all, but the most important when we discover how to answer it, is not simply what the school (or university) of the future will be. It is where it will be. For example, will the 'open' school refurbish the apprenticeship system for the twenty-first century?

Innovation and the Economy

Rightly, the Commission emphasises the need for innovation in a world where Britain must cope with step changes in technology, knowledge and the rate of growth of the economies of the Pacific Rim. The problem again is that the Commission's view of innovation is that of large organisations, where genuine entrepreneurs are resented if not resisted – and often driven out altogether. Big organisations can innovate, though in Britain they have been rather unsuccessful in doing so, but the knowledge age is the time for innovation by small, entrepreneurial organisations.

Many entrepreneurs learn avidly. Put an entrepreneur with a group of businessmen from larger organisations and he insists on learning from them, even turning a session where he was invited to answer questions into one where he asks them. He learns because he needs to learn in order to succeed, not because his school or university has prepared him for it. Is the 'unschooled' mind at work?

It is therefore arguable whether an entrepreneur should attend a conventional university, or a school sixth form, at all. The point is well put by a story, which I do not think is apocryphal. A distinguished British scientist asked a distinguished British sociologist whether he agreed with Lord (Keith) Joseph that a university education would destroy entrepreneurial instincts. He replied: 'I certainly hope so!'

Entrepreneurs are vital to Britain's success in the next few decades, but the Commission does not even realise that this raises crucial questions for the contemporary education system.

To its credit, the Commission does recognise that we must encourage educational experimentation and innovation, but it does so only within its own narrow view of innovation, advocating bureaucratically organised research. And to the extent that this (or local experiment) did improve educational performance, its chosen vehicle for publicising success and failure in these experiments, to ensure that others learned from them, would be an expanded quango.

The quango would advise Secretaries of State, of all people, on innovation policy. To spread understanding of the research findings, it would use the ultimate weapon of all government departments – ‘a brief annual report’. How little the Commission understands innovators! Moreover, centralisation is not the answer. Where difficult problems arise, pluralistic experimentation is always the best solution.

We spend £32.3 billion a year in Britain producing the ‘dunces of Europe’. The Commission is credulous enough to believe that spending another £1.4 billion, with more nursery schools and what it mysteriously calls ‘good sense’ thrown in, would transform the situation.

The saddest thing about *Learning to Succeed* is that it pretends to be ‘radical’, even using the word in its sub-title. But then, if a camel is a horse designed by a committee, perhaps conventional wisdom is radicalism devised by a commission.

Project Reports

The future of the charities

This project is being supported by the Charities Aid Foundation and one of the large research foundations. It is investigating the long-term strategic choices and pressures facing the charities and voluntary organisations. It is now underway with a number of working groups and seminars. Two papers have been produced and are available for £5 (£3 for Demos subscribers). The first is titled *'The future of the charities: themes and issues'*.

It examines the long-run scenarios within which the charities will be operating; the role of the sector in the major debates surrounding the reinvention of government, the regeneration of civic life, permanent unemployment and the question of altruism and selfishness. It argues that many of the sector's structures are becoming anachronistic and that its assumptions of virtue are no longer tenable in some areas. The paper also sets out the core goals of the research project. The second working paper, *'Rethinking Charity Finance'* investigates the long-term options for charity finance. It highlights the stagnation of existing sources: corporate and individual donation and government funding. It looks at four areas of development: new models of investment; uses of hypothecated taxation and bonds; finance methods that directly empower end users; and new partnership structures of finance involving government. Other working papers on subjects such as the nature of associational life, the new arguments about competition coming from the US and questions of charity regulation will be appearing over the next few months. The project will culminate in a major report to be published in early 1995. A full day seminar on the economics of the voluntary sector is being held in Bristol on 13th April. For further information please contact Charles Landry or Joanna Wade at Demos.

The seven million project

This project, outlined in Issue 1 of the Demos Quarterly, is examining the political and economic concerns and aspirations of the 18–34 year old age group of women in the UK and is now underway. Its core costs have been covered by a generous grant from the Joseph Rowntree Charitable Trust. A group of up to 10 corporate mentors with good records in equal opportunities is being assembled to cover the research costs. The project is particularly concerned with the interactions between men and women in this age group, both at the workplace as equal opportunities policies move beyond targets, and at home as attitudes to parenting slowly change. A series of working papers will be produced, alongside the detailed quantitative and qualitative research which is the project's core. A final report will be published in 1995. The project is being coordinated by Helen Wilkinson.

Quangos: are they accountable?

The proliferation of quangos has occurred ahead of hard thinking about their legal status and accountability. This project is examining how Britains quangos can be made more accountable. Its core concern is with the legal status of quangos, the responsibilities of directors, and the formal definitions of membership and accountability. The study is being carried out by John Plummer, formerly Chief Executive of Community Industry. It will be published in the summer of 1994. It will be complementary to other Demos work on quangos, such as the *'Power of the Boot: the case for contestable public institutions'*, which was published in November 1993.

The new economics

Demos has received funding from the Economic and Social Research Council to run a series of seminars on the 'new economics': recent advances in economic ideas presented to audiences of users of economics in government, industry and elsewhere. Several introductory seminars have already been held. The first main seminars under this heading will be held in the spring and summer and the series will continue through the first half of 1995.

Subsequently the best materials will be published in pamphlet format.

The future of public parks in the UK

The joint Comedia/Demos study into The future Parks and Open Spaces in the UK has got off to a flying start, with the majority of those local authorities invited to participate and contribute towards the research costs now committed. These are: Bromley, Bristol, Cardiff, Greenwich, Hounslow, Leicester, Merton, Middlesbrough, Sheffield, Southwark and Sutton. Related research is being conducted in Glasgow and Dublin. Sponsorship has come from the Corporation of London, and talks have been held with the GMB about possible support, as well as with the Baring Trust. Different cases studies will be conducted in each town or city, on topics such as 'Asian Women's Perception and use of Parks', 'CCTV, and other surveillance regimes in the public sphere', 'Reconciling conflicting user interest lobbies,' 'Wilderness or active recreation?', 'Children, safety and play.' Four working papers are to be published on March 1st: *The Study Brief; Law, Management and Money; Lost Childhoods: Taking Children's Play Seriously and Unnatural Places: Ecology, Parks and Urban Life*. The first seminar, on *The child in the City* is to be held in conjunction with the Architectural Association on March 1st.

All working papers cost £5, and can be obtained either from Demos or Comedia, The Round, Bourne Green Nr Stroud, Glos, GR6 7NL.

The Millennium Project

Demos' computer conferencing network is now fully operational and host to some very lively debate which is read and used by Demos' staff every week. Topics discussed so far include: reinventing democracy, worksharing and the future of the voluntary/charitable sector. If you haven't joined yet all that is needed is basic computer literacy, access to a PC with a modem attached, and the motivation and time to get involved. The software and instructions are available, free of charge, direct from David Mercer, Open Business School, Walton Hall, Milton Keynes MK7 6AA.

The Demos contact is Martin Bartle.

Media Watch

The parenting Deficit

by Amital Etzioni, published on October 15th, 1993

This pamphlet was published just a few days after several senior ministers had put the question of single mothers on the centre of the political stage. Etzioni's argument, shifted attention to the more general crisis of parenting, and the problems of getting men to shift their habits in tandem with the movement of women into the workforce. A piece setting out the core argument by Etzioni was carried in the Guardian and there were news stories and editorials in the Scotsman, the Independent (with the title 'parenthood and the British Male') and Independent on Sunday (under the title 'Family Devalues'). Etzioni's work was also featured in a column in the Observer. The author, who visited the UK to coincide with publications, appeared on numerous radio programmes around the country. The pamphlet was also featured on several radio programmes and on channel 4 News and has continued to attract widespread attention as the debate about the family has rolled on. Subsequently Etzioni has been widely reported as favourite reading of US President Bill Clinton.

Sharper Vision

by Ian Hargreaves published 14th November 1993

With the debate about the BBC's future in the doldrums, the Pamphlet's publication coincided with a renewal of interest in the UK broadcasting industry, coming a few days after an initiative by Michael Heseltine to begin developing an industrial policy for broadcasting, and shortly before a vigorous debate about takeovers in commercial television. The pamphlet was previewed in the Independent. It was excerpted in a double page spread in the Financial Times, and covered in another double page spread in the Guardian which also included responses from 4 senior figures from the broadcasting industry. A news piece in the Independent on Sunday used the title 'Scrap licence fee urges ex-BBC man'. The independent subsequently described it as 'better than anything produced within the BBC, and both Andrew Marr and Hamish Mac-Rae discussed it in their columns. The pamphlet has also been mentioned in a wide range of other newspapers and magazines including Broadcast and the Economist. An edited version has been translated into Swedish.

The Worlds New Fissures

by Vincent Cable, published 23rd January 1994

Coming shortly after the election success of Zhirinovskiy and the rows of national identity and GATT, cable's book provided the first comprehensive framework for understanding the complex shifts taking place in world politics.

An edited version of the pamphlet was carried in the Independent on Sunday. Subsequently it has been discussed by Simon Jenkins in the Times, by Joe Rogaly in the Financial Times and Melanie Philips in the Observer (under the title 'Politicians must face the Identity Crisis').

Epithetic pluralism

It was always the intention that Demos should avoid easy pigeonholes and labelling. However, since journalists generally need a label to introduce a new institution we have now gathered an interesting variety of epithets from the press. While most commentators have simply used our preferred option, the word 'independent', others have been more adventurous. Over the last few months all of the following have turned up in the national press: unaligned, non-aligned, non-party, all-party and cross-party; iconoclastic, radical; the think-tank of the hard centre', independent research centre, and the think-tank that faces in all directions'.

The Times has been particularly imaginative variously describing Demos as anti-establishment, iconoclastic and the think-tank of the anguished centre'.

Others

An edited version of the working paper on quangos, 'The power of the Boot', was carried in the Financial Times on 23rd November 1993. Pieces related to Demos arguments by Martin Jacques appeared in the Sunday Times in July ('The End of politics') and January 1994 ('The Establishment').

Signs of the Times

jobs for life	life through jobs
workfare	learnfare
full time	part time
hands	brains
work for the boss	self-employment
security through work	security through employability
taxes on work	taxes to foster work
learning facts	learning to learn
filling holes	filling brains
consumer sovereignty	sovereignty through work and learning
masculine work	feminisation
47 3 47 3 47 5 100,000	37 3 37 3 37 5 50,000
formal	informal
strength	dexterity
service industry	domestic service
keeping you in your last job	helping you into your next job
military service	community service
hardware	wetware
educating elites	educating majorities
fixed life cycles	flexible lifecycles
normal work	underwork/overwork
protestant work ethic	new work ethics
9 to 5	just about anything
robots	knowbots

Publications to date

Reconnecting Taxation

by Geoff Mulgan and Robin Murray

Geoff Mulgan is Director of Demos. Robin Murray works for the government of Ontario. ISBN1 898309 00 0

An End to Illusions

by Alan Duncan

Alan Duncan is Conservative MP for Rutlad and Melton. ISBN 1 898309 05 1

Transforming the Dinosaurs

by Douglas Hague

Sir Douglas Hague is an Associate Fellow of Templeton College, Oxford, non-executive director of CRT Group plc and President of Corporate Positioning Services. ISBN 1 898309 100 8

The Parenting Deficit

by Amitai Etzioni

Amitai Etzioni is Professor of Sociology at George Washington University. He has previously worked at Harvard Business School, the Brookings Institute and the White House. ISBN 1 898309 200 5

Sharper Vision

by Ian Hargreaves

Ian Hargreaves is Deputy Editor of the Financial Times. He was previously head of news and current affairs at the BBC. ISBN 1 898309 25 6

The World's New Fissures

by Vincent Cable

Vincent Cable is Director of the International Economics Programme at the Royal Institute for International Affairs. ISBN1 898309 35 3

Demos' publications are available for £5.95 post free from Demos, 9 Bridewell Place, London EC4V6AP.