

AGAINST UNEMPLOYMENT



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Acknowledgements

Since the period of high unemployment began in the late 1970s, the Policy Studies Institute (PSI) has been continuously involved in research on both the labour market and social aspects of unemployment. It has also conducted or participated in numerous studies on the functioning of the labour market, covering both the practices of employers and the experiences of workers. Much of this research has been on a national scale, although it also includes smaller-scale, local, and qualitative studies.

The present book was largely conceived as a synthesis of PSI's research on the nature and consequences of unemployment. The aim was to draw together findings in such a way as to provide a long-term perspective on how policies against unemployment might be developed.

My thanks go first of all to the colleagues who have contributed to PSI's research, whose findings and ideas I have drawn upon so extensively here. This book often speaks in the first person plural: this is not the royal but the collegiate 'we'. I am specially grateful to Bill Daniel for the wealth of his research; for the support he has given to this venture throughout; and for his more specific help in developing the book from its initial draft. Susan McRae also provided substantial help at various stages of the research. Richard Berthoud provided information and comments particularly upon social security aspects.

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Responsibility for the book's conclusions, and shortcomings, remains mine.

1 The Aims of Policy against Unemployment

A fresh consideration of the aims of policy against unemployment is needed to fill what has become, in Britain at the beginning of the 1990s, a vacuum. It is far from clear whether any political party retains any commitment to a full employment policy, and if so, what this commitment amounts to in terms of specific priorities and actions. Conversely, if full employment has been abandoned as unattainable (temporarily or permanently), what has been put in its place, and how is the new objective to be justified?

There is a widespread sense among those who work on problems of labour markets and employment that the framework for post-war unemployment policy, provided by Keynes¹ and Beveridge², has passed away. But no similarly wide framework has been offered in its place. Perhaps a useful first step is to recognize the characteristic strengths of that wartime formulation of policy aims, and then to review what has happened to weaken its relevance. This does not have to be an exercise in economic nostalgia, however. Rather, we need to abstract what is useful in the general approach to policy formulation, while firmly casting aside the particular policies which have worn thin.

What remains impressive about Beveridge's approach is his willingness to expose and discuss underlying values, and then go on to express them in concrete and practical goals. Full employment was defined by Beveridge in quantitative terms, a practice rarely adopted by governments in their policy commitments, but that was only the most superficial aspect of his clarification of aims. More basically, he defined unemployment (specifically, long-term unemployment) as a social evil which it was the responsibility of government to overcome provided that no greater evil would be incurred. The reasons for believing that unemployment was a social evil were clearly expounded, and the conditions which employment policy would have to satisfy, in order to avoid possible charges of replacing one set of evils with still greater ones, were considered at some length.

The clarity and commitment of early post-war employment policy owed much to this foundation of values articulated by Beveridge. But they were also based upon confidence in the means of achievement. The instruments of demand management, on which the 'Golden Age' of the post-war era was built, were so simple as to inspire this confidence, especially as they had already been tested during wartime planning³. The state could ensure the right conditions for steady growth in the economy, enough to achieve full employment while keeping inflation moderate, simply by adjusting its own spending to a level which would increase total demand in the economy at the desired rate. Of course, this simplicity was more apparent than real. Beveridge's own 'Full Employment' report contained many remarks about the difficulties, and detailed discussions of the complex conditions which would need to be fulfilled in order to make such a system work in a reasonably stable way⁴. Nevertheless, Keynes and Beveridge between them described not just aims and values, but quite specific policies which could be followed by the practical world. And those policies did not depend upon formalized economic theory, which was never the strong-point of Keynes, but on the capacity of the ideas to be turned into action.

To critics of Keynesian demand management, it appears largely a matter of luck that things worked as well as they did for as long as they did. This part of the story does not concern us, and we can leave it to the economic historians to thrash out⁵. Our part of the story begins about 1970, and by then, most would agree, the conditions which had made workable what we may now call the 'simple' system of demand management, had passed away. The world manufacturing economy was beginning to falter, just as the material expectations of workers everywhere were really taking off⁶. A crumbling of the international financial system in the late 60s and the early 1970s⁷, was followed by the oil-price crisis of 1973. These events fatally weakened the confidence of political and business leaders. In Britain, as in many other countries, moderate wage and price inflation turned to severe inflation as workers and businessmen tried to protect themselves against the falls in wages and profits which they foresaw. Nobody won this game: profitability floundered, productivity stagnated. Demand management came to be seen as part of the inflationary spiral, and was widely abandoned by governments. With it went full employment in its original sense.

From 1981 to 1988 official unemployment in the UK was around 3 million people, or about one in eight of the labour force, and was virtually unaffected by what has come to be known as the 'long boom' of the 80s, which followed the recession of 1980-81. At April 1988, there were nearly 2.5 million unemployed according to the ILO definition⁸, while in addition nearly 0.4 million were on government schemes without employment status, and there were about 0.2 million 'discouraged workers' – people who not so long ago had wanted work, but had given up looking for it because of its scarcity. In the next

two years (1988-90), unemployment did finally drop substantially, but this appeared to be largely the result of an old-fashioned consumer spending spree⁹ and was followed by an alarming resurgence of inflation. At the end of the 1980s, as 15 years earlier, the linked problems of unemployment and inflation appeared as intractable as ever before. Commentators are prepared for a return to 2.5 million unemployed or more.

The first and most essential part of a review of policy towards unemployment must be to ask whether full employment remains or should remain the objective. If not, then in what way has the aim of policy altered, what should that aim be now, and how can an alternative aim be justified? But even if full employment remains the objective, we should still consider whether the original justification for that aim remains valid (was it, indeed, ever valid?) or whether full employment should be sought in a new sense or for different reasons.

A high unemployment policy?

We cannot, of course, judge whether aims which have never been stated by government have actually been 'in the minds of' policy makers. But many commentators have not only attributed a positive desire for high unemployment to government, but have themselves seen merit or reason in such a policy. In the era of demand management, moreover, businessmen were often heard to complain of the effects of tight labour markets both upon wages and upon the availability of labour. Such complaints could be construed as arguments for moving towards high, or at least higher, unemployment.

There is, of course, nothing new in the idea that a large pool of unemployed workers serves to force wages down. But if rising or high unemployment did so, the consequence (according to the now orthodox economic theory) would be an increased demand for labour on the part of employers. Cheaper labour would provide them with the opportunity to compete more strongly in overseas markets, and to create or expand markets in the domestic economy through lower pricing. It would also reduce their incentive to invest in labour-saving plant and equipment. For all these reasons, a policy to create or permit high unemployment *in order to force wages down* should be a purely temporary one, because as wages fall, so too does unemployment.

Prior to the era of demand management, however, the level of unemployment fluctuated widely with business cycles, so that over a period of around seven or eight years¹⁰ there would be a phase of higher unemployment (corresponding to a slackening in product markets) followed by a phase of lower unemployment (corresponding to a boom). Because the unemployment level fluctuated in this way, workers may have generally been cautious about pressing for wage increases, even in better times: unemployment was a visible cloud on the horizon, even in the short-lived boom periods. Wages and prices showed very little inflationary

movements over long periods, and this could be attributed in part to the discipline of the business cycle. By abandoning demand management, governments (not only in Britain) might conceivably have imagined that they were returning to this situation. It was not so much that they would pursue high unemployment on a continuing basis, as that they would permit the level of unemployment to fluctuate with market forces as they once did. This would also be consistent with the frequently emphasized commitment of government, both in the UK and elsewhere, to the general restoration of market forces within the economy.

Similar reasoning can be applied to the link between high unemployment and another explicit aim of policy in the Thatcher government, the reduction of the power of trade unions. The experience of the 1930s demonstrated that high unemployment leads to a sharp fall in union membership and bargaining power. Moreover, a period in which unions were economically weak may have been seen as necessary for carrying out legislative changes to remove some of their statutory privileges, and hence reduce their power in a more permanent way. Once again, however, the point of such a policy would be to reduce bargaining pressures and consequent rates of wage increase, and as this became effective, unemployment would be expected to decrease as demand for relatively less costly labour picked up. A government could not reasonably adhere to the wage theory of unemployment, a policy of weak trade unions, and a policy of continuing high unemployment, all at the same time.

Moreover, it is not at all clear that a policy of allowing unemployment to fluctuate with the market would have an adverse effect on trade union power. It was precisely these conditions of continual uncertainty which led to the establishment of trade unions in the nineteenth century.

It could be that this is to take a too-economic view of policy towards trade unions. If the concern is with the wider social and political power of trade unions, or with their alleged interference with individual liberties, then could not a government aim to use high unemployment on a continuing basis to keep unions weak? This change of emphasis would not, in fact, alter the conclusion. Trade unions may be more-than-economic organizations, but they are certainly economic organizations. By weakening them, one would have to expect a lowering of unemployment via the wage effect (if one held to the wage theory of unemployment).

So it is hard to find any rationale for a government to pursue a long-term policy of high unemployment, but it is easy to see that a government might foster a temporary period of high unemployment, or a regime of fluctuating unemployment, as a means of combating wage pressures in the economy.

In a feature article of 14 October 1989¹¹, the *Financial Times* speculated that the Thatcher government had accepted high unemployment *in the short term* as a means of weakening wage bargaining, but had lacked the will to persevere with such a policy when it failed to produce the expected quick results. Accordingly,

by 1986 it had moved towards a policy of fiscal and monetary stimulation of the economy, which effectively ended any possibility of a wage-led recovery from unemployment. In addition, the article observed that, whatever its initial attitude towards high unemployment, it was not long before the Thatcher government began to build an ever-growing raft of measures to mitigate the impact. In fact, in the UK such measures have tended to be more numerous than in other industrial countries facing high unemployment¹².

On balance, then, it seems unlikely that the Conservative government of the 1980s deliberately pursued a long-term policy of high unemployment, but it seems rather likely that it sought a return to a widely fluctuating level of unemployment which would restrain the build-up of wage pressures. It appears that the Labour party had also by 1990 accepted that a *stable* full employment could not be a policy commitment¹³; implicitly, it was moving towards acceptance of fluctuating levels of unemployment.

If these are indeed the (unstated) policy positions of both major parties, then they need to be questioned on grounds both of morality and of practicality. Is it acceptable to permit unemployment to fluctuate without restraint, if there are means available to prevent or to dampen such variations? Moreover, how rational is a fluctuating unemployment rate, when the experience of the 1980s suggests that the unemployment rate does not move smoothly, but jerks violently from low to high levels, and then becomes extremely difficult to shift?

Indifference to unemployment

The speculations of the previous section may have assumed too much strategic thinking about unemployment on the part of governments. High unemployment may not so much have been actively fostered, as allowed to happen by default. Until the end of the 1960s, full employment was at the top of policy goals in Britain and in many other countries, but after that, one might say, it slipped down the order of priorities. As policy objectives moved in different directions in response to new and frightening economic pressures, the control of unemployment and the pursuit of full employment may have fallen right off the agenda. Policy makers may not have wanted unemployment, but they may have been so preoccupied with other aims that they became, in practice, indifferent to it.

A good indication of this relatively neutral view of unemployment is the book *Britain's Economic Renaissance*¹⁴ by Alan Walters, formerly personal economic adviser to the Prime Minister. Here an expert in fiscal and monetary economics, closely involved in policy, provides a revealing insight into the economic problems which preoccupied government in the early 1980s. These included the functioning of capital markets, the reduction of public sector debt and a reversal of the 'crowding out' of the private sector, and, central to it all, the control of inflation and the restoration of financial stability. From the point of view of our

inquiry, it is the silences which speak loudest: employment and the functioning of the labour market figure very little in Walters' analysis.

In terms of explaining unemployment, Walters places himself in the camp of orthodox wage theory:

'the great majority of those who are unemployed, and actively seeking work, are jobless because wage costs were too high'¹⁵.

At the same time, he accepts that there has been no satisfactory explanation of why real wages continued to increase after the onset of high unemployment. Implicitly, then, he must also accept that there is no prospect of a fall in unemployment, until means are found to restore the functioning of wages, of which he remarks 'Easily said, but alas one of the most difficult tasks'¹⁶. Looking about for government policies which addressed this task, he was able to point to only one, the small-scale and short-lived Young Workers Scheme. In the end, he concludes that probably not much could be done by government about wage movements, other than to ensure financial stability as a background condition. He therefore leaves high unemployment as an unresolved problem.

Walters' exposition can therefore be read as evidence of a shift in the perspective of government, leading to the eclipse of unemployment as a central concern. More systematic evidence to the same effect can be found in the work of economic historians, such as Maddison¹⁷ or van der Wee¹⁸, not only relating to Britain but to most industrial economies. In the 1970s, it is clear, governments were faced by an increasing level of complexity in economic management, and at the same time by a decrease in the predictability of events. The central concern became economic stability, presented to voters in terms of 'the battle against inflation'. Actions to restore stability were seen as imperative; while some increases in unemployment were undoubtedly foreseen, these were either assumed to be transitory, or were simply set to one side because of the overriding concerns.

There is a case to support the view that economic stability must be paramount, and that when it is threatened all other considerations must be regarded as secondary. The edifice of modern economies is built upon confidence in money, and that confidence requires a degree of stability to maintain it. Maddison has criticized the actions of governments in the 1970s as needlessly restrictive, but policies have to be formulated in real time rather than with the benefit of hindsight. While there is plenty of scope to disagree with the policies, they cannot be regarded as totally unreasonable. If policy makers could have foreseen the persistence of high unemployment they might have acted differently; but while economic analysis told them to expect higher unemployment, it said nothing about the persistence of that unemployment when more favourable economic conditions

returned. In short, a temporary indifference to unemployment was an understandable, if sad, outcome of the tunnel-vision naturally resulting from exceptional pressures.

Deferring full employment

The employment policy of governments, in the late 70s and the 80s, can be read, without great implausibility, as a hiatus while attention was engaged elsewhere. The subsequent vacuum of policy has reflected uncertainty and impotence. But governments rarely admit to having lost their way. It is much easier to see the search for a new road in the writings of the many theorists and policy analysts who, sometimes at an early stage, began to diagnose what was going wrong with economies and job markets. We will focus upon three economists who, despite great differences in approach, have contributed in a common form to the search for new policies. What they share is the seriousness of their *commitment to full employment*, and at the same time, their conviction that policies to achieve that aim require more difficult and fundamental changes than assumed under the old regime of demand management. Hence *full employment is a long-term objective rather than an immediate one*, yet it is an objective to be pursued with undiminished determination.

An important British re-thinker has been Samuel Brittan. In his book *Second Thoughts on Full Employment*, published in 1975¹⁹, he used the concepts of monetarist economics, together with his own intimate experience of British economic institutions, to explain a phenomenon which was new at the time: the simultaneous growth of unemployment and inflation. According to Brittan, the key lay in the ability of individuals, and of trade unions, to anticipate the impact of government demand management upon inflation and to attempt to leap-frog over this inflation level with wage claims. Under such circumstances, attempts by government to stimulate the economy by tax cuts or state spending would lead to further acceleration of inflation. This attack on the established instruments of full employment policy, however, did not lead Brittan to advocate the abandonment of that aim.

‘So long as there are unsatisfied human wants – which means as far ahead as we can see – it is scandalous that human beings able and willing to help satisfy such wants should be kept out of jobs. My attack is directed at the simple and beguiling view that the way to tackle the problems is always through deficit finance or the injection of money through the banking system.’²⁰

But this quotation also suggests why analysts of this persuasion are often suspected of not *really* wanting full employment. For, like others who approach employment issues from a monetarist viewpoint, Brittan’s attachment to a full

employment objective results primarily from a desire for economic efficiency and an abhorrence of wasted resources. This contrasts with the underlying aims of Keynes, in particular, who wanted full employment largely because of its contribution towards a more egalitarian society²¹. A degree of egalitarianism was common to most of the political centre who supported demand management policy. For the Keynesian school, one might say, equity was the important goal, efficiency a constraint to be satisfied; for monetarists, efficiency is paramount.

Monetarists' taste for efficiency makes them willing to accept periods of quite severe unemployment as part of the necessary price for finding a solution to the problem of full employment. The delays in getting to full employment are inevitable, in the view of analysts such as Brittan, because any genuine advance depends upon changes which remove the rigidities on the supply side of labour markets, and restore the power of wages and prices to vary downwards and bring about a reduction in unemployment. Brittan's remedies, for example, include:

- abolishing occupational demarcations
- modernizing training and apprenticeships
- encouraging housing mobility
- removing industrial subsidies
- limiting the monopoly power of trade unions.

Naturally, all these changes, with the possible exception of removal of subsidies, would require many years to be put into effect, and until they can be carried out, full employment is unattainable.

Furthermore, supply-siders such as Brittan are willing to envisage wider differences in earnings, and lower state benefits for unemployed people, in order to bring about an efficient labour market which would lead to full employment. This is contrary to the egalitarian values of those who have traditionally espoused the aim of full employment. It is true that supply-siders may seek to mitigate the social effect of such an increase in inequality, for example by increasing benefit payments to those in low-paid jobs²². In general, however, supply-siders tend to see an increased differentiation of income as an essential condition of full employment.

Monetarist supply-siders, such as Brittan, have also given priority to *sustainable* levels of full employment. This is closely linked to notions of economic stability: the meaning of a sustainable level of employment is that it does not lead to an acceleration in the rate of inflation. So what constitutes full employment for them may differ from one situation to another; sustainable full employment may be higher than the figure of three per cent unemployment which Beveridge had in mind. Indeed, economists working within the monetarist framework have suggested that the level of unemployment required to keep inflation from

accelerating increased rapidly during the 1970s²³. Full employment, then, becomes conditioned by and enmeshed with considerations of technical soundness, to the point where it may lose any popular attractiveness as a goal of policy.

It is not hard to see why traditional advocates of full employment find the position of supply-siders ambivalent and even insincere by comparison with their own commitment. But the wedge between the two positions is only a large one when a practical means of achieving full employment is immediately available. In that case, obviously, the effective difference between the two positions is between full employment now and full employment at some remote time. Once that high unemployment is established and the means of achieving full employment has become problematical and uncertain, then both sides must rely on a longer-term approach. Indeed, neo-Keynesians, no less than monetarists, have been obliged to develop proposals for change which depend upon the long-term reform of institutions in the labour market, and so offer 'jam tomorrow' rather than 'jam today'.

A case in point, and our second example of the goal of 'deferred full employment', is John Cornwall's 1983 book, *The Conditions for Economic Recovery*, which is subtitled *A Post-Keynesian Analysis*²⁴. Although in large part a spirited defence of demand management policies and a polemic against monetarists and supply-siders, there are remarkable points of similarity between Cornwall's and Brittan's analyses. Both see inflation as a fundamental problem, and both attribute it to rising real wage expectations mediated by powerful trade unions: indeed, Cornwall states that an 'inflation bias' is an inevitable characteristic of modern industrial economies with collective wage bargaining.

According to Cornwall, Keynes' contention that employment is primarily determined by the level of effective demand remains true, and the rising unemployment of the late 1970s and early 1980s is a simple consequence of the deflationary policies pursued by governments in that period. What is required, however, is a set of policies which *permit reflationary demand management without triggering severe inflation*. He turns to the example of those countries which negotiated the 1970s relatively successfully in terms both of low inflation and of full employment, especially Norway, Sweden, Austria, and Japan, and concludes that forms of cooperative relationship between unions and employers, leading to one or another form of voluntary wage restraint, lie at the heart of an effective anti-inflationary policy. To create a climate in which this cooperative relationship can be fostered, he advocates state policies such as progressive taxation of dividends; wage indexation insurance; a vigorous welfare state; and an active industrial policy to increase productivity and so support rising real wages.

In short, Cornwall turns inside out most of the analyses and policy recommendations of the monetarists and supply-siders. Yet the effect of his analysis and recommendations is certainly not to restore demand-led full employment as

an immediately achievable goal. The formation of a socio-political understanding between unions, employers and the state is not a short-term affair. And Cornwall (following the analysis of a British sociologist, Colin Crouch²⁵) recognizes that in the English-speaking nations, there appears to be a deep-seated antagonism between labour and management which militates against the development of the necessary consensus. Moreover, in the absence of such a consensus, he would apparently not recommend a return to simple demand management policies, since the control of inflation and the maintenance of a stable exchange rate are seen as essential in the light of the experience of the 1970s. Hence, like Brittan, Cornwall offers many positive ideas but little grounds for optimism about a quick return to full employment. He is clearly in the camp of *deferred* full employment, seeing this aim as one of a cluster which together would represent *efficient* management of national economies.

To find an economist prepared to view unemployment not as an aspect of the problem of efficient use of resources, but as a broader social issue, one has to go back to Gunnar Myrdal. In his book *Challenge to Affluence*, published in 1963²⁶, he spoke of the tendency of economists to deny the existence of social problems which could not be handled within their concepts and theories. He also depicted the unwillingness of policy makers, busily pursuing economic growth and technical progress, to acknowledge that these processes could fail to benefit minority groups, especially those who were in the most disadvantaged positions of society. While society progressed towards wide-spread affluence, these groups could become ever further removed from participation in this success.

Myrdal, who was writing about the USA of the late 1950s and early 1960s, particularly pointed out the existence of high levels of chronic unemployment and underemployment in inner city areas of decline, often peopled by black or hispanic minorities. These enclaves of unemployment existed alongside vigorous economic development and affluence. To explain how this could be possible, Myrdal pointed to a growing gap between the nature of the growth that was taking place and the *social* policies needed to support that growth. Advanced economies, he argued, moved in the general direction of higher quality products and higher level services, and therefore needed a rising quality of employee, in terms of education, technical or professional qualification, and work orientation. Inner city minority groups started at a great disadvantage from this point of view, and such a disadvantage could only be overcome by a long-term commitment by government to high levels of investment in education and improvement of social conditions. The absence of such investment – withheld for political reasons – made it impossible for the disadvantaged groups to get a share of the new economic opportunities. Such groups would tend to slip out of the mainstream of society and form an isolated class: the *underclass*.

Myrdal's analysis was not intended as an account of the whole of unemployment, but seems more relevant to European experience now than when it was written, nearly 30 years ago. Its importance lies, first of all, in suggesting that there are some kinds of unemployment which cannot be remedied through the workings of the labour market and the wage mechanism alone. Jobs are of various kinds, and the unemployed individuals may simply not fit the jobs which are actually on offer; employers will not want them, for those kinds of jobs, at any price. There is the possibility of a qualitative mismatch.

Such an analysis gives full employment a higher priority, in a purely pragmatic sense, than ever attached to it by Keynes or Beveridge. It suggests that there is a real danger of society splitting apart. At the same time, the notion of the underclass served to emphasize the strong positive value which Myrdal attached to employment policy. Full employment was an essential element in the integration of all sections into the society, and in the sharing of the society's achievements and ambitions by all its members.

The other side of the coin, however, was that full employment had to be seen, not as a branch of economic policy, but as an integral part of social policy. Moreover, employment policies could not stand firmly on their own without the support of wider social policies. Because of his perception of the deeply entrenched social nature of urban unemployment, and because of his recommendation of long-term investment in education and social infrastructure as the only remedy, Myrdal has to be described as an advocate of deferred full employment. The changes which Myrdal saw as being necessary to overcome inner city deprivation would require the commitment of a generation. A generation later, this commitment was not forthcoming.

Alternatives to employment

At the end of the Second World War, full employment was seen as easily achievable, at least in Britain. For the three economists whose views were outlined in the previous section, it was seen as desirable, attainable, but difficult: a matter to pursue by long-term, fundamental reform. But what if it was, in practice, unattainable? What reasonable, achievable, and equitable aim could be put in its place? Such questions become more compelling after nearly a decade of economic boom, as substantial levels of unemployment remain.

So far, very few have been willing either to consider the possibility that unemployment is to be a permanent feature of advanced industrial societies, or to put forward permanent alternatives to full employment as a goal for policy. Those that have, can be divided into two groups, which correspond to the two things which people are most obviously deprived of when they become unemployed. The first group concentrates on *the loss of work* and attempts to reconstruct society around alternative forms of work. The second concentrates on *the loss of social*

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status (including, but not confined to, *loss of income*) and attempts to find more satisfactory means of providing an acceptable social status for the out-of-work than the present system.

Alternative forms of work

Those who stress the loss of work which arises from unemployment tend to see technical progress as leading inevitably to a reduction in the total amount of work demanded by the economy. Hence present levels of unemployment merely form the prelude to much greater unemployment, unless social adjustments are made to a new situation. In part, this adjustment could take the form of a reduction of supply, for example through shorter hours of work or a shorter working life²⁷. This view had already been expressed by Beveridge in relation to the unemployment of the 1930s. During the first half of the present century, average working hours per worker fell by about one third, but have been reduced relatively slowly in post-war years.

More fundamentally, the 'alternatives to work' school, led with somewhat different emphases by Charles Handy²⁸ and James Robertson²⁹, questions the assumption that only paid employment should count as work, or that the economy should be equated with the world of paid employment. They point out that an enormous amount of unpaid, but economically essential, work is carried out in the home and in voluntary activities. Someone growing vegetables for market is counted in the official economic statistics, while someone growing vegetables for home consumption or to give to neighbours is not. Also, there has been growing interest in the grey area between the formal economy of paid employment and the domestic economy of housework, DIY and allotments: activities with small-scale spin-offs into the marketplace, usually unrecorded and untaxed. Unemployment relates only to the formal economy, leaving scope for compensatory developments in the home economy, in the grey economy, and in voluntary community activities.

The policy aim of the 'alternatives to work' school seems largely to do with the legitimization of these kinds of activities. Instead of exerting pressure on unemployed individuals to search for non-existent jobs, government should allow people to opt out of the formal economy altogether. Once such a step is legitimated, the informal economy will grow and flower, providing satisfactory alternatives to a life spent in paid employment. The problem of unemployment, on the side of work, will simply wither away, and society will reach an organic accommodation with the changes brought about by technology.

Alternative social status

The obvious question to pose about 'alternatives to work' is, What do people live on if they have no paid employment? In the British system of social security,

unemployed people obtain income support for an indefinite period, but must satisfy a test of availability for full-time work to be eligible for financial benefits. Activity in the home or in voluntary work may provide personal satisfaction and contribute value to the community, but will not substitute for income support from the state.

But if it is accepted that a *permanent* condition is developing, in which there will be insufficient employment to occupy all who seek jobs, then the availability-for-work condition for income support loses its justification. Income support requires a new principle on which to rest.

But income, though the most obvious aspect of social deprivation resulting from unemployment, is not the only one. Sociologists Ralf Dahrendorf³⁰ and Ronald Dore³¹ see permanent unemployment in much the same light as did Myrdal, and use the same term – *underclass* – to express their fear of a divided society. Dore, for example, believes that, with advancing technology and consumer tastes, there is an increasing group of less-able (or less educationally qualified) people who cannot be employed at wages above the subsistence level set by state income support. Under existing provisions, people in this less-able group are not only deprived of work opportunities, but also stigmatized and made to feel outcasts from society. They can then only maintain their self-esteem by disowning the values of the society which has repudiated them. Furthermore, there is a risk that offspring of people in this position will themselves be likely to follow suit. So, for Dore, the need is to find a system which restores dignity to individuals in persistent unemployment and puts them, in some basic sense, on an equal footing with the more fortunate majority who have employment.

Both Dore and Dahrendorf draw upon the notion of citizenship rights developed by T.H. Marshall³², that is, of a variety of rights held by all members of a society and, together, amounting to an idea of what it means to be a citizen. Hence the problem of state income support is not only the standard of living it provides, but its dependence upon procedures which place the individual's worth in doubt. The solution is to move towards a system of universal income guarantee for all citizens, to be received whether in work or out of work. Dore proposes that this should be done by progressive adoption of some form of 'social dividend' scheme, Dahrendorf by a negative income tax. A variety of universal income schemes has been proposed over the years, but the details of this highly technical subject do not concern us here. The point on which both Dahrendorf and Dore agree is that income needs to be distributed in such a way as to provide security for those without jobs while not distinguishing them from the remainder of society.

Does this imply the end of full employment as an objective? Some who propose universal income schemes hedge their bets here, arguing that these schemes also act in effect as wage subsidies, permitting real wages to come down

and so creating many new low-level jobs. But if that was the sole or the main purpose, then a selective wage subsidy scheme would surely be more to the point. Advocacy of basic income schemes indicates some deep loss of faith in the possibility of full employment, except perhaps in the very long term. Full employment has become sufficiently dubious an idea, if not wholly impossible, that some alternative idea has to move to the centre of the stage. Moreover, 'alternative work' and 'alternative income' ideas seem to be natural partners, even though they have largely been developed by different people. If considered together, they amount to a clearer alternative to the aim of full employment, than if either is considered on its own.

Full employment and its alternatives: dilemmas of social justice

The concern for the socially just treatment of the less successful, expressed by the various proponents of basic income, negative income tax, or social dividend, is one which should be fundamental to any policy aim concerning unemployment. From Adam Smith to Kenneth Arrow, via Marx and Keynes, economic theorists have argued that the pursuit of mere efficiency is destructive of human welfare: equity must stand alongside it, and be given equal weight, in order to achieve an economic order which serves the populace. And when Beveridge and his team designed the first full-employment economic policy, they devoted as much attention to the welfare of the non-employed as to creating the conditions for high levels of employment. Employment policies which disregard equity are flimsy and corrupt.

The practical questions which an employment policy has to consider, if it is to claim any measure of justice, are three. What is done to ensure that all individuals have a fair chance of obtaining employment, should they so wish? What income is to be available to those who do not succeed in getting employment? And what is to be the social status, or dignity, of those who are unemployed? A policy of full employment, if practicable, provides a sweeping answer to all three. Everyone is to be employed if they so wish; only a very modest level of income support is required for those unemployed, because they will remain only a short time between jobs; and their status will hardly be affected when unemployed, for the same reason. A universal share in employment has been the keystone of equity.

Any policy which departs from the full-employment concept has to demonstrate that it can provide serious alternative solutions to the problem of equity. This is not only a requirement for those positions which abandon full employment more or less permanently, but also for those which envisage a long process of reconstruction as a necessary preliminary. In the latter case, the dilemmas centre upon the transitional policies to be adopted towards unemployment and the unemployed, while structural change is being pursued. Even under a 'deferred' full employment

goal, it is possible that many people will remain unemployed for years on end, and their treatment and status become a major issue.

If full employment is impossible in the present, it follows that many people will be unemployed contrary to their personal choice and despite any efforts they may make to find a job. Moreover, these people may well tend to come either from the weakest sections of the economy or from the most disadvantaged sections of society, while those in a strong economic or social position will tend to avoid unemployment. Considerations of equity suggest that the people falling into unemployment, and especially those falling into prolonged unemployment, should receive reasonable compensation for their loss of employment. The word 'compensation' seems the right one here. People are, in a sense, being required to give up their jobs (without clear prospect of another job) by the policy of the state and the needs of the economic system. An equitable recompense would reflect the earnings they have foregone for the sake of the common good.

Considerations of equity alternatively suggest that support should be in some proportion to need. The financial support provided in unemployment should, therefore, be reassessed when the chances of unemployment become greater and the expected period of unemployment longer. When unemployment is occasional and brief, people can be expected to make provision through savings and other accumulated resources, to see them through occasional periods between jobs, so that additional financial support need only be modest. This becomes a less reasonable expectation when full employment is abandoned. Without financial support, people in prolonged unemployment will become destitute. The greater the expected period of unemployment, then, the higher should be the level of financial support; although, on a criterion of need, the state might well argue that less should be provided for those able to make provision for themselves.

In practice, of course, these considerations of social justice encounter formidable objections of two kinds: those relating to individual work incentives, and those relating to the public budget and its place in the total economy. Generous financial support in unemployment may encourage people with low wage expectations to drop out of work, and lead to an ever-increasing pool of people dependent upon state welfare. The level of financial support for unemployment may also tend to set a floor for wages, so that as unemployment support increases, jobs at lower wage levels diminish, and the pressure on wages to adjust downwards, and so create more jobs, is also removed. Similarly, large expenditures may (if unemployment is high enough) impose strains on the public budget; and since this money has to be raised either by taxes or by public borrowing from a finite investment pool, finance for business expansion, the purchase of up-to-date machines and equipment, or the provision of other public services, may all suffer to some extent. In short, policy based on the assumption that full employment is a distant and difficult goal should in consistency adopt a socially

principled generosity of support for unemployed people; at the least, support should be greater under non-full-employment than under full employment. But this generosity may in its turn put full employment further out of reach.

Nevertheless, arguments based on economic efficiency do not let anyone off the equity hook. An ethical argument is required for restraining support for unemployed people, while withdrawing from the aim of full employment or stating that it is unattainable. The best hope of such an argument perhaps centres upon work incentives and dependence. In form, the argument is that the weakening of work incentives, and the creation of a dependent class, would be a greater moral evil than the hardship caused by low levels of financial support in unemployment. The argument was never more forcibly put than by Thomas Carlyle³³, in the great debate on the poor laws which extended through the middle years of the nineteenth century. Work, according to this view, provides the central values which give worth and self-esteem to the individual. Such a view, naturally, is favourable to full employment as an aim, although such an idea was not formulated in the time of Carlyle: the deprivation of work is clearly an evil. However, suppose that work is not universally available, which must be the assumption of some high-unemployment policy. In that case, the greater evil will be to remove the will to work, and to find fulfillment through personal effort, which sustains the individual's framework of values in adversity. In short, a regime which maintains work values while imposing some avoidable hardship on individuals, will be better than one which corrupts basic values by offering increased material support.

In our more prosaic and materialistic age, such arguments tend not to be voiced so robustly, and lie implicit in economists' technical analyses of work incentives. They are hardly for current popular consumption. For those purposes, other more accessible arguments have had to be found to buttress a policy of unfull employment coupled with no increase in financial support for unemployed people. One much-used argument is that unemployed people 'bring it upon themselves'. They are, in effect, to blame for their own predicament, whether through sloth in seeking work or through poor attitudes which render them unemployable. The need to 'compensate' people for unemployment naturally diminishes or disappears when they have brought it upon themselves in the ways claimed. This is an old argument, used against impoverished classes over the centuries, and in the nineteenth century particularly against the 'undeserving' as opposed to the 'deserving' poor³⁴. It is difficult to take seriously in the present context, since it offers no explanation of why the numbers of slothful and unemployable people should have risen so dramatically in 1980-82, or fallen so dramatically in 1988-90; but we will take it seriously in later chapters. Moreover, the more basic moral argument, the argument of Carlyle concerning the importance of work-related values, is one to which we will return on many occasions.

The other argument is to deny that individuals in practice suffer any substantial or unreasonable disadvantage through being unemployed. In the first place, the principle of welfare since Beveridge has been to provide a minimum sufficiency: that can continue to be defended as an equitable concept. And, not only did the Beveridge plan provide a basic sufficiency, but this was gradually improved upon over the years; and most important of all, everyone, even those on low incomes, have shared in the general advance of society's material conditions. Even someone in very prolonged unemployment almost certainly has a home, food, clothing, and a radio and TV set: isn't that enough, at least in the sense of discharging society's obligations? Critics, of course, would say that it was not sufficient in principle, and often not fully achieved in practice. A minimum sufficiency does not necessarily permit a person to take part in the society on even terms, or lead a decent life in some broader sense. And the issue of the status of the individual in society, raised by Dore, is an important one which no simple material calculations can dismiss.

Two matters are evident from this brief discussion. First, as full employment loses its certainty as the aim of policy, or as unfull employment comes to be accepted as inevitable (at least for the moment), the issues for policy widen and become more complex. The beauty of full employment policy is its resolution of major social as well as economic issues; without full employment, the determination of social policy, and the establishment of welfare criteria, become enormously more difficult. Second, many of the arguments, on one side or the other, concerning the social aspect of employment policy, depend on factual assertions which are so far unsupported by factual evidence. Among the tasks of this book are to consider employment policy and linked social policies together, and to do so through a marshalling of available evidence about the nature of unemployment and its social effects.

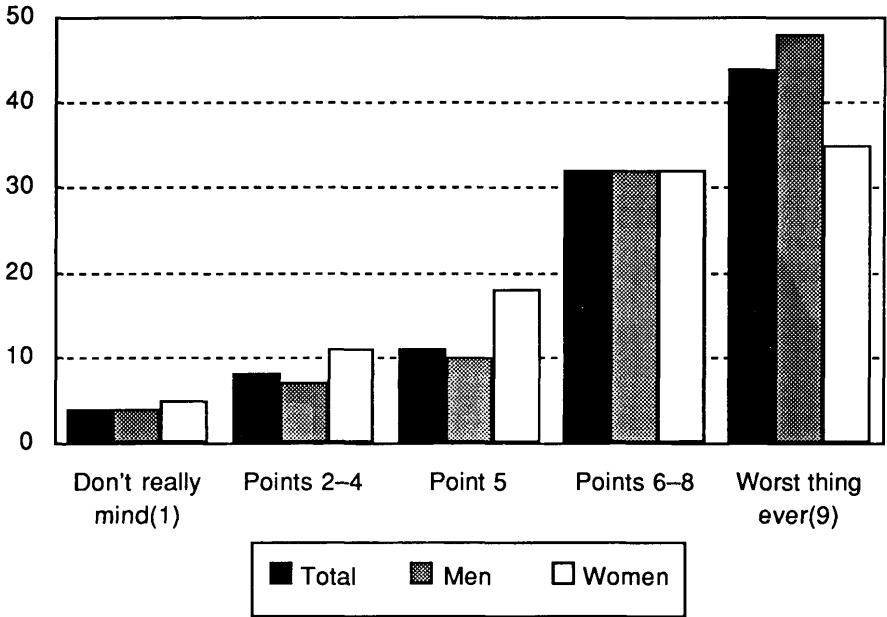
2 The Experience of Unemployment

Policy towards unemployment can best be framed when there is an understanding of what it is like to be unemployed. In this chapter and the next two we will examine what research tells about the experience of unemployment. At the same time we will be examining existing social policy, in terms of evidence about how it works in practice. Proposals for new policies are not considered here; they follow within the second part of the book.

A simple question used in some of our surveys¹ may help us to get an initial view of what unemployment is like. People who had become unemployed were asked to rate how they felt about being out of work. At one extreme, we suggested in our question, unemployment might be viewed by some as ‘just about the worst thing that ever happened to me’. At the other extreme, it might be regarded as something of which the person affected could say ‘I don’t really mind’. The overall response scale had nine points, so there were seven less extreme reactions to choose among. The purpose was to spread out the replies as much as possible. In practice, the answer most frequently chosen was that unemployment was ‘just about the worst thing that ever happened to me’. Nearly half the unemployed people in our surveys chose this answer. Most of the remainder chose the adjacent two replies. Very few – less than five per cent – were at the opposite end of the scale where unemployment was seen as a comfortable experience. So, for the great majority who experienced it, unemployment was certainly one of the worst, often the worst, of life’s mishaps: in their own judgement.

An overall distribution of replies is shown in Figure 2.1. This comes from the PSI/MSC cohort survey of the unemployed flow, the largest British study of people entering unemployment. A point to be appreciated is that this question was asked five months after unemployment began. Many of the people questioned at this point had already obtained a job, and of these about one half had got their job within the first six weeks of being unemployed³. People who had got out of unemployment quickly had very much the same feelings about it as those who had stuck fast. This finding kills one of the most widespread misconceptions about

Figure 2.1 Feelings about being out of work



Source: W.W. Daniel, *The Unemployed Flow*, PSI, 1990, page 82.

unemployment, one which Beveridge put in place: that the real problem is *long-term* unemployment. Even short doses of unemployment are extremely unpleasant. Other results from the PSI/MSC cohort survey suggest why this should be so.

- Two in three entrants to unemployment have lost their jobs at a week's notice or less; one quarter have lost them without being given any notice at all. Unemployment is usually a bolt from the blue rather than something that can be tackled in a planned way.
- Two in three entrants to unemployment are aged less than 35, and most of these come from manual or (in the case of women) from routine non-manual jobs. As a result, few are likely to have savings to fall back upon, and only one in 10 gets redundancy payments. Unemployment generally means that income is cut by at least a half⁴. Financial hardship begins immediately.
- Finding a new job, even for those who succeed within a fairly short time, for most people involves taking a cut in pay. For about one half it also means a change to a new line of work, in which previous skills and experience will count for less⁵. There are long-term costs even for those who do not experience long-term unemployment.

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- Underlining the previous point, many of the people quickly getting a new job found themselves out of work again within the next year or two. Similarly, many of those selected in our sample as ‘new entrants’ to unemployment were actually returning to unemployment after a short spell in work. Yet, the survey also showed that the majority had at an earlier stage held stable, long-lasting jobs; a finding confirmed by other major PSI surveys⁶. Unemployment disrupts and downgrades working lives and in very many cases leaves behind permanent and cumulative disadvantages.

These points emphasize the economic disadvantages of unemployment, and these are the easiest to identify and to measure. But it should not be forgotten that, in contemporary society, jobs provide more than income and security, and so when jobs are lost, more is taken away⁷.

- a) A job fills a large part of the day, week and year with structured and productive activity which the majority of individuals find intrinsically interesting. The survey of the unemployed flow found that boredom was, after financial hardship, the most frequent problem.
- b) People’s status or position in society depends largely upon their jobs.
- c) Jobs provide social contact with fellow employees, customers, etc., and these contacts often extend outside work to provide an important part of an individual’s social circle.

Employment is important because it provides income, activity, social contact, and status *all in one*. As the pivot of modern society, employment also gives cohesion to individuals’ lives. All this is threatened by unemployment, and the threat is an immediate and frightening one.

None of this denies or minimizes the severity of the problems faced by people in *long-term* unemployment. If even short-term unemployment is such an unpleasant and disruptive experience, it is reasonable to suppose that, other things being equal, long-term unemployment will be considerably worse. In this and the next two chapters, we will include evidence about the experience of both short-term and long-term unemployment, much of it previously unpublished.

Different people, different experiences

First, it is important to remember the complication that ‘people are different’. It is inevitable that, when we describe the experience of unemployment, we tend to generalize and concentrate upon the majority. If we begin by pointing out some of the main types of diversity within unemployment, this will help to maintain a more balanced view later on.

People come into unemployment with varying *personal resources*. Our surveys have found that the best adaptation and the least adversity are reported by the rather small unemployed groups from a higher occupational background, usually older men, who have homes, savings, gardens, and social and cultural activities, to fall back upon. Some workers, also, enter unemployment with the financial cushion of a redundancy payment, but we have already noted how few these are. Far more numerous, probably, were the unemployed workers who failed to get the modest redundancy payments to which they were entitled⁸.

In Britain, however, unemployment has been chiefly confined to people from manual and lower service occupations, with earnings around the lowest 10 to 25 per cent of the pay distribution, and low, or no, educational and vocational qualifications. So unemployment falls on those likely to have the least resources to cope with it, whether in terms of savings to make unemployment comfortable, or a wide range of leisure activities. People in lower occupations, who comprise the bulk of unemployment, are more exclusively dependent upon having a job, and therefore more comprehensively disadvantaged when they lose it.

Marital status and gender have important consequences for how unemployment is experienced. As Ray Pahl has pointed out⁹, the norm in today's society is the two-earner couple. The norm in unemployment, however, is the no-earner couple. Men who are unemployed tend not to have working wives. The reasons for this have not yet been wholly explained, but some partial reasons are apparent.

Most men entering unemployment, as already noted, are young (under 35), and their wives are likely to be having babies and looking after young children. Others are dependent upon Income Support, and their wives are discouraged from working because their earnings will reduce the amount of benefit pound for pound, above a certain threshold (in 1990 this was set at £15 for a couple). Because they wholly depend upon benefit, and because benefit is least favourable to couples with children¹⁰, families with an unemployed father are generally among the worst-off in unemployment, particularly in long-term unemployment. In many families with an unemployed mother, on the other hand, the father is employed, so there is at least one wage coming in. Not surprisingly, married women on average find unemployment less of a blow than do married men. This is certainly to do with different marital roles, rather than to do with gender as such, for single women have equally adverse reactions to unemployment as do single men¹¹.

Having a job may be specially important to groups facing social discrimination, because employment is one of the best ways of becoming integrated and accepted as a full member of the community. But precisely because of the discrimination which they suffer, these disadvantaged groups are more likely to end up in prolonged unemployment and so lose their best chances. Those with *disabilities or handicaps* constitute at least one in 10 of the long-term unemployed¹².

In conditions of high unemployment, no group has such low chances of getting another job¹³. But this does not reflect the importance which disabled people attach to having a job. Indeed, very often these disabled people came from a background of stable employment in the same job, before becoming unemployed, and would take a new job at almost any price.

Again, for members of *ethnic minorities*, unemployment accentuates their experience of discrimination in the job market¹⁴. For young black and Asian people, particularly, unemployment in the 1980s was disproportionately likely to turn into long-term unemployment, despite average and (for some sub-groups) above average attainments in education¹⁵. The way out from this experience of discrimination may be for these young people to turn inwards on their own ethnic group, rejecting the wider society which has failed them.

Less obviously, long-term unemployment draws in disproportionate numbers of individuals who appear to be socially isolated for personal reasons. These include single or divorced people living on their own, people without family contacts, and people with problems of personality or an abnormal appearance¹⁶. Minor deviations from social norms may become major handicaps in finding a job, in a period when the labour market is adverse. For this group, too, it is easy to visualize how important employment would be as an anchor and a source of acceptance; and easy to visualize, accordingly, how much the loss of employment meant.

Living standards in unemployment

In reviewing the impact of unemployment on individuals, a good place to begin is with material living standards. To most people, probably, the first thought which unemployment summons up is 'being on the dole'. And there is no aspect of unemployment on which so much is known as the material living standards of people living on benefits. The seminal paper on the subject was published by Marjory Clark in 1978¹⁷. The government's Department of Social Security carried out three large studies within the period of ten years, specially focusing upon living standards¹⁸. And other substantial studies of unemployment have considered living standards as one of the important aspects. These include the PSI/DE national study of long-term unemployed people conducted in 1980-81¹⁹, and the qualitative PSI study of young adults (aged 20-26) in long-term unemployment, carried out in 1986²⁰.

There are two main ways in which living standards can be approached: in terms of the facts about benefits, and what kind of lifestyle they will support, and in terms of how unemployed people report their personal experiences. Our emphasis will be mainly on the second of these. But it will help to set the scene if we briefly sketch the main facts.

The benefit system

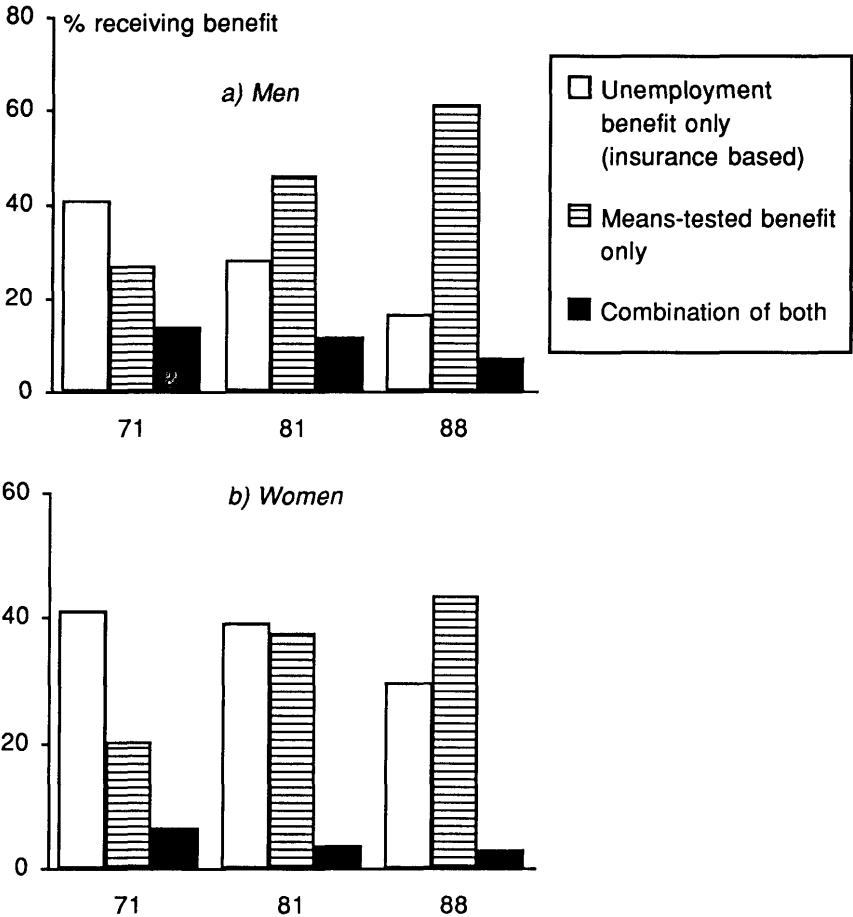
The living standard to be provided by state benefits was one of the key issues of the Welfare State examined in the early 1940s²¹. The level established then was designed to cover just the basic necessities and decencies of life: sufficient food, accommodation, fuel, clothing, and items of a similarly basic nature. One of the intellectual architects of the Welfare State had been the young Harold Macmillan, and his 1938 book, 'The Middle Way'²², helped to show how much of an advance the provision of this basic minimum would be, by comparison with the then existing living standards of both manual workers and intermittently unemployed families. Using data from Seebohm Rowntree's study of 1937²³, he argued that basic requirements in unemployment would be satisfied, for a town-dwelling couple with three young children, by the weekly sum of 43s 7d (£2.58 in present currency, but about £87 a week in terms of 1990 values). However, the unemployment insurance system then in force (which had been developed after the First World War) provided only about 80 per cent of this amount. The Beveridge plan, and the new system of insurance and benefits to which it led, implemented a full coverage of basic necessities and represented the step forward which Macmillan advocated.

In essence, there has been no advance on this concept during the post-war period, except for a period (1966-1979) when an additional earnings-related supplement was paid. Over 50 years, there has been no review of what should or should not be covered by benefits. Rather, the level of payment has been adjusted in a pragmatic way to reflect rises in earnings or inflation, or the political pressures of the day. The 1960s and 1970s, dominated by Labour governments, gave rise to some increases in benefit levels, although not to any fundamental reappraisal. The 1980s, under Conservative governments, led to cuts in average real benefits, of the order of five per cent or so on balance²⁴: but because this was the result of, literally, some dozens of detailed changes, some people were much more adversely affected while others gained. But, despite all these particular changes and despite a major review of social security systems in 1985, there was no new statement of principle on benefits for the unemployed.

During the 1970s and 1980s insurance-based unemployment benefits became a progressively smaller part of the picture (Figure 2.2). Beveridge proposed that unemployment insurance should provide a non-means-tested basic income for an indefinite period, but this was the main aspect of his plan which remained unimplemented. Instead, unemployment benefit has been limited to a maximum of one year. Many people remain in unemployment for more than one year, exhausting their entitlement to non-means-tested benefits. Moreover, under conditions of rising levels of unemployment, increasing numbers of people have failed to build up the national insurance contributions necessary to get insurance-based benefits when they become unemployed. For example, many young

people never get into employment or do not hold their jobs for long enough. Many other people, as noted earlier, suffer recurrent spells of unemployment.

Figure 2.2 State benefits for unemployed people, 1971–88



Source: Social Trends 20 (HMSO, 1990), Table 5.8, page 90 (adapted).

Unemployed people not covered by insurance-based, non-means-tested benefits rely instead upon the means-tested system which is intended to act as the income ‘safety net’ for the whole society. This system, which has gone through a number of name-changes and is currently known as Income Support, now provides many groups with ‘premium’ levels of support which are intended to reflect the special long-term needs of those groups. Unemployed people,

however, do not attract any premium; Income Support, for them, provides a living standard broadly similar to unemployment benefits, although exactly how benefits work out depends upon family composition and other circumstances²⁵.

The third main element of living standards in unemployment is housing benefits. For those in local authority rented accommodation, there is a comprehensive system which takes care of rents for people via means-testing. Housing benefits are less generous to mortgage payers, who do not become eligible for relief until they have been unemployed for six months, and is chancier for those in the private rented sector, lodgings, or bed-and-breakfast accommodation. With the introduction of the Community Charge (or 'poll tax'), unemployed people, who would have generally not been rate-payers or who would have had rates paid for them through housing benefits, were required to pay 20 per cent of the level of local tax. Benefits were increased to take account of this, but only by a national average amount which in many cases would be less than the actual charge made locally. On average, unemployed people were undoubtedly worse off as a result, although their position in the 1991/92 reformulation of local taxation remains to be seen.

In summary, unemployed people receive a level of benefit designed to provide them with the basics for an indefinite period, but no more than the basics. Those on insurance-based benefits can, for one year, enjoy some other sources of income without reduction to their benefit payments. A minority of families with an unemployed father lives above the basic level, during this period, because of spouse's earnings or occupational pensions, on top of their unemployment benefits²⁶. Once people are on means-tested benefits, however, additional sources of income such as these are substantially offset against their benefit entitlement, apart from small disregarded amounts. They are then truly down to the basic level, and there is no way that they can get more without cheating on the system.

Living on benefit

What does it mean, in practical terms, for a couple with two children to live for years on around £90 per week, the approximate value of Income Support to them in mid-1990 (excluding rent, which is taken care of separately)? The difficulty in answering the question is that different individuals or families will use their money in different proportions on different items of expenditure. One approach, however, is to work out the costs of the really basic necessities first – notably food – and then spread out the money which is left to see what it will buy of other things. Such an exercise was carried out, with a great deal of care, by Jonathan Bradshaw and Jane Morgan in 1987²⁷.

This calculation showed, for instance, that

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- there would not be enough money for replacement of shop-bought clothing and shoes, even of cheap quality, without making inroads into basics such as food or heating;
- there was no possibility of replacing major household furnishings such as carpets;
- for holidays, the best that could be managed was one day at the seaside each year.

There was little doubt, according to these careful calculations, that means-tested benefits would provide adequate food and shelter, but equally there was no doubt that many of the things taken for granted in contemporary society, such as clothes, shoes, furnishings, children's toys, sociable outings, and holidays, could not be provided.

The Department of Social Security's survey on family living standards in unemployment, conducted by the Office of Population of Censuses and Surveys in 1983 and 1984, took a sample of people (mostly with families) entering unemployment, and compared those who remained unemployed 15 months later with those who had got back into jobs²⁸. (We will refer to this study as the OPCS/DSS survey.) It examined how income and consumption changed over the period for both groups, by comparison with a baseline when they were in employment previously. As expected, those remaining continuously on benefits experienced a decline in consumption while those getting jobs registered increases. Those on benefits

- ate meat about two-thirds as often as those in jobs, and fruit about 60 per cent as often;
- had a meal out about 40 per cent as often;
- and their stock of clothing was much lower.

So, not only do benefits not provide for longer-term replacements such as clothing, but they also seem to lead, in practice, to significant cuts in basic necessities such as diet.

Because the means-tested benefits for unemployed people do not make any provision for long-term expenditures (such as replacement of clothing, shoes, furnishings, and domestic capital goods), it seems likely that living standards will progressively run down unless a job is found. And many of the long-term unemployed people we spoke to in our 1980-81 survey²⁹ made remarks of that sort.

'Look at us – living like this! It's a downward spiral. Look at that old van, falling to pieces – and the house, too.'

However, statistically speaking our survey did not find evidence of progressive deterioration beyond the first two years of unemployment. If there was such continued deterioration, then, for instance, one would expect to find that people with three years of unemployment were worse off than those with two years, while those with five years of unemployment would be still worse off. This did not happen. Our indicators showed people having roughly the same levels of financial problems from two years of unemployment onwards. The explanation might be that the people who remain longer in unemployment are of different types, or have different circumstances from the beginning, than those who leave unemployment sooner. But then again, if there was progressive deterioration, when we re-interviewed unemployed people after a further 18 months on benefits they would on average be in worse shape, financially, than when we first spoke to them. But this did not happen either. While some people had got into a worse position from the first interview to the follow-up, others had fewer problems while still others remained on a par; on balance, pluses and minuses balanced out³⁰.

Part of the explanation, doubtless, is that the big adjustment takes place in the first year or two years of unemployment. The main drop in living standards takes place early on, as we stressed at the outset of this chapter. Once people have adjusted to this change, subsequent deterioration may be minor by comparison. While some of the people we interviewed spoke in terms of deterioration, these were relatively few by comparison with the many – the great majority – who spoke of the continuing and monotonous deprivations of living on benefits. It was a standard of living to which they had become accustomed, but which they nevertheless found deeply depressing.

The question posed in our 1980-81 survey which most clearly brought out their experiences was a provocative one: it asked whether it was possible to enjoy life in unemployment as much as when in work: if so, how, and if not, why not. Only 11 per cent agreed that it was, 15 per cent gave answers which indicated that they were uncertain or that it depended upon the circumstances, and 75 per cent said that it was not possible. These bare statistics do little to convey the range of comments which the question brought out³¹.

Lack of money, or various forms of material deprivation, was by far the most common reason given for stating that life in unemployment could not be enjoyed. A common form of comment which we encountered was simply an example of something that had to be gone without, or sometimes a list of such examples. These lists perhaps give a more vivid, and yet varied, picture of how living standards are affected than anything else.

'I never have a holiday. I can't go to the cinema or a symphony concert. I've no new clothes. I can't buy things for my grand-children. I walk everywhere,

I never use the buses – they're too expensive. I burn paper on the fire because I can't afford coal.'

'I can't afford extras on make-up or clothes and I can't afford to go out for meals and things like that which I like doing, can't afford to go on holiday, can't afford a car or nice joints of meat, food has to be cut down.'

'We do without holidays. A bloke in employment can go for a drink. We have been here for six years come August and we haven't been away for one day. There is a bedroom we can't afford to decorate, before we move from here the Council would want us to decorate through and we can't afford to do so, we could move to a house because there is three children but we can't afford to do it.'

'Only have one decent meal a day ... Can't afford to go looking for jobs ... Haven't been a half-mile from this house in the last two years – I'm disabled and can't afford a car. Can't get out when you live in the country like we do.'

The lists of material wants span two extremes. On one side are things like cars and holidays, expensive items which state benefits could hardly be designed to cater for. In fact, unemployed people hardly ever say that benefits should be more generous; it is through jobs, not benefits, that they want to restore their living standards. The point is that cars and holidays have become the mark of a decent standard of living. People with normal aspirations are unlikely to feel satisfied without them. This requirement is a severe problem for those who would suggest that more generous levels of benefit could provide the social solution to unemployment. It is also, however, a reassurance that the incentive to work, to obtain employment, would be likely to remain strong even if benefits were substantially higher, because standard-of-living aspirations can only be satisfied through jobs.

At the other extreme, the examples contain many items which suggest that, in practice, benefits fail to deliver basic necessities. True, the most graphic illustrations, like burning paper on the fire, tend to be untypical, but then the range of such untypical examples is wide. Others which come from our surveys include not being able to mend a broken window, having egg and chips as the Christmas dinner, and not being able to have a bath.

More important, perhaps, are the frequently mentioned examples of material wants which most people would regard as basic rather than as optional or luxurious. These include lack of money to use public transport, difficulties in buying shoes and clothing, and having to cut down on food. Cutting down on local travel is one of the easiest ways of saving money, but this imposes a limitation on mobility which must affect the chances of re-employment as well as the capacity to take part in social life. Shoes and clothing represent an area where it is harder for people to cut down without becoming visibly different from normal people in society. An aspect of this which many people felt keenly was

the problem of providing shoes and clothing for children. One individual spoke of the embarrassment of sending his children to school wearing plimsolls, because proper shoes were too expensive. Others spoke in more general terms of the financial crisis when children's shoes had to be renewed. As for clothing, many had to resort to cast-offs and jumble sales.

Keeping claimants clothed and shod has for some years been one of the most difficult problems for the benefit system to resolve. The analysis of Bradshaw and Morgan³² showed that the actual expenditure on these items by a couple with two children living on benefits was about one quarter of the cost of maintaining a minimum wardrobe for the family. The only way in which the family could balance this part of the budget and maintain standards would be by making clothes and shoes last for impossible periods: for example, an overcoat would need to last for 25 years, a pair of trousers for ten. Up to 1980, Social Security officers made many additional discretionary payments for clothing to people on benefits, but subsequently clothing has been explicitly excluded from the scope of additional payments except where issues of health are involved. Where families receive premium payments within income support provision, this element could be thought of as closing at least part of this gap. Families in long-term unemployment do not receive any premium payment, the only group to be so excluded.

In our study of long-term unemployed people, clothing and shoes were the most common area of difficulty, among necessities. They not only involve payment in substantial lumps (relative to a week's benefit money), but also because the need for replacements is frequent. Other items calling for still larger lumps of expenditure, but arising relatively infrequently, were also frequently mentioned by long-term unemployed people, although less often than in the case of clothing. Such items are evident in the examples of lists already quoted. They include, for example, furniture and furnishings. At the extreme, one man spoke of having to sell off virtually all the furniture accumulated over a period of 25 years. More commonly, it was a problem of not being able to contemplate replacement. This accords with the results of the analysis of Bradshaw and Morgan³³ who concluded: 'claimants ... cannot afford to replace furniture ... and ... must avoid buying new items – however cheap'.

The OPCS/DSS survey found that, after only 15 months of unemployment, the proportion of houses in good repair dropped to 44 per cent by comparison with 54 per cent where the formerly unemployed bread-winner had got back into full-time work. It is not hard to imagine what the difference would be after, say, five years of unemployment. It is true that discretionary payments can be made by officers at the Department of Social Security, to cover many such items. But, as each local DSS office has to work within a cash-limited budget, the majority of applicants for such grants are in practice turned away³⁴.

Avoiding material decline: debt and savings

Our findings show that individuals in long-term unemployment do not experience consistently deteriorating living standards. Yet their detailed comments show that the pressures on those living standards are real, not just in the sense of losing all hope of cars, holidays, or home improvements, but even in terms of much more basic things like clothes, shoes, bus-fares, and daily diet. There must be ways in which most people in unemployment can ease the pressures on their living standards and avoid falling into a downward spiral.

Two such methods are drawing upon savings, and borrowing money. So widespread is the use of these methods, that they can be regarded as the chief financial props of the social security system, relative to unemployment. Our major survey of long-term unemployment showed that, among men in this situation, around 45 per cent drew upon savings in the space of a year, and about 35 per cent borrowed money; the proportions were a little lower in the case of unemployed women³⁵. There was not a great deal of overlap between borrowers and users of savings, and the two methods together covered about two-thirds of all long-term unemployed people in a given year, still more over the space of two years.

Drawing upon savings

The availability of savings depends chiefly upon age, and to a lesser extent upon the size of the family if any. The OPCS/DSS survey³⁶ showed that the majority of over-35s entering unemployment had savings, even after deducting any outstanding debts or credit commitments. Savings were particularly high for married couples whose children were no longer dependent, but lower for couples with dependent children, especially three or more. Younger people were much less likely to have savings, especially if they had several dependent children, before they became unemployed. The age differences tended to become accentuated in the course of becoming unemployed, because older workers were more likely to have redundancy payments which swelled their savings.

Naturally, drawing upon savings in unemployment reflected the availability of savings. Our 1980-81 survey showed that more than half of over-45 men or women in long-term unemployment, especially those who were single or had no dependents, drew upon their savings in the space of one year³⁷.

Is it right and proper that people should draw upon their savings in response to unemployment? It can certainly be argued that the whole point of savings is 'for a rainy day', and so it is quite appropriate to find people using their savings in unemployment when their income drops. In support of this, using savings was generally linked to a relatively low level of stress from being unemployed; it seemed to be part of the better adaptation made by older workers entering long-term unemployment. Again, a small proportion of the long-term unemployed people in our survey said that they had no financial difficulties, but a substantial

proportion of these (37 per cent) still drew upon their savings. This suggests that savings may be used to make life more pleasant, rather than to avert hardship. Similarly, one third of those who drew on their savings most frequently stated that they used this money 'for general living expenses', which may suggest an overall upgrading of the living standard rather than difficulties with making ends meet.

A less reassuring picture, however, is painted by the detailed lists of items which savings were used to purchase. These included quite substantial proportions of items which would generally be regarded as basics:

Those drawing upon savings

	Male	Female
For clothes/shoes	29 %	35 %
For heating/fuel	16 %	13 %
For food	15 %	10 %

Source: PSI survey of long-term unemployment 1980-81.

In addition, of married men with dependent children having savings, 20 per cent drew upon savings for children's shoes or clothing (in the space of one year), and this proportion was higher for those with several dependent children. It seems likely, then, that savings are used in many cases to provide necessities rather than to achieve a more comfortable living standard.

There has been no study of the long-term consequences of drawing upon savings during unemployment. If a person gets back into employment afterwards, he or she can presumably rebuild the depleted savings. But the main users of savings in long-term unemployment are older workers, largely because these are also the group that have savings to start with; and these have the lowest chances of getting back into jobs. Many from this group may end up permanently unemployed until they reach retirement age (the benefit system encourages unemployed men to drop out of the labour market at the age of 60). Accordingly, they will have no opportunity for rebuilding their savings. As they will, in general, also lack occupational pensions³⁸, their prospects in old age may be for a life on state income support with far less, or no, savings to draw upon than if they had avoided unemployment. Using up savings in the 'rainy day' of long-term unemployment may mean, for this substantial group, that there is nothing to help with the 'rainy day' of old age. The long-term unemployment of older workers could well be contributing to a reduced standard of living for many years thereafter.

Borrowing money (debt)

Just as older workers tend to come to unemployment with savings, younger workers, including those in their prime years with young families, tend to come to it in debt. The OPCS/DSS survey³⁹ showed around 45 per cent of the under-35s having debts before unemployment, and this proportion rose with the number of dependent children. Moreover, if employment had been broken during the year leading up to the spell of unemployment which was being examined (in other words, if there had been previous unemployment as well as current unemployment), then the likelihood of being in debt again increased. On the other hand, those who had had regular work before becoming unemployed were a little more likely to have debts of more than £500, probably because they had regarded their position as secure and had taken on larger commitments.

Once in unemployment, the OPCS/DSS survey shows, there is some further shift towards debt, especially among the under-35s with young families. After three months of unemployment, nearly two-thirds of these families were in debt, and this proportion rose slightly over a further year of continuous unemployment. Thereafter, according to the figures from our own survey (which continued from the stage in unemployment where the OPCS/DSS survey left off), something like one in three overall, but 55 per cent of couples with dependent children, incur new debts per further year of unemployment.

To take an optimistic view of these findings, one might argue that most couples bringing up children run up debts which they then pay off at a later stage: unemployment, according to this view, is not so very different. This argument has more weight when people can expect to get back into jobs without too much delay. Of those who had got back to work after long-term unemployment, and had held their jobs continuously for one year, two in three found their financial position completely restored. The situation is quite different, however, for those who continue in long-term unemployment. Debts are unlikely to be cleared and the chances of getting onto an even keel are likely to recede. It may also become progressively harder to borrow the money which is needed.

The purposes for which money is borrowed by unemployed people differ across age groups and for those with different family circumstances. Overall, getting into debt is more clearly linked to obtaining necessities, than in the case of using savings. One third of those drawing on savings used them 'for general living expenses', which could be interpreted as raising one's general living standard: but this proportion fell to just above 10 per cent in the case of borrowed money. Moreover, money was rarely borrowed to buy items of luxury or pleasure. The main exception to that was the under-25s who were in long-term unemployment and still living with their parents. In these cases money was not infrequently 'borrowed' – without repayment being necessary – for cigarettes, drinks, cosmetics, and fares⁴⁰. (This does not necessarily mean that young

single people have an easy time in unemployment, as we shall show in the next chapter.) Apart from this group, however, most of the uses of borrowed money appeared to be for 'basics':

Those borrowing money during unemployment

	Male	Female
To pay heating/fuel bills	30 %	22 %
Own/spouse's clothes/shoes	22 %	42 %
Food	21 %	19 %

Source: PSI survey of long-term unemployment 1980-81.

In addition, among those with dependent children, 29 per cent used money they had borrowed for their children's clothes or shoes, but for their own clothes or shoes in only 13 per cent of cases.

Evidently, most of the borrowing in long-term unemployment is required to maintain the necessities of life. Different people, it is true, use their borrowings in different ways, so that there is no one expenditure which the majority find impossible without borrowing. Presumably, there are many different approaches to budgeting and managing on benefits, and as some items are given priority in the budget, others are pushed out of reach unless borrowing is used. Priorities may also be judged differently, and some people allow themselves to fall below a minimum level in some respects so that they can manage in others. Of families with children, one in five reported that their own level of clothing was down to one set, or as it was often described, 'wash and wear': to cope with children's needs, something had to give way. The evidence concerning debt and its uses is, therefore, consistent with the analysis presented earlier in the chapter which showed that many of the more substantial items could not be catered for within income support levels for unemployment.

The ways in which borrowed money is spent, along with the widespread existence of persistent debt in long-term unemployment, constitute one of the clearest indications of the inadequacy of income support. It seems clear that where debt exists, people are usually struggling at the margin. We will show, in Chapter 4, that debt is far from being a satisfactory method of coping with financial pressure in unemployment. It is chiefly financed by the unemployed person's family or relatives, who themselves may tend to come from the poorer sections of society. It is also linked with family stress, with episodes of physical and mental illness, and with increasing dependency upon benefits and inability to break free into employment.

The Black Economy

Drawing upon savings, and incurring debt, are the two main sources of supplementary funds for people in long-term unemployment. There is also a third, which is often believed to be widespread in its use and substantial in its scale. This is the 'black economy', more popularly known as 'being on the fiddle'. Some proportion of people counted as unemployed may, in reality, be secretly working and earning at the same time as they are claiming benefits. As well as concealing their income from the unemployment benefit office, they are presumably also concealing it from the Inland Revenue.

Many of those who maintain the importance of the black economy appear to believe that, because of it, there is no financial or material problem in unemployment. Yet being in the black economy is illegal, and as long as it remains so, it cannot be regarded as an acceptable financial 'solution' to the inadequacies of the benefit system.

Suppose that the black economy had been stamped out: how would the problems of unemployment be affected? There would be two distinct cases. First, there would be a reduction of apparent unemployment as those with full-scale earnings, but fraudulently claiming benefits, were screened out. Second, there would be some with moderate or occasional sources of undeclared earnings, not sufficient to live on, which would either have to be declared (thereby reducing benefit entitlement and total income) or given up (thereby reducing total income). Either way, however, this second group, unlike the first, would remain in unemployment. They would become more wholly dependent upon unemployment benefits, as well as worse off.

The importance and nature of the black economy, so far as it affects unemployment, evidently depends upon the size of these two groups. A large number of working fraudulent claimants would mean that the true scale of unemployment is less than it appears, but would not affect the financial and material circumstances of the remainder who were genuine claimants. Widespread but small-scale involvement in the black economy, however, could mitigate the worst financial effects of unemployment, without affecting the reality of joblessness for those concerned.

Let us first consider the case of outright fraudulent claiming. During the early 1980s, conditions of rising unemployment possibly made it easier to engage in benefit fraud. For example, jobcentre and benefit office staff had less time to apply checks, and it was more difficult to apply the test of sending someone for job interview, because so few vacancies were available. In short, the fraudulent claimant could more easily be lost in the crowd of genuine claimants.

From 1986, however, the Restart counselling system has been instituted. Restart counsellors, usually located either at jobcentres or at benefit offices, have since 1988 interviewed every person unemployed continuously for six months, and thereafter at six-monthly intervals. (As a result of changes introduced

in 1990 the first interview takes place after only three months of unemployment.) One purpose of Restart counselling is to guide people towards opportunities for becoming re-established in work, for example through entrance to Employment Training, Jobclubs, or immediate application for job vacancies. Another purpose is to ensure that the individual is actively seeking work, and where this does not appear to be the case, a review of the claim to benefit may be instituted. Restart is, therefore, a method of checking on the genuineness of benefit claims.

About one in 10 of those asked to attend a Restart interview appear to withdraw their claim to benefit of their own accord⁴¹. This could be regarded as evidence of far more widespread benefit abuse than has previously seemed to be the case. As yet, no details are available about what subsequently becomes of these individuals, so this inference cannot be directly proved or disproved. However, some indirect reasoning can be brought to bear. If these 'Restart drop-outs' were previously working and claiming, then after dropping off the unemployment register they would simply be working. The effect of this, in the aggregate, would be a fall in registered unemployment but no change in employment. In addition, activity in the black economy is usually associated with self-employment (including moonlighting) rather than with working as an employee⁴²; self-employment makes it much easier to take a morning off each fortnight to sign on for benefit. So if many of those leaving the register when faced with a Restart interview are self-employed, the effect will be a fall in registered unemployment without a corresponding increase in self-employment.

In fact, there is some supporting evidence for both these interpretations. An analysis by Bank of England economists suggests that unemployment has, since the introduction of Restart, fallen considerably more rapidly than could be predicted on the basis of the growth of the economy and employment over the period⁴³. They estimate that the Restart effect (in which they include the general increase in emphasis on tests of availability for work) has been to accelerate the flow out of unemployment by between 11-19 per cent over and above the background changes in employment. This figure corresponds quite closely with the proportions ceasing to claim benefit either before the Restart interview or shortly after it. It can also be seen, from data from the annual Labour Force Survey estimates, that self-employment increased more slowly in 1988-89 than in the previous years, despite the dramatically greater fall in unemployment over these years.

But it should not be assumed that all of the unemployment drop-off induced by Restart consists of fraudulent working claimants. People in other circumstances may be deterred by the Restart scrutiny. These could include, for example, women with working husbands who are not seriously looking for work; older workers with early retirement occupational pensions or investment income, who feel that, because of Restart, unemployment benefit is no longer worth the

trouble; and genuine claimants, frightened or confused about their position, who avoid the Restart interview without good reason (and perhaps rejoin the claimant register after a reassuring pause).

Even if a large part of the Restart effect consists of the discouragement of outright fraud, nevertheless the great majority of unemployed people remain genuine claimants. At the start of the 1990s, there were still more than 1.6 million unemployed people, and the proportion of fraudulent claimants was likely to be particularly small by then because of the continuous application of the Restart procedure over a period of several years. What proportion of these get financial relief through earnings on the black economy?

This is a difficult matter to investigate, because people will naturally be cautious about admitting earnings which could, in principle, lead to a reduction of benefit entitlement. Whether correct or not, the results of a standard survey on this topic will not be believed. But there have been a number of studies which can claim to have overcome the obvious barriers by getting to know unemployed people over a longer period. Ray Pahl and Clare Wallace⁴⁴ talked to families on the Isle of Sheppey over a period of five years, getting to know them both in times of employment and of unemployment; and supplementing interviews with less formal contacts, such as conversations in pubs. A similar intensive approach was used in a study of redundant workers in South Wales, by a team of researchers from the University of Swansea⁴⁵. The most intensive study was completed in Cauldmoss (Scotland) where a team of anthropologists took up residence in an economically declining locality and gradually, through informal contacts, got to find out what actually took place⁴⁶.

The general picture provided by these studies is that supplementary income from the black economy is quite widespread, but on a very small scale. Many people get access to earnings opportunities, but each person gets such an opportunity only for the odd day's work, and the rates of pay (sometimes in kind rather than cash) are low. Moreover, many unemployed people who have opportunities of occasional earnings do not take them, out of fear of being found out, coupled with the much greater size of the potential loss of benefits by comparison with the earnings opportunity.

There are good reasons why unemployed people, especially those who have been unemployed for some time, should be less involved in the black economy than might be expected. The overriding reason is that they are squeezed out by employed people, who have numerous advantages over them: access to potential customers through their work contacts, access to tools, equipment and materials from work, and more money to finance their business activities. Unemployed people also have fewer social contacts (because they go less often to pub or club), and so are less likely to be offered casual jobs. Finally, there is social hostility

towards benefit claimants working 'on the side', whereas there is less hostility towards 'moonlighting'.

Another relevant factor is the scale and distribution of opportunities in the black or informal economy. Claims made in the early part of the 80s that this whole sector had been growing enormously have subsequently been strongly criticized and should not be taken seriously⁴⁷. It seems highly likely that the bulk of the black economy is taken by people who are in full-time self-employment, rather than by employed or unemployed people. Further, the most favourable conditions for the black economy may be in prosperous areas, where people have plenty of cash and where labour shortages let in marginal forms of business activity. But unemployed people are, on the whole, not located in prosperous areas. In the relatively depressed areas where they live, there is less of a black economy to go round.

The benefits system has been criticized in the past for failing to carry out its responsibilities for enforcing work disciplines upon unemployed claimants⁴⁸. Since the introduction of Restart (see above), this criticism is obviously less applicable, but in any case it was probably always overstated. Although the system may not have been sufficient to put off the determined fraudster, it has always made a strong impact on the average claimant. Our survey of the long-term unemployed⁴⁹, long before the introduction of Restart, showed that six per cent had experienced a stoppage of benefit at some time, but twice as many (that is, about one in eight of the sample) reported that they had been warned that their benefits might be stopped. Moreover, more than one quarter of the whole survey (25 per cent of men, 30 per cent of women) stated that they were worried about benefit payments stopping completely or temporarily. About half of these had personal experience of stoppages or warnings, while the remainder experienced vague anxieties. Among these a common sentiment was that 'It might just stop – and then where would I be?', or that the social security office could simply decide not to pay it any more. Or there might be some mistake which would take a long time to sort out, a situation regarded as tantamount to stopping benefit. Comments of this type could be interpreted as evidence of feelings of fearfulness induced by dependent status rather than by any specific problem or pressure. The existence of such feelings in a substantial minority suggested that the benefit system was quite effective in intimidating its clients, even if that was not the intention.

There are two contrasting conclusions to be drawn. The first is that there may well have been a substantial minority of claimants who cashed in on rising unemployment by registering fraudulently, when they were already engaged in paid work (probably on a self-employed basis in many cases). The second is that many genuine unemployed claimants get some casual earnings 'on the side', but that these supplements to their benefits make only a small difference to their long-term financial position. Excluding the fraudulent working claimants (who should

not be counted among the unemployed), earnings in the black economy do not have anything like the importance to unemployed people as do drawing upon savings and borrowing money.

Uncertainty

We have now portrayed the standard of living of unemployed people living on benefits, and have also examined the main ways in which they might supplement their benefit payments. But there is one further complication which has to be taken into account. This is the degree of variability, or uncertainty, which affects the individual's financial position. Our picture of financial life in unemployment is one of people just managing with little or nothing in the way of a margin of flexibility, except perhaps for those with savings. Any sudden increase in necessary expenditure, or any reduction of accustomed benefit income, imposes a stress which can in most cases only be taken up by going into debt. Obviously, then, unemployed people will tend to take great pains to keep their position as predictable as possible and to avoid uncertainty.

For most of the time, the benefit system provides a highly predictable and unvarying income. Changes will take place when the benefit scales are altered, but this is infrequent. Changes may also occur when an individual's circumstances alter, but the individual has a vested interest in making such changes as rarely as possible, unless the change will clearly lead to an improved financial situation.

One of the most widespread problems for unemployed claimants is delay. When first signing on, a claimant can expect to wait for several weeks before financial assistance materializes. There have always been ways of getting emergency assistance, but even these rarely produce money within a week. These initial delays can cause severe problems for individuals. Only a minority of people enter unemployment with plenty of warning and a financial cushion. In the lowly jobs from which many people enter unemployment, workers are commonly 'put off' at a moment's notice and without wage compensation; moreover, we found that many of those who probably should have received redundancy payments got nothing⁵⁰.

Delays in payment continue even when people have been unemployed for a long period, when one might have thought that the system would have been sending out their fortnightly payments as a smooth routine. Within a 12-month period, we found that well over one third of long-term unemployed experienced late arrival of their benefits cheque⁵¹. Some respondents stressed the severe problems caused by late arrival, when regular outgoings had to be met, and others commented that late arrival was a frequent occurrence. Problems with the postal service will provide part of the answer, but not all of it. Many of these delays in payment reflect changes of circumstance, or reviews of the individual's claim⁵².

One consequence of delay, coupled with uncertainty about the enormously complex rules concerning benefit entitlements, may well be under-claiming by individuals. Someone with a possible right to additional benefit may not claim it, because of anxiety about the possibility of a review which delays the normal payment. The caution of unemployed people in becoming involved in casual or part-time work is also further explained by the fear of these delays. Not only will much of the additional earnings be lost through reduction of benefits above the 'disregarded' level, but there is also a risk for the individual of normal payments being disrupted.

Recent research by Eithne McLoughlin and colleagues⁵³ has revealed how much of an obstacle to job-search and re-employment is created by delays and uncertainties concerning benefits. In principle, when an individual considers a low-paying job, benefits are available to increase the incentive to take that job. Through Family Credit, the income of married couples can be increased to ensure that they will be better off than on unemployment benefit or income support. One problematical point is, however, that these benefits are on different scales from benefits in unemployment, and individuals find it difficult to assess what they will be getting, in total, when they are back in work. Worse, there are often (indeed, usually) delays of several weeks before Family Credit benefit can start to be paid. This may create a financial chasm which families lacking any financial reserves find it impossible to cross. Even in the case of a well-paid job which would certainly make the individual better off, there may be the fear that the job will not work out, and that a speedy return to the dole will lead to a further gap in claiming.

Another anxiety which may paralyse long-term unemployed people into inaction concerns their debts. A benefit claimant who has fallen heavily into debt or arrears of payments may have taken the problem to Social Security, who will then have arranged a schedule of repayments in small sums deducted from benefit. Or again, the family may have been given financial help through Social Fund payments, but will again have a schedule of payments through deductions from benefit. Or personal debts, perhaps to someone in the family, may be held over by agreement while unemployment continues. A person in this position may be highly uncertain about the consequences of entering a job. Will the balance of debt suddenly become repayable all at once? Will the debt repayment service offered by Social Security be withdrawn? How will all this be sorted out? It is not hard to see why some may fall into a debt trap as much as into the benefit trap which is more commonly spoken of.

In short, financial uncertainty is one of the major potential problems for people on benefits who lack financial flexibility. This problem leads unemployed people to be extremely cautious in their behaviour, even to the point of turning their backs on job opportunities out of financial anxiety. In avoiding uncertainty,

then, unemployed people may become increasingly locked in to the benefit system, with its low, but sustainable and predictable, standard of living.

Status, shame and stigma

In a materialistic society, which rates achievement in financial terms, the problems of unemployed people naturally do not finish with their standard of living. For many of them, exclusion from paid employment means a loss of status, while dependence upon 'the dole' brings a shame and a stigma which penetrate many aspects of life.

The shape of people's thoughts about these issues is brought out as part of their spontaneous comments concerning life in long-term unemployment, collected in our 1980-81 study⁵⁴. One feeling which people express is of a general loss of position in society, and of the dignity which goes with it. This feeling, as it is expressed, seems to come from inside these individuals, as a judgement upon themselves, rather than as a play-back of their experiences or of what others have said to them.

'There is no dignity in being unemployed ... it kills you, you feel that you are not wanted.'

'You feel better when you are in work ... You can hold your head up high, pay your way.'

'I find it difficult to come to terms with poverty. I'm not mentally or emotionally equipped to deal with the situation. It humiliates me.'

Perhaps clearest of all is the following remark:

'You feel like a leper, because we live in a work-oriented society. It (unemployment) is not a healthy way to live – you've got to feel that you belong to society.'

These rather abstract comments, however, are much less commonly met than others which link the individual's problem with treatment at the hands of the authorities ('the social security', 'the state') or with the hostile attitudes of society ('people'). These comments sometimes reflect unemployed individuals' view of their relations with the state or with society, rather than their actual experiences. In that case they are, perhaps, another way for individuals to pass judgement on themselves and express their humiliation.

'The indignity of having to depend upon the state – it's a debilitating thing.'

'You've got to go and humble yourself at those offices ... it takes away your dignity, standing in dole queues.'

Thoughts of this kind can take a paranoid turn when individuals in unemployment consider society's view of them.

'You don't feel like going to the pub now because people say, "Look at him, he hasn't worked for ages and he can afford to have a drink". Even when you buy a bar of chocolate, you feel somebody will be saying, "How can he afford that?"'

'Walking down the road, you feel insecure. You tend to think people are talking about you because you are unemployed.'

But unemployed people's feelings of stigma can also be based upon experience, or at least upon their interpretation of experience.

'Someone dropped a note through my door saying I was a scrounger. It upset me very much.'

'The people at the bowling green think unemployed people are lazy. I don't say I'm on social security – I'm frightened of saying it because they talk so much about unemployed layabouts.'

'I feel like a beggar, no self-respect left now. It's the people at social security – they ask such questions. You feel rotten after you leave – but I suppose they have a job to do.'

'I'm humiliated by having to ask the social security for things like shoes, bras, roll-ons. They look at what you've got.'

'It's like living in a zoo, people running your life. You're not free to do as you like, they can stop your money.'

We also tried to assess how widespread was the feeling of social stigma, through direct questions. More than one in 10 (13 per cent of males, eight per cent of females) felt that they were 'treated differently' by others because they had been unemployed for long periods. In addition, more than one in four of the long-term unemployed (28 per cent of men, 29 per cent of women) felt that it was *not* easy to 'tell others that they were unemployed'; about another 20 per cent were uncertain about this, leaving only just over one half who felt that they could tell others their situation easily. This evidence confirms that feelings of stigmatization have been quite widespread among unemployed people, but not as dominant as some might have expected. Moreover, it may be that after a decade of high unemployment, these feelings are wearing off.

It is worth asking how unemployed people manage to *avoid* self-wounding thoughts and external stigmatization by people in their community. One of the ways in which many were able to do this was by virtue of age and long employment. Most of the over-55s made a relatively good adaptation to unemployment and were

not prey to feelings of stigma. In part, this was because they could easily adopt the role of 'retired' rather than unemployed, a point first noted in PSI's earliest survey of unemployment⁵⁵. This role was doubly respectable, by the early 80s, because of a widely prevalent view that older workers should 'make way for the young' (although few if any real cases can be found where older workers were removed in order to recruit additional young people). And to maintain their self-respect, older workers could reasonably point to the years of work they had already put in – 'I've done my stint', as it was often said.

For young people trying to get a place in society, those options were not available. But the feeling that society rejects you if you are unemployed may be avoided if you can turn away from society. The sense of belonging and acceptance can best be re-created in a group which is in the same position as oneself and rejects the old notion of shame in worklessness. During the 1980s this seems to have been happening among some younger groups of unemployed people, especially in areas of very high unemployment⁵⁶. These young people were able to adopt a matter-of-fact view of their position outside the world of employment, and build up their own sets of rationalizations for what was happening to them⁵⁷. The trouble with this solution is that it may isolate the group still further from the wider society and put jobs further out of reach. Isolation is an issue to which we will return in the next chapter.

Deprivation, absolute and relative

Our portrait of the material side of benefits has not, on the whole, been a reassuring one. It is true that most people in long-term unemployment seem to reach an accommodation with their circumstances, and do not go into an indefinite downward slide. But, in the first place, the level to which they come is a low one: one which leaves too small a margin for such necessities as shoes, clothing or travel, completely excludes more substantial things like holidays or the replacement of worn-out household goods, which most people in jobs would regard as normal, and frequently makes inroads even into such basic items as food, children's clothing, or travel on public transport. Even to stay at this level, the great majority draw upon savings or resort to borrowing money, props without which the income support system's inadequacy would be gravely exposed. Moreover, unemployed people living on state benefits often have feelings of humiliation and shame which undermine their relations with other people.

The means-tested basis of benefits closes off many of the paths by which unemployed people might improve their living standards and maintain their motivation, while they are looking for a new permanent employment. Casual or part-time earnings, while not forbidden, if declared may lead to reductions in benefit which take away much of their point. Worse than this, the individual taking part in such activities may find his or her availability for work questioned; and for this

or other reasons, adjustments to entitlement may lead to delays in benefit payment which can have a devastating short-term impact. Similarly, taking a full-time but short-term job may be discounted by an unemployed person who considers the delays which could occur when it becomes necessary to re-enter the benefit system. In short, the benefit system is based upon a norm of full-time employment, and *quite unintentionally* discourages the use of 'non-standard' modes of employment (i.e., all those other than full-time permanent employment). These non-standard modes of employment are now used extensively by families to supplement the earnings of a full-time worker and so raise their standard of living; for example, through a wife working part-time or a husband taking on additional casual work. Only families where the husband is unemployed and on income support are virtually excluded from improving their living standards in this way.

The means-tested benefit system enshrines the equally outdated view of male predominance in family finances. Because means-testing is applied to the family, a wife has no incentive to work when her husband receives income support in unemployment. One of the main methods by which families suffering from the husband's unemployment might rise above the subsistence level is denied them. From the wife's viewpoint, moreover, the independent economic status gained through the recent introduction of separate taxation is diminished in families suffering long-term unemployment⁵⁸.

The British system of benefits provides a low, subsistence-level standard of living, but it is one which continues indefinitely provided that claimants stick to the rules. The problem is that these rules close doors into many real ways out of unemployment, while subsistence becomes accepted as the only available way of life.

The effects of unemployment upon material standards of living are clear, but there is one remaining respect in which their interpretation might be queried. How does the financial situation of unemployed people compare with that of other groups facing other kinds of disadvantage? It is particularly important to ask this question, because many people in unemployment may have experienced other disadvantages at other times. They may, for example, have previously had a long spell of illness, or been bringing up a family as a lone parent. People in those circumstances also usually rely on state benefits. Furthermore, most unemployed people are drawn from manual, routine non-manual, or personal service jobs, often at low rates of pay. It would not be altogether surprising if the financial circumstances of people in long-term illness, lone parenthood, or low-waged labour, were as difficult as those of unemployed people.

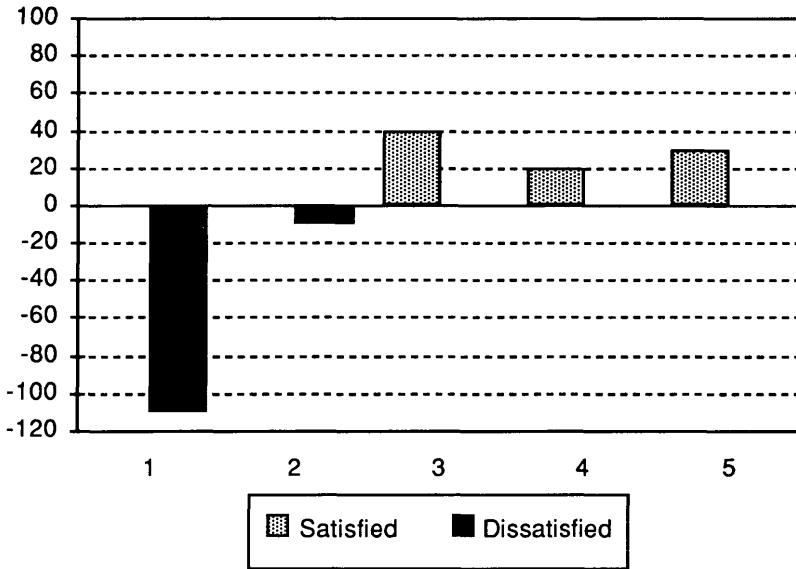
Research conducted by Richard Berthoud has provided the necessary comparisons between different groups of people receiving state benefits of one kind or another⁵⁹. He measured the effects on individuals or families using a range of indicative questions, such as whether they lacked items of clothing, ran out of money before the end of the week, ran short of food, and had real anxieties about

money. The survey was carried out in the early 80s, since when the relative financial position of unemployed people has deteriorated. It showed that even then unemployed people were distinctly worse off, in terms of these indications, than people drawing pensions, people who were long-term sick or disabled, or lone parents. In part, this can be attributed to the simple fact that unemployment attracts less benefits, on average, than these other circumstances. In addition, as the study points out, the most adverse experiences of living on benefits were those of families with dependent children, because the allowances for children are low by comparison with the costs of children. But, by comparison with other groups receiving benefits, families in unemployment had more children, on average.

Another PSI study of the same period, by W.W. Daniel⁶⁰, provides the other comparison needed to complete the picture. This national survey considered, among other things, people's level of satisfaction with incomes and standard of living. Since it covered all groups in the labour market, it was possible to make comparisons between those in unemployment and those currently employed in various sectors of the economy and in various occupational groups. Figure 2.3 shows one striking outcome of this comparison. Unemployed people were far more dissatisfied with their family income than workers in small firms, who in their turn were less satisfied than workers in other types of organization. This was one of a series of comparisons which showed that the gap between unemployed people, and the nearest group to them in terms of dissatisfaction with income, was greater than the spread in satisfaction across *all other groups*. It must be stressed again, as at the beginning of this chapter, that the comparison concerns all in unemployment, and not only those in long-term unemployment. As before, the conclusion is that most types of unemployment, and not only long-term unemployment, are among the most punishing experiences which individuals can undergo, even when they come from the lowest paid sections of the population. A quotation from this study's conclusions also makes an appropriate conclusion to this chapter:

'Indeed, the gap between the unemployed and the lowest occupational group in work was greater than that between the highest and lowest occupational groups in work. That is to say, the contrast between the unemployed and the unskilled workers, on the one hand, was greater than the difference between unskilled workers and managerial and professional workers, on the other. Similarly, the gap between the level of satisfaction with family income among the unemployed as compared with the lowest paid in work was greater than that between the low paid and higher earners in work.' (Daniel, 1990, page 88.)

Figure 2.3 Levels of satisfaction with family income



Key

- 1 Registered Unemployed
- 2 Small private firm employee
- 3 Larger private sector employee
- 4 Nationalised industry employee
- 5 Public service employee

Source: W.W. Daniel, *The Unemployed Flow*, PSI, 1990, page 89.

3 The World of Long-term Unemployment

The previous chapter concentrated upon the living standards of people in unemployment. From their own point of view, this is by far the most important concern about unemployment, other than finding another job. But it is by no means the whole of the story. Employment provides structured activities and, often, interests which spill over into private life. It also provides a ready-made circle of social contacts, and some of these work contacts may also be part of the individual's social circle in leisure. How unemployment, and prolonged unemployment, affects these major aspects of life is the theme of this chapter.

By comparison with the previous chapter, the focus here is less upon purely material matters and more upon subtler aspects of the quality of life. But it would be wrong to draw too clear a line of division. So much of contemporary life is governed by financial resources and consumption, that these are certain to penetrate people's general activities and social networks. The topics of this chapter, therefore, as much continue as contrast with those of the previous one.

Job loss and exclusion from work

It is difficult to separate the inherent enjoyment or interest of doing work from the income which employment brings in and the status which it confers. These elements are subtly interwoven in employment, and hard for people to articulate when they are talking about their jobs or about jobs they have lost. In Britain, moreover, there are strong traditions among lower-skilled workers of denying intrinsic attachment to work, and of stating that one works 'only for the money'. This is likely to carry over into the accounts people give of what it means to be unemployed. Whereas our evidence about the material side of unemployment is voluminous, our insights into the intrinsic, work-related deprivations of unemployment are relatively scanty.

When we asked people with long periods of unemployment why they could not enjoy life as much as when they had a job, less than one in 10 referred directly to the loss of the interest or satisfaction of the work they did¹. Since most of the

people who experience prolonged unemployment have come from relatively routine jobs, this relatively low proportion could reflect working-class reticence in admitting to the intrinsic satisfactions of work. Or it could equally well reflect the low level of interest and job satisfaction available to people in many such jobs. Those that did talk about the lack of job satisfaction tended to come from skilled or white-collar jobs. These tended to be articulate people who spoke of job satisfaction in an emphatic way.

‘It’s a state of mind. If you want to work, then it’s very frustrating to be unemployed. None of the things you find to keep you busy are real substitutes for a job.’

‘I really loved my job and I miss it. It was a way of life. I’ve been brought up in teaching. I enjoyed it so much I think I’d go back for no pay.’

Others particularly referred to the deterioration in mental alertness which resulted from being without a job and all that goes with it:

‘You’re missing connection and status and getting out and meeting people and being independent. You feel as if you’re not contributing to society – and your brain becomes dormant and you lose confidence.’

A large group of long-term unemployed consists of those who have worked for many years in the same job or trade, before being made redundant. This sometimes leads to a strong identification with the type of work, sometimes to a feeling of bitterness and betrayal about redundancy or closure. Both are conveyed by the following remark:

‘You feel as if you’ve been let down, after learning a trade which you think you are going to carry on all your life. Firms down here can’t carry on – there’s no money to help them carry on. We could have run the firm if we had £250,000.’

Although not many people talk spontaneously about the satisfactions of work which they have lost, they are generally ready to admit the impact of boredom in unemployment. In the OPCS/DHSS survey, covering people who had been unemployed for 15 months, just over one in four said that boredom was the *worst single thing* about being unemployed (lack of money being selected by 38 per cent)². In our own surveys³, we have found that the great majority of unemployed people agree that ‘you get very bored with nothing to do all day’, as a comment upon unemployment. There was also a very substantial difference of attitude between those continuing to seek work and those no longer seeking work, with the latter

far less often having feelings of boredom. This suggests that the lack of activity in unemployment is in reality strongly felt.

Of course, individuals vary in their attachment or commitment to work, and this affects their reactions to losing a job or being shut out of employment. Researchers at the Social and Applied Psychology Unit at the University of Sheffield have extensively investigated the connections between work commitment and unemployment, and have found that the greater the work commitment, the more painful is the experience of being without a job, and the greater the efforts to get one. It might be thought that when people become unemployed, feelings of work commitment grow weaker. But this is not so. Instead, the search for a new job seems to arouse these feelings, or brings them into the foreground of consciousness; whatever the reason, feelings of work commitment are actually more prevalent among them than among those who are employed⁴.

A reasonable conclusion, then, is that even though the previous job may not often be missed, there is usually a vacuum in people's lives when work is removed. The effect of unemployment in the long term will depend partly on how this vacuum can be filled, if at all. Evidence from our survey of long-term unemployment suggests that this is possible only for a small minority. About one in eight of long-term unemployed individuals had made a reasonably good adaptation, in the sense of feeling that despite the loss of employment they could enjoy life and be fulfilled. Even among these, only a minor proportion spoke of the *alternative activities to work* which they had taken up or developed. The following are some characteristic comments.

'You could be in a factory doing a job you hate, or be at home doing a hobby you love. It's a state of mind.'

'If an unemployed person has enough experience, he can always turn his hand to doing things for himself and others. If you've got a bit of land and a spade, you're O.K.'

'The time may be used constructively. In my case, much effort has been made to improve the quality of mind and spirit and to maintain the body in trim.'

'I got into voluntary work and I get a lot out of that. I feel as if I'm some use.'

'There is always good work to be done – to help and advise people. We hold religious classes and our time is fully occupied.'

As these and other comments showed, access to activities often depended on resources: gardens are the outstanding example, being referred to time and again. Those already into gardening and allotments could develop that activity greatly. Reading, writing, scholarly investigations, listening to or playing music, or sketching, were for the cultivated to cultivate further. Cyclists could cycle, runners run, and swimmers swim, because (for those already equipped and in good

health) none of these sports makes much demand for anything but time. The successes illustrate better than anything else the constraints which face most unemployed people, starting with few material and educational resources and, in many instances, in poor health.

Many unemployed people live in council rented flats without their own gardens. Allotments could be obtained by flat-dwellers, but then there would be the need for tools and plants to get started. The money required to buy gardening or D-I-Y tools and materials, or supplies for hobbies, will generally not be available, because of the lack of any financial margin. This has been confirmed by research which has directly addressed the issue, such as that of Ray Pahl⁵, and it is also reflected in many individual comments from our survey:

‘You’ve got the time but you haven’t got the money, you see things about the home you’d like to get on with, but the cost of the materials make it impossible.’

Community activities, as in voluntary or church work, provided a ready-made opportunity for some people as an alternative to employment. Again, however, there are real limitations on the availability of these opportunities, apart from personal inclinations. Voluntary activities tend to be controlled by middle-class people whose natural inclination is to seek other middle-class people as helpers; and their priority is to provide help for their clients (such as young people, sick, or aged) rather than to provide opportunities for unemployed people⁶.

A number of those who stated that they could keep active and contented were women, who generally had fallen back upon a range of traditional domestic activities when they lost their jobs.

‘I keep busy, making my own bread, making clothes, doing my bit of garden – and I knit presents for my grandchildren.’

Equivalent male activities might be D-I-Y or car repairs, but here as we have already noted the problems of resources loom large, unless the individual moves into the black economy and makes a part-time business. Few people mentioned such activities; more complained of the lack of money to carry out repairs and maintenance.

Not all activities consume resources. Some individuals, although not many, spoke of how they had found ways to fill their time and find satisfaction, which cost nothing. It is notable that, in some of these comments, money and material values are explicitly rejected.

'I used to work in a big office and I never saw the sun and now I can. I used to feel I missed something. I read poems, and sing to myself, and when it's cold I get back into bed.'

'I've been brought up with nothing, we've always had it hard. I'm used to doing without money ... I go out every day, I go walking in the woods and down to the swimming baths.'

'I've never had expensive tastes. I can sit and hear the birds and make do and mend – I always have. I'm contented to be alive. I don't owe anyone anything and I'm not beholden to anyone.'

'I'm one of those people who can be happy whether I've money or not. Keep your mind active, do things which cost nothing or little, and you can live a good life. I go fishing, fixing up junk out of nothing ...'

Yet, even in these cases resources were often implied. Access to woods, fields and bird-song may be denied to inner-city residents, for example. A striking feature of these comments, also, is that the individuals seem to be continuing a way of life which they had acquired before becoming unemployed, with previously acquired values, skills and knowledge standing them in good stead. This is evident in phrases such as 'I used to feel ...', 'I'm used to doing without...', 'I've never had ...', or 'I'm one of those people ...', in the quotations above. Cultural resources – what one learns in one's upbringing – may be as important for coping with unemployment as material resources, and in equally short supply.

On the whole, then, it seems that the void created by loss of a job is not satisfactorily filled in long-term unemployment, except for minorities with special advantages of resources and location. Perhaps the most disquieting evidence, in this respect, comes from our studies of young adults⁷. It is well established that people in this age group have by far the most extensive leisure activities, and it might have been expected that when caught in unemployment, they would tend to build an alternative life around these activities. In practice, more of them gave up activities, because they could no longer afford to maintain them, than took up new pursuits.

These findings concerning the active pursuits of unemployed people are consistent with much of the research which exists concerning the relationships between work and leisure. At the risk of over-simplification, this research might be summed up in the statement that responsible and satisfying jobs are linked to a full, active life of leisure, while narrow, routine jobs are linked to limited and passive pastimes. In part this can be explained by the different educational backgrounds of groups in the two contrasted positions, but this cannot be the whole explanation, since many leisure activities (for example, sports) do not require educational attainments to be enjoyed. Part of the explanation seems to lie in the relatively stimulating, or relatively stultifying, nature of different kinds of work⁸.

According to this perspective, prolonged unemployment, withdrawing the stimulation of even low-level work, and forcing people into a narrow life-style through lack of money, is likely to have a negative rather than a positive impact on leisure activities. And so it proves; indeed, econometricians evaluating the value of leisure for unemployed people have found that it is negative⁹.

Alternatively, one could simply see life in unemployment as an extension of the leisure-time of workers from lower occupations, already narrow and cramped. This notion, and more, is expressed in a telling phrase by Olivier Galland and Marie-Victoire Louis: ‘travail désinvesti, chômage banalisé’, which might be roughly translated ‘alienated work, trivialized unemployment’¹⁰.

Social enjoyments

Most people get much of their enjoyment in life from being with other people. Equally, many of the pastimes which people say they enjoy – whether going to a pub, a cinema, or a football match – are also opportunities to get together with friends, and may lose much of their attraction if they become solitary. How unemployment impinges upon social enjoyments is a topic about which less is known than should be. It is likely, for most unemployed people, to be central to the issue of enjoying life, rather than merely making do in a material sense.

Our question about enjoying life in unemployment stimulated a great range of comments about the particular aspect of social enjoyment. Of course, as the previous chapter made clear, by far the greatest number of replies to this question concerned material living standards and nothing else. But second only to this in frequency were the comments which related to social life. Fully one quarter of those who felt that it was impossible to enjoy life in unemployment (or one in five of all long-term unemployed people) focused upon the lack of a social life as one important reason.

The proportions focusing upon problems of social enjoyment varied between groups in several ways. Women pointed to lack of a social life more frequently than men; the difference was not great (30 per cent as against 24 per cent) but this has to be seen against a generally better accommodation to unemployment on the part of women. Age also comes into the picture, with young people more frequently pointing to lack of social life (32 per cent of under-25 men, 38 per cent of under-25 women). This is natural, since the highest levels of social activity are among young people; but it tells against the view that young people can easily adapt to unemployment through social activities. Finally, there is some evidence that social life is missed most keenly early on in unemployment: 36 per cent of men unemployed for 1-2 years, but only 22 per cent of men unemployed for five years, referred to loss of social life as a problem.

Part of the social enjoyment which is lost consists in the socializing which takes place at work. Although it is impossible to demonstrate statistically, it seems from

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a reading of many hundreds of people's comments that this loss is particularly noticed by women. And this may account for women's higher overall rate of comment upon the issue of social enjoyment.

'I miss my friends, and get depressed. When you are in work you had your coffee break and someone to talk to.'

'As a lone woman, you don't have the opportunities (when out of work) to meet people. It's a loss of companionship.'

Sometimes, also, social enjoyment takes place in leisure time with people from work or met through work:

'If working, you've got friends and company, you go out to parties and have some social life. Firms have social clubs ...'

However, the part of social enjoyment contributed by social groups at work is only a small one within this whole picture. Most of the comments on the theme relate, rather, to the social enjoyment which takes place in leisure hours, but is made possible by the money earned in employment. The great majority of the comments which we collected on this theme were entirely vague about who were involved in the speakers' social lives. The phrases continually used were 'social life', 'going out socially', or 'enjoying yourself socially'. And the obstacles to this kind of enjoyable social activity was not so much lack of social contacts as lack of money. The comment most often repeated was that 'I can't afford to go down the pub' or (meaning the same thing) 'I can't afford to drink'; but this focus on the pub is, in Britain, primarily a male one. The financial obstacle to social enjoyment is put concisely in the following quotations, the first of which came from a woman who had returned to work:

'Once I had paid all my expenses from my unemployment benefit there was only about £2 over, so there was no money to have a social life.'

'Well, if you've got no money, you can't go out at all. I've not been out of the door for 12 months. You can't go for a drink with friends or to the pictures or anything like that. I can't do anything but sit in, that's all.'

There were others, like the second speaker above, who specifically referred to a loss of friends, or of relations with the opposite sex:

'How on earth can you go out with your friends – they've got the money and I haven't.'

'I can't afford to have a girlfriend, I can't afford to go out ...'

The places and ways in which social enjoyment would be taken were often not stated, but when specified they turned out to be just as one would expect. Most of the time it was pubs, cinemas, or eating out, with a sprinkling of bingo, sporting venues or seaside outings also coming into people's thoughts. Social enjoyment in Britain generally involves consumption, and hence money, partly perhaps because the sociable street-life of countries with warmer and more dependable weather has not yet become wholly respectable here: there is no British equivalent to the late evening promenade of Barcelona.

Probably because of the financial bind hindering social enjoyment, the comments on this theme contained relatively few of the positive aspects found among those concerning personal activities. The nearest to a solution was simply to scale down the social enjoyment to an affordable level, as in these two examples:

'I have £1 a fortnight (left over to spend) and that gets me a pint.'

'In the summer months, I go on a mystery tour every Sunday evening, but I only have a shandy. In the winter I stay in.'

For most people, there does not seem to have been enough of a margin to do even this, presumably because there were other more pressing priorities:

'It takes every ha'penny to manage. I manage by the skin of my teeth. I never go out.'

But as the 1980s progressed and experience of long-term unemployment stretched out, young people at least seem to have become more adept at the tactics of diminished enjoyment. Admittedly, they may have been helped by the generosity and tolerance of their parents¹¹. Our 1986 study showed long-term unemployed young people taking turns to pass time in each others' houses; or mastering the art of making one drink last a whole evening at the pub, where 'rounds' were no longer purchased by the members of these circles. Such non-standard behaviour meant, naturally, that these young unemployed people had to stick with others in the same position and were not free to mix more widely.

What then were the implications of the lack of social enjoyment enforced for most unemployed people living on benefits? Two are rather obvious. First, because going out socially is, for so many people, the main part of enjoying life, a life on social security which makes this impossible is experienced as a life without enjoyment. The dreariness and joylessness of life on the dole is the overwhelming impression of reading the thousands of comments which we collected in our research.

‘It’s impossible (to enjoy life), isn’t it? You just don’t have the money to have a social life at all. You tend to stay shut up in the flat to avoid the temptation of spending, because you know that what bit of money you have will be needed for food and such ...’

‘You just have to die slowly – you haven’t the money to get out and about...’

‘We cannot afford to go even on a bus trip, we get no pleasure at all. All the money we receive is used on food and the house. We always seem to be in debt but how can we be otherwise with such little money coming in ...?’

‘It’s the same drudge day in and day out. You can’t afford to go out. I enjoy the opera and ballet but can’t even afford the bus fare to Cardiff.’

Closely allied to this sense of dreariness is one of boredom. Findings about boredom have been described in the earlier part of this chapter concerning personal activities, and there we spoke of the void created by loss of a job. But this void evidently consists, not only of the lost activity of employment, but also of the lost social activity financed through employment. Boredom arises as much, or more, from having nowhere to go and nothing to enjoy as from having no purposeful activity to pursue.

‘It’s just depressing. You get bored. I can’t go out, I’ve no money.’

‘Boredom sets in when you are unemployed – you don’t have the money to do what you’d like to do, no leisure at all.’

‘It’s a waste of life. I get bored at home all the time. I can’t afford to go out.’

‘Where can you go?... We never go out socially or for a meal – no money for that sort of thing. The boredom ... it’s a bit like prison without the facilities.’

Discussions of unemployment and social security have been based on narrow assumptions of people’s needs, which have excluded consideration of social enjoyments. Doubtless the exclusion has applied chiefly to ‘enjoyment’ rather than to the social aspect of enjoyment. But people’s commentaries on the experience of unemployment confirms what a moment’s reflection upon common observation will tell: that the enjoyment of life, for most people, overlaps to a great extent with the cultivation of social contacts outside the family circle. A person without the capacity to take part in what we have called social enjoyment not only loses a large part of enjoyment, but also misses out on social contacts. This leads us into the more sombre topic of social isolation.

Isolation

When unemployed people say, as they do so often, that they cannot go out socially, they are pointing to the beginning of social isolation. Similarly, in talking of the shame of unemployment and the fear of inquisitive, unfriendly neighbours

(see the previous chapter), unemployed people are beginning to broach the same topic of social isolation. But isolation is the end result of processes such as exclusion from social enjoyments or the attachment of social stigma. It means that people can no longer so easily use social contacts for their own purposes, including the search for jobs.

Employment is one of the main meeting places and one of the main sources of social contacts. When people lose jobs, or are excluded from jobs, such contacts will be diminished from the simple fact of not being at work. While in principle previous contacts and friendships might be maintained, what has been described in the previous section – the lack of money to take part in social activities – may lead to a parting of the ways. In addition, we have already seen that many unemployed people have characteristics which may make it harder for them to maintain social contacts outside work: disabilities, problems of personality, being single at an age when most are married, or being without a family.

By far the most important source of jobs for long-term unemployed people is ‘inside information’ from relatives and friends¹². Especially when vacancies are few and applicants are many, unemployed people need the advantage of early warning of a job or a personal recommendation. They therefore have every incentive to maintain and make use of personal networks of friends and acquaintances. However, our findings have shown that less than half are able to maintain contacts providing information about jobs, as unemployment goes on. Women generally have far fewer job-related contacts than men; when young women become unemployed, they drop out of such contact networks particularly quickly¹³.

For the long-term unemployed, the contacts who gave information about jobs were *not*, in general, the people they formerly worked with: such contacts were maintained by only five per cent. Instead, the main source of information was neighbours or old friends from outside the work circle, who constituted half the job-related contacts for men and two-thirds for women.

Those who did *not* have job-related contacts explained this in two main, contrasting ways. The first was to point out that the friends they had were also unemployed, and therefore knew no more about available jobs than themselves. This would be a natural consequence of the fact that unemployment tends to be highly concentrated in small localities¹⁴. One person’s unemployment tends to reflect a wider surge of unemployment affecting many in the same locality. Similarly, the decline of an industry or major employer will tend to affect not just individuals, but whole groups of work-friends. In addition, there is likely to be a tendency for unemployed people, who remain out of work, to acquire new friends who are also unemployed, or to drop out from friendships with people who have kept their jobs, so that over a period friendships become particularly concentrated into an unemployed circle.

For younger people (under-25s), and especially young men, our survey of long-term unemployment confirmed that the reason for not having job-related contacts was particularly often that their friends were unemployed¹⁵. In part this could reflect the shorter time that they have spent in work, and hence a smaller number of working acquaintances. But a much stronger, and 'structural', explanation, lies in the way youth unemployment is spatially concentrated. Young unemployed males, in particular, are highly concentrated in industrial areas with high concentrations of manual workers¹⁶. In such areas, accordingly, youth unemployment reaches high proportions. This in its turn means that the chances of whole friendship-groups of young males being simultaneously unemployed are rather high. In addition, young men (more than young women) may be under social pressures to consort with others in the same financial circumstances. The new social habits set up by circles of young people were mentioned in the previous section of this chapter; more will be said about changes of friendship and new friendships, in a moment.

The other kind of explanation given by unemployed people for their lack of job-related contacts was more personal. One quarter of the men *not* having job-related contacts stated that they 'do not socialize' or 'cannot afford to go out' or simply that they were 'loners'. The equivalent proportions for women were higher still: 31 per cent of those not having job-related contacts. It has to be recalled that many people in long-term unemployment, and especially women, are single or divorced, and this seems to be part of the underlying reason for this lack of social contact. From mid-20s to middle-age, most people form couples and many friendships and social contacts revolve around marriage and children, as they do around employment. People remaining single or becoming divorced may, therefore, have more limited social opportunities. Again, personal characteristics which lead to them remaining single may also tend to reduce their circle of friends (for instance, they may be 'loners' by preference rather than by circumstance). Whatever the interpretation, older (over 25) single people particularly often explained their lack of job-related contacts in terms of their own non-social behaviour¹⁷. Unemployment may have contributed to or accentuated this pattern.

The issue of job-related contacts shows, rather clearly, how people who experience long-term unemployment tend to be or become isolated from an important section of social relationships. This arises, not just from the personal circumstances of unemployment, but also from the concentration of unemployment into localities of certain types, occupied chiefly by manual workers. But, of course, *job-related* contacts are only one aspect of social relationships, even though an important one from the viewpoint of the unemployed person's chances of getting another job. Wider friendships need not, perhaps, be affected in the same way. The decline of an area, in terms of local economy and employment,

is bound to undermine work-related networks, but it is not so clear that other friendships will be equally affected. And if they are affected, different influences may well be involved.

Having activities with friends during the day depends upon them, too, being unemployed. One of the reasons why young people seem better able to continue making friends once they are unemployed, is that they are much more likely than older people to make friends with others who are unemployed like themselves. Among all long-term unemployed men, in our survey, about four in 10 had unemployed friends, but this rose to nearly six in 10 for single under-25 males. Unemployed women were much less likely to make friends with other unemployed people than were the men. Even so, relative to women as a whole, although not to men, single women under 25 far more often had unemployed friends. There also seemed to be some tendency for unemployed friends to displace friends who were in work, both for men and for women. Of those who had unemployed friends, less than one in 10 said that they saw their employed friends more often than their unemployed friends, but the reverse applied in about one third of cases.

We also asked unemployed people how often they saw friends, compared with one year previously. About one in 10 saw friends more often, but more than twice as many saw friends less often. This suggests a declining rather than improving quality of friendship. Even the under-25s were affected by this, although less strongly than were older unemployed people: they too saw less, rather than more, of their friends as time went on¹⁸. The group most often saying that they saw less of their friends consisted of married men with school age children¹⁹.

Why, then, do friendly contacts appear to decline in unemployment, even for young single people who need them so much for coping and making time pass, and even for young family men who might generally be expected to be in their peak friendship years? Once again we are back to lack of money. Just as loss of work breaks up job-related networks, so, as we illustrated in some detail in the previous section of the chapter, lack of income from work reduces the capacity for social contacts in general. Money is the key to the loss of friendly contacts for married men with young families, because this is the group most hardly treated by the benefit system and therefore experiencing the greatest financial constraint.

On balance, then, it seems clear enough that unemployment tends to corrode social contacts and activities, and leads in the direction of greater isolation. The influences are of two main kinds, corresponding to the two main features of unemployment: lack of a job and lack of money. Exclusion from the world of employment breaks down membership of networks based around employment, while shortage of money leads to a reduction in non-work friendships and wider social and leisure activities.

Perhaps the main exception to this lies in the growth of friendship circles based on youth unemployment. But such a development is not reassuring, since

it seems likely to cut off the young people concerned from the processes of growing into society which are connected with employment. It may also develop norms of behaviour and outlook, reinforced within the friendship circle, which in the long run make adaptation to employment and 'normal' life more difficult.

A point of some importance to be added here concerns courtship and the formation of couples, an issue addressed in some detail in our special study of young jobless adults²⁰, and in the follow-up to the Isle of Sheppey study carried out by Clare Wallace²¹. Typical transitions away from the family of origin towards independence, in the past, have involved first of all setting up in an independent household, such as a flat-share. This becomes difficult for a wageless person, and benefit rules and entitlements make it more advantageous, financially, to remain in the family home. So instead of moving towards early independence, young adults in unemployment tend to remain in a new kind of dependence upon both family and state, which may also reduce the privacy and freedom required for courtship. In addition, young unemployed males experience particular difficulties in going out with young women who have jobs, and therefore superior financial resources. The widespread practice, then, appears to be to confine dating relationships to other unemployed people, with a shared assumption that marriage and children will not be contemplated until a reasonably secure job has been won: although, here, biology may often prevail over strategy. In this important respect, young people seem to be deliberately isolating themselves as a group, while seeing employment as the only means to re-integration.

Living in unemployment: towards a broader view

Social security benefits have maintained, from their earliest origins through to Beveridge and the present day, the principle of providing only for 'necessities and decencies' of life. The problem with this principle, however, has always been that the definition even of necessities, let alone of decencies, is at best conventional and at worst arbitrary. And the arbitrariness of current benefit provision for unemployed people is underlined by the fact that no serious attempt to review, and argue through, the content of provision has been carried out since the late 1930s.

The evidence of this chapter shows how the lives of most unemployed people are impoverished even when subsistence and shelter are assured. Although some people, especially those who enter unemployment with practical resources, can develop personal activities of a fulfilling or productive kind, the great majority are unable to fill the void of joblessness, and become prey to boredom. The dreariness of life in unemployment is completed by the lack of leisure enjoyments and of the social contacts which are bound up with leisure. Money is too tightly constrained to leave any margin to visit the pub, go to a sporting event or entertainment, or take a meal out with family or friends.

Are these lacks in unemployed life mere frivolities? If so, then we are irresponsible in suggesting that the system of social security should take account of

them. But these are not issues which we have forced onto the agenda. Their importance became apparent from the comments which unemployed people spontaneously made. To the individuals themselves, it is apparent that the lack of activity, the lack of social enjoyment, and the resulting boredom, are problems which go to the heart of unemployment. Further, the cause of these problems is transparent: unemployed people lack the money which would be needed to finance personal activities or social outings. When problems are of central importance to unemployed people, and are tied to the financial circumstances of living on benefits, it is right to lay them at the door of the social security system.

Anyone who wants to argue that social enjoyment is not a serious issue, should first think about its close link with social isolation. To be excluded from sociable leisure is also to be excluded from local networks which offer contacts and opportunities. The pub has always been a place in which information passes and business is done, and those who cannot be there may be missing their best chances of getting back to work. And the advance of social isolation raises longer-term issues. As unemployed people gravitate into social contact groups which exclude employed people, they risk moving still more to the fringes of society and becoming a marginal and 'abnormal' group. The clear movement of young long-term unemployed people in this direction is particularly worrying, because it may lead to the formation of values which are at variance with those of society and incompatible with a working life. There is no sign of this having taken place as yet, but changes could emerge over a longer period, as more-or-less permanently unemployed people drift away from their social moorings. Large changes in housing, courtship and family formation do seem to be taking place among these young people, and in ways which are likely to cement the dependent status of themselves and their children.

In short, if the social security system cannot encourage and support people's efforts to build full lives for themselves, then we cannot be complacent about how the void will be filled or what the longer-term reaction will be.

There is a widespread tendency to blame unemployed people for their problems, and in this spirit it might be argued that state benefits provide enough for basic wants: the rest is up to the individual. This argument holds water only if there is scope for individuals to improve their position by their own efforts. However, as the previous chapter pointed out, the means-testing of benefits drives claimants down to the near-subsistence level and discourages them from even attempting to improve their financial position through part-time, temporary or casual work. What we have, in Britain, is a system which gives support, at a low level, for an indefinite period, *and hinders any escape* except through a full-time permanent job. The result of this system is the joyless and stagnant life lived by so many unemployed people.

4 Taking the Strain of Unemployment

Our picture of long-term unemployment, in Chapters 2 and 3, is of people scraping by at near-subsistence levels, troubled by debt or using up their savings, and leading a grey and featureless life. But there could be worse. Financial pressures, boredom and self-destructive thoughts could impose strains on an individual's health and wellbeing, and disturb relations with family members. Such stresses, and their effect on families as well as on individuals, are part of the theme of this chapter.

There are also positive possibilities. The family should be an important provider of practical support and solace for an individual in difficulties. Even though individuals lose many of their social contacts, if they have a family to turn to that may be enough to make up for the things they lack. To assess the impact of unemployment, it is clearly essential to weigh up both the positive and negative possibilities of the family.

Casualties and survivors

Before we turn to the family, however, some questions about individuals need to be considered, if only to put the subsequent discussion into perspective. A frequently posed question is whether people cope with, or adapt to, long-term unemployment. People may, of course, cope at some cost in wear and tear, so that even if they do cope, that does not necessarily mean that all is a bed of roses. When people 'simply cannot cope', on the other hand, that tends to mean something fairly extreme: what do we know about these casualties?

The first point to be aware of is that both official statistics and special surveys of the unemployed give us a view which is biased towards those who adapt and survive: the casualties move off into other categories and are not counted. The most important cases are death and serious illness.

Many studies have attempted to establish or disprove a causal connection between unemployment and mortality (the chance of dying within a given period). In our view, they are too deeply flawed to be convincing¹. The basic problem is that factors which may increase the chance of illness and death may

also be present long before unemployment, and increase the chances of losing employment. For example, a person's health and strength may be declining while in a job, resulting in that job finally being lost or given up; being away from work may initially provide a period of recuperation from the oncoming illness or debility, but then it may break out more seriously. So one cannot tell whether it is unemployment which caused illness and death, or the factors present before unemployment, unless one collects extensive information concerning the earlier period, as well as what happens after unemployment. This would need a type of longitudinal study which simply has not been carried out as yet. What one can say confidently, however, is that every study of unemployed people has underestimated the presence of illness, because those who die or move out into long-term illness are not taken into account.

Anyone with an illness preventing availability for work is meant to be transferred from the register of unemployment to the register of sickness; a person with protracted illness or injury may be classified as an invalid. In our 1980-81 study, over the course of a little less than 18 months, we found that about five per cent of a sample of long-term unemployed people moved out into registered sickness or invalidity². A most important factor, in whether this move took place, was whether the individual had some history of sickness before unemployment, for example the loss of a job for reasons of ill-health, or a previous spell on sickness benefit. This illustrates how unwise it would be to attribute the cause to unemployment without information about what happened beforehand.

For every person who becomes registered sick or invalided, there are a dozen who state that they have some persistent or recurrent health problem. Many of these health problems, of course, may be of a relatively mild or minor kind. The majority of people in jobs have some health problem or other, but go on working, and similarly the majority of unemployed people have some health problem or other, but go on looking for a job. Whether a health problem leads to invalidity or the long-term sickness register is a matter both of the sufferer's judgement and of the judgement of the medical authorities. A good deal of 'labelling' or social convention may be involved in this. In the Netherlands and the Federal German Republic, it was made rather easy in the 1970s to get illness or invalidity pensions, to some extent because this was seen as a way of reducing open unemployment. As a result, the numbers becoming pensioners of this sort grew very considerably as unemployment advanced³. In Britain, there has been no official policy on this score, but there have been some recent signs that the medical profession has been leaning more towards classifying unemployed people as invalids⁴. It is impossible to assess what proportion of this increase represents an increased recognition of genuine illness or handicap, and what proportion reflects a medically prescribed exit from a situation with which the individual can no longer cope.

Life stress

Although health problems as a whole have not yet been convincingly linked with unemployment, particular health problems of a psychological, and psychophysiological nature, have received more detailed investigation. The notion that illness can have its origins in mental stress has attracted the interest of medical scientists and psychologists since the nineteenth century, and has long been regarded as well founded. In more recent years, investigations have shown that the chances of developing a serious illness rise sharply for those recently divorced or bereaved. The term 'life stress' conveys the idea that stress, so far from being an exceptional condition, arises from experiences which are widespread. In the USA, Kasl and Cobb⁵ measured the blood pressure and heart rate of workers who had been made redundant, and showed that there were substantial changes of the type to be expected if these people were experiencing a stress syndrome. With their work, one important connection between unemployment and life stress became established.

In the UK, the relevant evidence chiefly concerns mild forms of depression or increases in psychological distress, which can be reliably measured by a diagnostic questionnaire such as the General Health Questionnaire (GHQ)⁶. The connection with unemployment is clear because this measure of wellbeing changes so swiftly in response to each change of employment status. Table 4.1, for example, presents some of the findings from our follow-up survey of long-term unemployed individuals. The table shows large differences in psychological wellbeing between those who have got a job and those who have remained unemployed. Also, those who have held a job for a while, and then become unemployed again, are as adversely affected as those who have remained unemployed all along. Much more extensive studies at the University of Sheffield's Social and Applied Psychology Unit, checking each individual's psychological wellbeing at several points in time, have shown how psychological wellbeing changes as jobs are obtained or lost⁷.

Of course, most of the people who show some adverse psychological effects remain in unemployment, just as most of the people with other kinds of health problem remain in unemployment. They contain their stress in one way or another. But those with the most serious psychological problems, whether resulting from unemployment or of earlier origin, drop out of the view of research on unemployment as they enter hospital or become invalids.

Stress and ill-health in unemployment

As we visualize it, it is not unemployment in itself, but specific problems arising in unemployment, such as lack of money, getting into debt, becoming disheartened through continual failure of job applications, or inactivity and boredom, which could lead some unemployed people into conditions of stress and illness. Any

overall or average effect of unemployment upon health will, in the end, have to be explained by finding the particular problems through which the effect took place. In adopting this approach, we also recognize that, for some other people, unemployment may provide an escape from work-related stress, injury or illness, and result in an improvement in health.

Table 4.1 Psychological stress in and out of work for long-term unemployed people

	Mean GHQ score	
	Men	Women
In work at follow-up interview	1.0	1.8
Have been in work but now out of work again	3.1	3.3
Continuously unemployed	3.5	3.0
Stopped looking for work	2.6	2.6

Source: 1980–81 survey of long-term unemployed people (White, 1983)

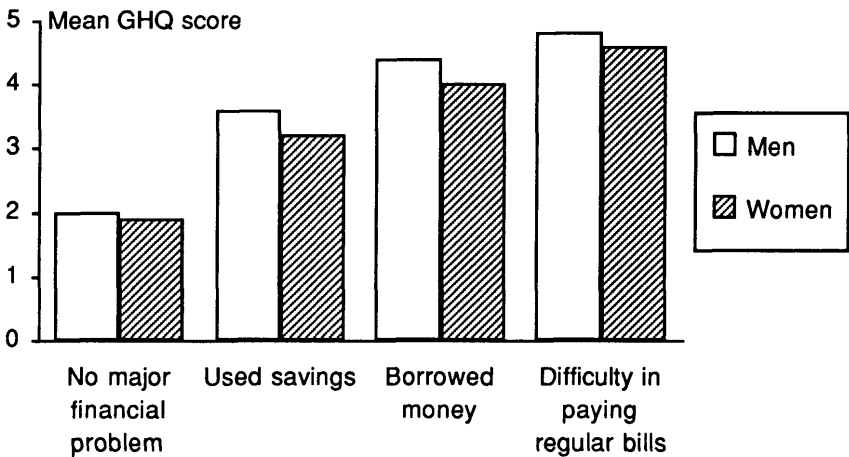
- Notes:
1. The measure of psychological stress is based on the 12-item version of the General Health Questionnaire (GHQ). A higher score indicates greater psychological stress.
 2. Data relate to those interviewed at the follow-up stage of the survey.

For people in long-term unemployment, the central problem and preoccupation (as described in Chapter 2) is money. Our analysis of stress in unemployment will, accordingly, focus upon financial problems. To maintain a basic standard of living, as was also earlier described, the great majority of long-term unemployed people either draw upon their savings, if they have any, or borrow money from time to time. Perhaps, up to a point, one would not expect that drawing upon savings would be stressful, because part of the purpose of savings is precisely to act as a cushion against periods of adversity and make them less unpleasant. Of course, there could still be anxieties about the longer-term implications of running down savings and not being able to build them up again, but this would be set against the relief of having the savings to fall back upon in the first place. Getting into debt, on the other hand, could be expected to work in a wholly negative way. Obtaining loans may in itself be stressful, and then they remain as a further burden on the future, especially if the individual or family can see little chance of being able to repay them. Both drawing upon savings, and borrowing money, indicate a shortage of money, but if it is more trouble to borrow than to use savings, then the shortage will be a worse one before people turn to borrowing. In other words, borrowing is probably one of the strongest available indications of real financial difficulties.

Some of these difficulties can also be looked at directly, especially those which people have in meeting their regular commitments, such as mortgage or rent payments, or fuel bills. As was pointed out in Chapter 2, one of the main purposes of borrowing money among long-term unemployed people was to meet such commitments, especially fuel bills.

In our follow-up study of long-term unemployment, the psychological state of individuals was measured by the General Health Questionnaire (GHQ). Figure 4.1 shows differences on this measure between people with different financial problems, all of whom had been continuously unemployed for at least two years. The 'baseline' consists of those who, during the year before being interviewed, had none of the three kinds of financial problems considered (they did not borrow, they did not draw on their savings, and they did not have difficulty in meeting any regular payment). The chart shows that people who had borrowed money within the past year had, on average, twice as high (twice as adverse) a score on the GHQ as the baseline group. Those experiencing difficulties with regular payments had still more adverse scores, on average, and so these can be regarded as the extreme cases of stress. The people who had drawn on their savings had lower GHQ scores, on average, than those who had incurred debts, more or less in line with our reasoning. But even this group showed substantially higher GHQ scores, on average, than the baseline group.

Figure 4.1 Psychological stress and financial problems in long-term unemployment



Source: 1980–81 survey of long-term unemployment people (White, 1985).

- Notes: 1. Data relate to continuously unemployed people receiving state benefits.
2. The measure of psychological stress is based on the 12-item version of the General Health Questionnaire (GHQ). A higher score indicates greater psychological stress.

Another set of evidence comes from the OPCS/DSS survey of the living standards in unemployment⁸. This study assessed financial circumstances in terms of the difference between savings and debt, and measured psychological wellbeing through a questionnaire scale with some similarities to the GHQ. It was shown that the larger the positive balance between savings and debts, the higher the level of psychological wellbeing. Conversely, the more that debts exceeded savings, including of course those cases where there were debts and no savings, then the lower was psychological wellbeing. Clearly, this evidence confirms ours.

An important new point added by the OPCS/DSS study is that the link between financial circumstances and psychological stress strengthens as people go longer in unemployment. In other words, prolonged unemployment makes people more sensitive or vulnerable to their financial circumstances. When people are back in work after unemployment, the link almost disappears. This is also shown, in the OPCS/DSS study, through a measure of the family's current consumption. Dividing families into those with 'low', 'medium', or 'high' consumption, this study found that for continuously unemployed men, psychological wellbeing rose substantially as they were able to enjoy a better standard of living. For men back at work, however, the importance of increased consumption was much smaller: men in work, with low consumption, had virtually the same level of psychological wellbeing as unemployed men with high consumption.

There is, then, a clear link between financial pressures and psychological stress in unemployment. But psychological states, as the 'life stress' concept indicates, may have implications for the more general state of health. One would expect the financial crises experienced in unemployment also to be linked, for many people, to a worsening of health in other ways.

And so it turns out. In our survey of long-term unemployment, we used the health inventory of the General Household Survey (1977-1978) to collect information on persistent health problems⁹. The individuals in this survey were asked to report on their health problems and to identify new or worsening problems of the past year. Those reporting no ill-health problems at either interview also had the lowest indications of psychological stress. Conversely, those with the highest indications of psychological stress were the individuals with new or worsening health problems in the past year. People with the same persistent health problems at both interviews had levels of psychological stress which were much closer to those with no health problems than to those with new or worsening health problems. It seems, then, that the link runs primarily between psychological stress and the occurrence of new problems of ill-health.

Developing this idea, we were able to show¹⁰ that resort to borrowing was itself linked to the occurrence of new problems of ill-health. Among men, 36 per cent of those who did not borrow money during the preceding year reported new or worsening problems of ill-health over the same period, but this proportion rose

to 47 per cent among those who did borrow. Among women, the corresponding proportions were 34 per cent and 51 per cent, which hints at a stronger effect of debt upon illness than in the case of men. We were able to show that these differences could *not* be attributed to variations in health before unemployment. The link between current borrowing and current health problems was about the same for those with or without a prior history of ill-health.

These differences between borrowers and non-borrowers, in the experience of new problems of ill-health, were the more remarkable for the respective ages of the two groups. Borrowers predominantly come from the ranks of young single people, or from married couples with dependent children. Non-borrowers chiefly consist of older people who have savings to draw upon, or have lower financial requirements because their children are grown up. With this difference in ages, non-borrowers can be expected to have more illness, overall, because age is the strongest influence on health. Yet it is the borrowers, despite their lower average age, who are most prone to illness in the short run. This appears to be a clear indication of the impact of financial strains and the resulting psychological pressures.

Families under stress

So far in this chapter, our attention has been exclusively upon the unemployed individual. But to think in those terms is largely an over-simplification, if not a fiction. Most individuals live within families, and even though the ranks of long-term unemployment contain disproportionately large numbers of lone single people, these latter still constitute a minority. Evidently, the impact of financial and psychological stresses will also depend upon the family circumstances of the unemployed individual who experiences them. And their impact will spread beyond the individual to some or all of the other members of the family circle.

A person's level of state benefits, in unemployment as in in other areas of the social security system, depends chiefly upon family circumstances. The ease or difficulty with which each family unit copes on state benefits is affected by the balance between the benefit income additions and the real costs of supporting a given size of family. In Chapter 2, we have already referred to the detailed calculations made by Richard Berthoud¹¹, covering all the main groups receiving state benefits (including unemployed people), to assess how well the balance between provision and needs was struck. His analysis showed very clearly that couples with dependent children were in much the worst position, because the additions provided by state benefits fell far short of the real cost of bringing up a child. The more children, the worse off would the family be while they depended upon benefits, because the benefits were systematically biased against families with children.

This financial analysis agreed closely with the results of our survey of long-term unemployment, covering the 1980-81 period, which used indicators of financial pressure¹². Those with dependent children were nearly twice as likely as family units without dependent children to experience each of the main pressures. Those with children borrowed money in 51 per cent of cases, compared with 32 per cent of the remainder; and 32 per cent had borrowed and failed to repay, compared with 13 per cent of the remainder. Difficulties in meeting regular payments were experienced by 55 per cent of families with dependent children, compared with 32 per cent of the rest. Six per cent of the families with children had gas or electricity disconnected during the preceding winter, which was seven times as high as the then prevailing national rate; 11 per cent were having their gas and electricity bills paid direct by deductions from their benefits.

The OPCS/DSS survey, taking place in 1983-85, confirmed the relative disadvantage of families with dependent children, in terms of their real living standards in unemployment. Three months into unemployment, couples without dependent children just maintained their current consumption level, but those with children (most of all those with more than two children) had experienced a substantial drop in consumption. Twelve months later, current consumption was more or less unchanged except for those with three or more children: for these, a further fall in consumption had taken place. Hence, families with children, and especially large families, had the greatest material setback in unemployment.

The 1986 Social Security Act, implemented in 1988, instituted wide ranging changes in benefits. One of the main objectives was to reach groups experiencing the greatest poverty, and the problems of families with dependent children were specifically recognized. Along with the replacement of the old 'supplementary benefits' by the new 'income support', 'premiums' were introduced for children, which shifted the advantage in favour of larger families relative to couples without dependent children¹³. However, these very real improvements were offset by simultaneous changes in housing benefits and by the abolition of special 'single payment' entitlements for one-off requirements such as furnishings or bedding. Although the single payment entitlements were to some extent replaced by the Social Fund system¹⁴, the financial limits set for the latter meant that in real terms less money was available. Calculations suggest that this change alone cost families with children on income support about £4 per week on average¹⁵. Overall, the net gain to such families, from all the changes put together, possibly averaged about £1.50 per week (1988 money). Given that Berthoud's earlier calculations suggested that these families needed £13 per week (1984 money) to bring them up to parity, there is clearly still a long way to go.

There is little doubt, then, that throughout the mass unemployment of the 1980s, and into the 1990s, families with children have been specially vulnerable to the financial strains of unemployment. Financial stresses arise because benefit

is designed to be smoothly unvarying while the demands of families arise in uncomfortable lumps. Those who have jobs can accommodate more easily (which is not to say altogether easily, of course) to additional demands on the family budget. They can work overtime, do some moonlighting, or take a loan which future overtime, or moonlighting, or a period of belt-tightening, will be able to repay. Benefit offers no such flexibility. It is true that extra payments to cover special items can be made, under the Social Fund, but in the majority of cases the money provided is a loan which has to be repaid by a fixed deduction from benefits; flexibility is, even in this case, extremely limited. Moreover, many of families' deepest needs, which are to satisfy their aspirations for a better life for their children, cannot be met by a system dedicated to providing a minimum standard of living. From decent shoes and clothing, to toys and treats, the system is helpless. The only 'way out' for families in benefit is to get into debt without involving the Social Security, in the hope that a job or some other windfall will put things straight, in the end. It is hardly surprising, then, that both debt and the ill-health arising from debt-related stress are most prevalent where unemployed people are bringing up children.

A little more imagination is required to understand the other main group of debtors and sufferers from psychological stress: young, single people living at home, both male and female. Here, one might have thought, the protection of the family would be enough to soften the impact of living on benefits. And it is true that this is the only group which not infrequently spends the money it borrows on what might be thought of as luxury items, such as cigarettes, drinks, or cosmetics¹⁶. This might suggest that the borrowing which takes place here does not reflect real financial crisis. Yet the stress resulting from borrowing is as severe in this group as in the group with dependent children.

A first part of the explanation probably lies in the gap between youthful expectations and social pressures to consume on one hand, and the very constrained level of benefit provided in unemployment on the other. It is in this age group that social and leisure activities are at their highest, and it is to this group that fashion and advertising beam strong messages and inducements. The OPCS/DSS survey of living standards in unemployment reveals statistically how much the leisure consumption of young, single people is pent up when living on benefits. Among those who got back into a job, nearly all increased their leisure consumption, but the single under-35s increased theirs by more than twice as much as any other group. Although spending on leisure and fashion may be seen as inessential (and that is necessarily the point of view of the social security system), it is nevertheless part of a normal and culturally required pattern of life for the young and single. The conclusion of the authors is that:

'In the case of this group of informants the suppression of their ordinary social life is one of the most striking consequences of unemployment'¹⁷.

As we also showed in Chapter 3, young people have generally not managed to construct an alternative life-style in long-term unemployment, but try to follow the same pattern in a scaled-down or slow-motion form.

The second part of the explanation for young people's stress comes from considering where they can borrow money from. To a large extent, it has to be from within the family, and especially from parents. Such borrowing inevitably prolongs both the feeling and the reality of dependence, at a time when all natural inclinations are towards independence. A common pattern is for the young unemployed person to make a contribution to the household budget out of benefit, but then to 'borrow' the money back for own living expenses. This means that the young person is, in effect, getting free board and lodging, with only a thin pretence of paying their way.

In-depth research into the circumstances of young unemployed people¹⁸ generally shows that parents are sympathetic and do not grudge the help they give. But the family is usually not an affluent one. The majority of young unemployed people live with their parents in council rented accommodation. They also come, disproportionately, from large families where the parents are likely to be facing heavy calls on their finances from other children. Young unemployed people very often have brothers and sisters who are also unemployed (indeed, our 1981 survey found that the proportion was about four in 10 among the under-25s). However generous the parents, there is clearly a limit to what they can do to give financial help when they themselves have modest earnings and more than one unemployed offspring dependent upon them.

Borrowing money from parents may increase another source of tension which is specially felt by the under-25s. This is the pressure of the family to keep looking for a job, however bad the local prospects may be, and the spoken or tacit criticism of their failure to find or keep employment. Although so many unemployed young people have brothers or sisters who are also unemployed, surprisingly few have a father or mother in that position. Moreover, their parents grew up in the age of full employment and probably have little direct experience of being unemployed for anything more than a short period. Lack of parental understanding of the changed job market appears to be one of the difficulties which young unemployed people have to cope with at home¹⁹. And the pressures and criticisms in connection with getting a job are an important source of family strain, peculiar to this group. 'Being got at' was much the most common reason for stresses or arguments in the family, apart from arguments over money, given by young single people in long-term unemployment²⁰.

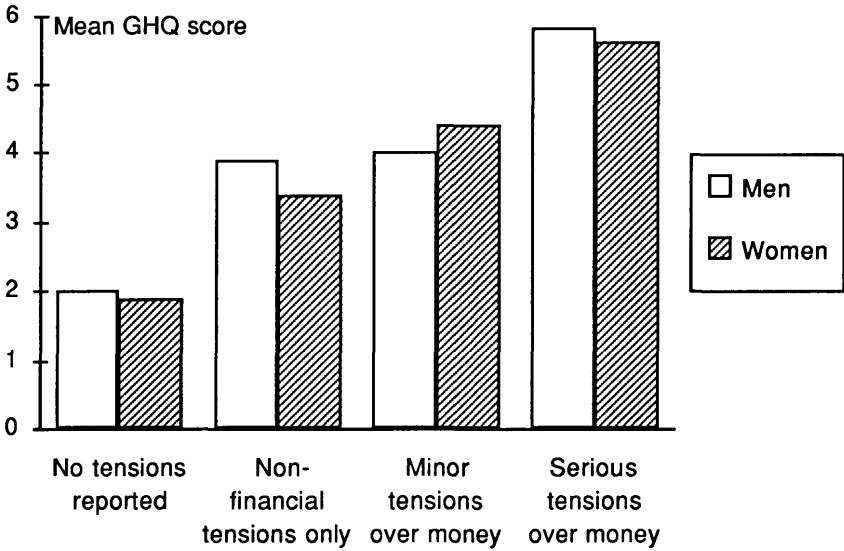
Tensions or arguments in the family, especially over money, were in fact very commonly reported by people in long-term unemployment. Excluding the minorities who lived on their own, 47 per cent of men and 34 per cent of women said there had been such tensions or arguments in their families during the previous year. The lower proportion in the case of women reflects the different family composition in the two cases. Just as the indicators of financial pressure showed families with dependent children to be about twice as vulnerable as the remainder, so also families with children were about twice as likely to have experienced tensions or arguments about money. Women with dependent children, however, infrequently appear in long-term unemployment, because they cannot claim means-tested benefits if their husbands are employed.

In all, 85 per cent of the cases of family stress in long-term unemployment involved money (although other types of stresses or arguments were also involved in some cases); the proportion rose to more than 90 per cent in the case of families with dependent children. But is this a practical problem? Arguments, quarrels and tensions are probably common in all types of families, and cannot be regarded as peculiar to unemployed people. To show that family stress is a part of the real social problems of unemployment, one needs to demonstrate that it is linked with other parts of the picture.

It is not difficult to do so. Lack of financial resources and existence of financial pressures are one of the main sets of circumstances in which family tension occurs; conversely, families with greater resources are likely to avoid tensions and arguments. For example, family stress is infrequently reported where the unemployed person holds an occupational pension, or has savings. But it is very frequent where the individual has borrowed money in the preceding year, and where there are other circumstances likely to put pressure on family finances: multiple unemployment, large family size, children of school age. This strongly suggests that family tensions are part and parcel of a single complex of financial strain in unemployment. As such, we would expect them to be associated with the same problems of psychological stress and ill-health.

In fact, the relationship between family stress and mental health turns out to be very similar to that between debt and mental health. This is shown in Figure 4.2. Even 'minor' arguments or tensions about money are linked to a doubling of the individual's score on the General Health Questionnaire, indicating increasing psychological malaise; 'serious' arguments or stresses result in still more adverse scores. Arguments or tensions over non-financial matters are also linked to a worsening of mental health, although to a lesser degree. Similarly, new or worsening problems of ill-health are found to be reported more frequently by individuals who also report family arguments or tensions.

Figure 4.2 Psychological stress and family tensions during long-term unemployment



Source: 1980–81 survey of long-term unemployed people (White, 1985).

Notes: 1. The measure of psychological stress is based on the 12-item version of the General Health Questionnaire (GHQ). A higher score represents greater psychological stress.

2. Groups reporting both financial and non-financial tensions in the family have been excluded from the chart; their mean GHQ levels were higher than in the case of those reporting only tensions over money.

Transmitted problems

The financial straits arising from unemployment naturally affect all family members. In addition, they express themselves frequently in family tensions, and since these family tensions are connected with increased problems of health and mental wellbeing among unemployed individuals, it seems likely that other people in the family will also be affected. The impact of unemployment on the wider family is a topic which has received much less attention than the problems of unemployed individuals, and the evidence has to be pieced together from a number of different sources.

Nothing has such obvious long-term significance as the impact of unemployment on children. Some of the most relevant background information comes from the National Child Development Study (NCDS), which commenced in 1958 with all the babies born in one week of that year. Periodic follow-ups on these through childhood and adolescence, and into adult life, has yielded an enormous

body of information. These people grew up in the 1960s, when there was little unemployment, so the information may not at first sight seem relevant. But the NCDS does provide information about the effects of different levels of family income, and lack of income is one of the central problems of unemployment. Low family income is identified by the NCDS to be one of the most powerful predictors of progress in school²¹. Detailed analyses have revealed many of the barriers set up by low income, including the lack of personal living space and of quiet conditions for study, and the lack of toys, books and other sources of stimulation. Evidently, one could only expect these adverse conditions to worsen in the case of children in families affected by long-term unemployment, where levels of income will be about half that of low-paid workers.

A further consequence of growing up in a low-income family, according to NCDS analyses²², is a lowering of career aspirations. Young people enter the labour market seeking only low-level jobs and low levels of income. This is likely to lead them into occupations with a high vulnerability to unemployment, when economic conditions turn bad. Thus a background in a low-income family predisposes young people to the risk of unemployment.

One of the likely reasons for low school attainment, relative to potential ability, is persistently missing school through ill-health. Children's ill-health can also, of course, be closely linked with emotional problems. An intensive clinical study of family health under unemployment included examples of children adversely affected by a worsening climate of personal relations in the home²³. These psychological disturbances then tended to be transmitted into persistent illnesses and hence into missed schooling.

In our study of long-term unemployment, we used four indicators of schooling problems for the children²⁴. These were 'missing a lot of school because of ill-health', 'having reading problems, or being put in a remedial class', 'being seen by an educational psychologist' (usually a sign of either learning difficulties or emotional problems), and 'truancy'. The four items fell into two pairs, the first and the last items (illness and truancy) relating to causes of low achievement, while the other two were symptoms rather than causes. Considering families where the father was unemployed, we found that during a single year nearly one third (31 per cent) reported that one or more of their children had one or more of these indications of difficulties with schooling.

The most common difficulty, moreover, was 'missing a lot of school because of ill-health'. It seems that about one in nine children²⁵ were affected by persistent problems of ill-health. Of course, this cannot be directly attributed to unemployment, since family circumstances before unemployment would probably have contributed to the problem. Still, the proportion is a remarkably high one and creates some presumption that the circumstances of unemployment were part of the explanation.

In all, there seems little doubt that the problems created by financial hardship (to which unemployment contributes) transmit themselves to children through learning disadvantages, emotional and psychological stresses, ill-health, and lowered aspirations. From these stem lowered educational achievements and a greater likelihood of becoming unemployed in turn. Of course, it is not unemployment in itself or of itself which leads to this vicious circle; unemployment is just the leading representative of more pervasive problems of low income and lack of family resources. Disability, lone-parenthood, or employment on very low wages, might create similar conditions and similar results. In one respect, however, unemployment is distinctive. This is because it can take on the form of a mass condition, affecting whole localities, rather than just scattered families.

Families helping to cope

Families have, so far, been presented in the roles of victims of unemployment, or accessories after the fact. They create needs which the social security system cannot satisfy, they suffer tensions which may lead to psychological distress and ill-health, and they transmute one generation's disadvantages into handicaps for the next. But all this may be one-sided. We have not yet looked at the kind of aid and support which families could give to unemployed individuals. Family support could work positively in two modes, not mutually exclusive. Where stress or pressure was already experienced by the unemployed person, help from that person's family, perhaps from the wider rather than only the nuclear family, could come in to alleviate or contain the problem. Better still, a strong and supportive family could supply the kind of aid from the outset of unemployment which would tend to counteract potential pressures, and prevent stress from developing. The possible role of friends, alongside that of the family, should also not be forgotten.

The extreme cases of families absorbing the impact of unemployment may be concealed from view, just as the extreme case of ill-health will be. If families wholly support their unemployed, then they are unlikely to appear on the claimant register, and will not be counted as unemployed. In our 1980 survey, when unemployment was still defined in terms of signing on at a Jobcentre rather than as a claimant at an Unemployment Benefit Office, about 15 per cent of long-term unemployment consisted of non-claimants. These were people signing to obtain a job, and to meet National Insurance conditions, but not to get benefit. Most of them either had occupational pensions, or substantial capital from redundancy payments, or had a spouse working full-time. In rare cases, though, it seemed that families were indeed wholly supporting individuals in this position.

A more substantial group, in the early 1980s, were some young people in inner cities who signed on neither for jobs nor for benefits. They were particularly numerous among black minorities in London²⁶. There seemed to be an aversion to claimant status among these late teenage groups, made possible by

the financial support of families combined, perhaps, with opportunities for casual earnings in relatively affluent areas. Although up-to-date evidence is lacking, it seems likely that this type of non-claiming will have declined during the 1980s as youth unemployment became accepted as normal, or as young black people moved from the informal to the formal economy in London.

In most cases, then, the support of family (or friends) has to be regarded as a back-up to the support provided by the state, rather than as a substitute for it. In our survey of long-term unemployment²⁷, we asked a number of questions about 'help with difficulties of unemployment' to examine the detail of this back-up support. In the first survey, we asked open-ended questions, leaving it to each individual to judge and remember what constituted help. In the follow-up survey, we supplied a lengthy list of types of help (compiled from what was said at the first survey), and asked which if any of these specific types of help had been supplied.

The most striking feature of the results was how low the proportions were, who considered that they had received any help at all. At the first interview, this proportion was about one in four (25 per cent of men, 28 per cent of women). True, for nearly one in ten who felt they had no difficulties the question was not applicable. Also, many people undoubtedly failed to take account of particular types of help they had received. With the provision of a reminder list at the follow-up interview, the proportions saying they had received help almost doubled, to nearly one-half for both men and women. This still means, however, that after a quite exhaustive reminder, about 50 per cent of long-term unemployed people could not think of any help they had received from their kin during the previous year. Such a finding brings into sharp focus the lack of resources possessed by many of the families in which unemployment takes root. This lack of resources must be borne in mind in considering the cases where family help was provided.

Who got, or did not get, family help, was closely connected to the stage of life the unemployed person was at, and the source of help. A conventional idea of family help, perhaps derived from popular novels of working-class tribulations, relies on the assumption of an extended family with a network of mutual support. Our evidence indicates that most help, if it exists at all, flows from parents to offspring or from offspring to parents, and does not involve wider family relationships. Help was at its greatest for the under-25s when living at home with parents, as was the case for 85 per cent or so of those in this age-group who were long-term unemployed. Nearly 60 per cent of these young people received financial help, or help in kind, and where material help was given, it was nearly always by parents. Young men (under 35) married and with dependent children also frequently received help, usually financial or in kind, from their parents or in-laws. Such support declined sharply after 35, however, presumably because parents' own income began to decline as retirement approached or arrived, and children were not yet old enough to help. Unemployed workers aged 45-55 were the main group

obtaining help from grown-up children, and then after 55 a large proportion felt no need for help. (In the 55-plus group, there was the main concentration of people from higher occupational groups and/or with early retirement pensions.)

Altogether, roughly one quarter of men, and 30 per cent of women, received financial help, in the form either of straight cash or of settling bills. This might suggest that this was a major source of additional finance, not previously identified, but in reality we have already covered most of this under a different guise. The discussion of borrowing and debt, earlier in this chapter and also in Chapter 2, has already indicated that much of this took place within the confines of the family. Indeed, given the low credit-rating of most unemployed people, the family is bound to be one of the main sources of loans. So it was not surprising that three in five of borrowers were receiving financial help from the family, although it is not known from our data what proportion of total indebtedness was of this type. And nearly four fifths of the cases of financial help from the family corresponded with borrowing. Just five per cent of men, and 10 per cent of women, stated that they had received financial help from their families, but that they had *not* borrowed money. This small group seems to represent the most that families can do, in a financial way, with help given and debt or obligation avoided.

The correspondence between financial help from members of the family, and borrowing or debt, was confirmed by the way that financial help was related to family tensions and to mental health. If family help was successful in countering the effects of unemployment, then those who reported getting it should be *less likely* than those without it to experience family stress or deterioration of health. The result of family help, in short, would be to give its recipients a higher level of wellbeing. However, those with financial help from their families actually had a *higher-than-average likelihood* of experiencing family arguments and stresses – not unnaturally, if debts that were hard to repay were building up. Similarly, the level of psychological wellbeing of those receiving material help from the family, whether financial or in kind, was *significantly below the average*²⁸.

None of this is meant to disparage the help of the family, financial or otherwise. Help coming from the family was five times more frequent than help coming from friends, so there is no doubt where people must turn to, on the whole. And though this help did not resolve its beneficiaries' problems, without the help, presumably, things would have been worse still for those people. One has to imagine that there is an element of selection, or of self-selection, about this giving of help. You have less inclination to seek help, and less chance of being helped, if your problems are less or if you are already coping with them from your own resources. It is when the problems get bad, when you visibly need help, that the family's resources will be bent towards you. But this help cannot be expected to go more than a little way, the typical family's resources being as limited as they are. And

help has its costs, partly in terms of reciprocal obligations, partly in terms of the build-up of tension as resources and relations become strained.

Another insight into the processes of family help comes from a question, asked in our survey of long-term unemployment, concerning changes in the help given compared with the previous year. For most people, the level of help was perceived as remaining the same; this included the large proportion who felt they got no help from one year to the next. For the small proportion who felt that they got less help than the previous year, family arguments and tensions, and personal problems of psychological and general health, were significantly more frequent than for the majority whose level of family help remained constant. Equally, however, the small proportion who reported an *increasing* level of family help, also reported *higher-than-average* levels of family tension and personal ill-health. To interpret this result, we need to picture a kind of see-saw process. When there is a particular problem for the unemployed person leading to stress, the family tends to step in with some help to improve things, but as family help is partially withdrawn (at a different stage), tensions and stresses again begin to increase.

Coping as crisis management

The family's special role, then, is to operate a crisis management service. But there is a great difference between such a role when those who receive the support are unemployed and living on state benefits, by comparison with a situation when they have jobs and are supporting themselves. Large proportions of unemployed people, especially if they have dependent children, are living close to financial crisis for much of the time: the need for help is not just occasional, it is chronically recurrent. The strain placed upon the capacity of the wider family to respond is correspondingly great.

There is another difference. When a crisis is averted for a family with a wage-income, things return to normal, a passable standard of living is once more enjoyed, and resources can be built up again. In unemployment, and when living on means-tested benefits, the passing of a crisis means only the return to a minimal existence, without any chance of building up resources, and with a fresh crisis waiting around the corner. Family help, in the great majority of cases, appears powerless to alter this underlying situation. It helps retrieve situations when the minimum does not suffice, but does little to create a more permanent cushion.

This is not just a matter of insufficient resources, although as we have pointed out, the wider families of unemployed people are unlikely to be affluent. It is as much a matter of different roles. The individual is expected, and expects, to be independent and to cope alone, by and large. Even if the family had the necessary resources to lift the individual fully and permanently out of the pressures of long-term unemployment, this could only be carried out by sacrificing this belief in individual independence and robustness.

And, of course, the State and its system of benefits does not encourage the wider family to intervene: quite the contrary. Financial assistance provided by the family to an individual living on means-tested benefits should, in principle, be declared and could lead to a reduction in benefits, which would of course frustrate the intention of help. Similarly, an unemployed individual repaying the help of relatives or friends by digging their gardens or mending their cars is in real danger of being judged as having undeclared earnings or as not passing the availability for work test. Most fundamentally, wives' earnings which could permanently rescue the family from poverty when the husband is unemployed have to be set against benefits and are much reduced in value²⁹. The benefit system in these ways is hostile to family solidarity and to the development of permanent family solutions to financial problems. It compresses the role of the family to a narrow margin around the subsistence level which it has imposed.

Just as the wider family lacks the capacity to intervene decisively, so too the individual lacks the capacity to escape wholly from the need for support. Each escape is only a temporary one, with a recurrence always likely. Part of the reason, perhaps, is the lack of incentive to self-betterment for those living under the regime of state benefits. The only financial motivation left to long-term unemployed people is to avoid the painful crises of insolvency and indebtedness.

Experimental studies by psychologists have shown that behaviour conditioned only by the avoidance of punishment repeatedly drifts down to the level where the punishment occurs³⁰. For example, a rat may be placed in an experimental cage and trained to press a lever with its paw to prevent itself from receiving an electric shock through the floor of the cage. But after a time it 'forgets' why it is pressing the lever, until 'reminded' by the occurrence of the electric shock, when its lever-pressing accelerates again. This pattern is repeated time and again. Without some positive reinforcement or reward, the activity of pressing the lever cannot develop into a fully effective response. These findings from psychology appear to offer, not merely another metaphor for the condition of living on benefits, but a genuine insight into the psychological processes likely to be involved in long-term unemployment. Deprived of opportunity to improve their material circumstances, unemployed people will tend to slip down until they reach a point of crisis; then some special effort will be made to escape the situation, but this effort will be, from its nature, temporary and inconclusive. Members of the wider family, also, can see no way of permanently improving the situation, and they too are confined to sporadic help when a crisis looms from time to time.

The indications of individual stress and psychological malady, resulting from financial pressures and family tensions, are not of course peculiar to unemployed individuals or their families. In these respects, unemployment is unlikely to be different from the wider problems of low-income groups. Unemployment can, up to a point, be thought of as a window through which those wider problems can

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be seen. Yet there is something special about being unemployed and on means-tested benefits. Unlike low-paid workers, or even pensioners, unemployed people are hindered from bettering their own conditions, except by ceasing to be unemployed people.

5 The Incoherent Society

For one generation, we appeared to have the answer to the problem of unemployment, but that proved illusory. From around the early 1970s onward Britain first progressively permitted unemployment to grow, and then found that it was extremely difficult to recover the lost ground. We need new answers, but these answers also need to be based upon new understanding. In this and the next two chapters we seek to explain unemployment, drawing upon our own research and that of others during the 1980s. There is no one single explanation to offer; as we examine unemployment more deeply, the causes appear more complex rather than more simple. Perhaps we should begin by explaining why this must be so.

In the first place, unemployment is the difference between people wanting employment and people having employment. To explain unemployment is to explain a malfunctioning in something much larger, namely the whole system of employment. But the system of employment is virtually synonymous with the whole economy, and the problems of the economy tend to become problems of employment. Throughout the post-war period, economic problems have been international in nature, so an international perspective will have to come somewhere into our explanations. Yet, at the same time, and at the other extreme, unemployment is a personal event, or an accumulation of personal events. An individual enters unemployment, searches for a job for a time, and eventually leaves unemployment. Explaining unemployment has to cover both the circumstances which push people into unemployment and the difficulties of getting out of it. And if the problems of individuals which push them into unemployment or keep them there are taken seriously, the social side of those problems, such as family circumstances, ill health, or debt, have to be taken seriously also.

Some economists have described the workings of employment in terms of international and national demand, prices, and wages, but have little or nothing to say about the roles played by the labour policies of firms, or by the job-seeking tactics of individuals. Others have focused upon the behaviour of unemployed individuals, developing theories of job search and work incentives. In this book, we aim for

a wider ranging explanation, because nothing short of this is an adequate foundation for such a crucial area of policy. In doing so, we necessarily adopt a selective approach and simplify some of the issues, but we hope not to be one-sided in our overall account.

This, the first of the three chapters which seek to explain unemployment, begins with the functioning of the political and economic system as it affects unemployment. Yet it is also largely to do with one issue, familiar to every worker and to every employer: the fixing of wages.

International differences

The international level is a sensible place to begin an explanation, for a number of reasons. As an historical event, the great rise in unemployment during the 1970s and early 1980s appears to have taken place as a result of changes in the international system of trade, or more precisely, in the reactions of international political leadership to those changes. In reply to the question 'What caused unemployment?', we could say 'Governments caused unemployment through internationally concerted action'. It would be a gross oversimplification, but it would be part of the truth. Government economic policies throughout most of the advanced industrial countries became defensive and restrictive because of what were seen as major threats to the world order.

Although the economic background has already been outlined in Chapter 1, it will help to anchor the present argument if we begin again from the beginning of the 1970s. Economic historians agree¹ that nervousness set in at the end of the 1960s, when it became clear that the US dollar could no longer cope as the bedrock of the world financial system. Confirmation of this came in 1971, when the USA unilaterally cancelled the gold-dollar convertibility standard. The world's finances were still in turmoil when, in November 1973, the leading oil-producing countries succeeded in imposing a huge rise in crude oil prices (a quadrupling) upon the rest of the world. This first 'oil shock' of 1973 was repeated in 1979 as a result of the Iranian political crisis. It is now clear that it was not the actual increase in energy costs which caused subsequent problems, but the shock waves which ran through the world financial systems as they were required to manage huge new flows of funds and debts.

Equally important, as background to the high unemployment of the 1980s, was the upsurge of wage demands throughout many Western countries in the late 60s and early 70s, which resulted in a growth of wage-induced inflationary pressures. Trade union bargaining power had been growing steadily in the post-war period, in Britain as in many other countries. Now unions were learning to anticipate inflation and build a provision for it into their wage claims, so that real wages would continue to increase. They had learned to beat Keynes' 'money illusion',

and the threatened consequence was an accelerating rate of inflation. Financial stability was threatened in interconnected ways by the events at home and internationally.

To avoid the dangers of instability, many governments imposed public budget cuts and swingeing increases in interest rates for borrowers. With economies already stagnating through low profitability and productivity, partly brought about by wage pressures and partly by the slowdown in international trade, such actions were bound to precipitate recession and unemployment. The period with which we are primarily concerned, the mass unemployment of the 80s and its aftermath, had begun.

While the story so far can easily be interpreted in terms of governments bringing on unemployment by their actions and over-reactions, that, as we have already indicated, is only part of the story. Any economy has to expect shocks from time to time, varying from the periodic downturns of the business cycle to the more special or unique events, like those described above, which reflect major international or political disturbances. Governments are there to act, transmitting but at the same time modifying those shocks into the form they regard as most manageable. Whatever the nature of the shocks, and whatever the role of governments has been, the crucial question is always the same: How does an economy respond, and how quickly does it recover?

Following the onset of the recession which followed the 1979 oil shock, the tendency among economic commentators was to stress the uniformity of Western government policies and the common experience of industrial countries. The British government fostered this view in the early 1980s, maintaining that this country's high and rising unemployment was not substantially different from others'. Within a few years, however, data collected by the Organization for Economic Cooperation and Development (OECD) and analyzed in their various ways by political scientists, sociologists, and economists², was beginning to show that this was not so. By the end of the decade, the orthodox view among labour market experts, reflected in the OECD's own reports³, was that differences between countries, rather than similarities, were what most marked the experience of the recession.

Table 5.1, based upon OECD data, shows just how remarkable the international differences have been. The period covered is from 1973 to 1987, that is, from the beginning of the years of crisis to the point where economic recovery was regarded as complete; it therefore reflects both the effect of the 'shocks' and the degree of recovery from those shocks, in terms of unemployment. The measure used is change in unemployment over the period, and this avoids many of the problems of comparing absolute levels which are defined in different ways in various countries. All but one country – Sweden being the exception – experienced an increase in the rate of unemployment over the 15-year period. But that

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increase varied from around 10 percentage points to small fractions of a percentage point. There were evidently countries on which the unemployment effect of recession was serious and prolonged, but for others it had either been avoided or had rapidly disappeared. Such large differences in outcomes offer an excellent prospect of being able to identify possible explanations of unemployment. These explanations can take either the form of differences in the policies pursued by governments, or variations in the underlying 'unemployment proneness' of economies.

Table 5.1 Change in unemployment by country, 1973–87

The measure is the change in the rate of unemployment (%) between 1973 and 1987: the larger the figure, the greater the increase in unemployment.

<i>Countries with large increases</i>		<i>Countries with small increases</i>	
Australia	5.7	Austria	2.6
Belgium	8.9	Canada	3.4
Denmark	7.0	Finland	2.6
France	8.0	Japan	1.5
Germany	7.0	Sweden	-0.1
Italy	5.1	Switzerland	0.6
Netherlands	8.3	USA	2.4
United Kingdom	9.2		

Source: OECD, *Economies in Transition*, 1989.

Wage flexibility: the institutions of accord

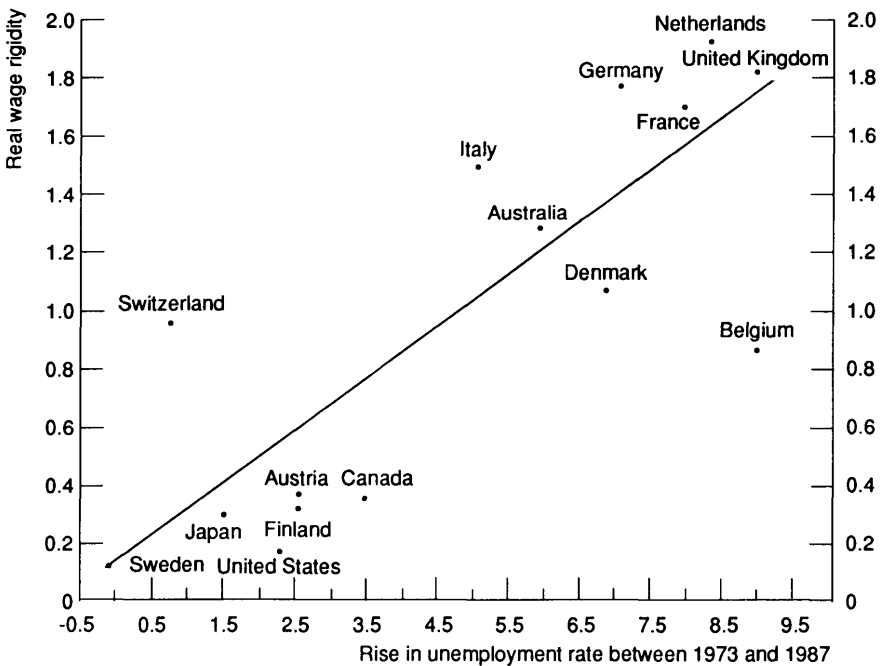
Figure 5.1, derived from OECD statistics, shows the degree to which the national changes in the rate of unemployment over the period 1973-87 were related to national 'wage rigidity', again measured in this long-term sense. Low growth of unemployment went closely, over this period, with a low level of wage rigidity, or high level of wage flexibility. An explanation of national differences in terms of wage rigidity or its converse, wage flexibility, promises to take us far towards understanding unemployment.

Almost all economic explanations of unemployment have centered upon wages, or more specifically on 'wage rigidity'. For reasons which will become clearer as we proceed, we do not accept that wage rigidity is a complete explanation of unemployment. Nor do we accept any of the theories of wage determination offered by neoclassical economists. Nevertheless, wage rigidity must form part of the explanation, and an important part. International differences in the experience of unemployment strikingly demonstrate the power of wage rigidity

as an explanation. But it is not a complete explanation. Wage rigidity is the immediate reason for an economy's inability to weather economic shocks, but itself has to be explained.

Wage rigidity is, in essence, the tendency of wages and salaries to remain fixed or to continue to rise in the face of increasing unemployment. As such, it plays a role opposite to that of wage adjustments in the classical economic view of the labour market. According to that view, an unemployed worker can always obtain work by offering labour at a low enough wage. The argument is in origin an abstract one, but a variety of real mechanisms can be envisaged to put it into practice. One mechanism is through the effect of wage costs on international market share; a nation where wages are high relative to those of competitors can increase its share of international trade by reducing real wage costs. This, of course, has in the past been the rationale for currency devaluation. Another mechanism is through stimulating demand. If the demand for products and services is

Figure 5.1 Real wage rigidity and unemployment



The figure is reproduced from: OECD, *Economies in Transition*, 1989, Diagram 2.6 (q.v. for further details and definitions).

Note that the unemployment measure is change in the percentage rate between 1973 and 1987.

responsive to prices, then as demand grows sluggish, threatening unemployment, a reduction in wages and salaries will make it possible to re-stimulate demand through lower prices. Investment is a further influence upon employment which may be affected by wages. High wage costs, by forcing down profits, may discourage the kind of investment which increases productive capacity, but may encourage the kind of investment which saves labour. Conversely, a reduction of wages relative to profits may encourage expansionary investment which creates jobs. The availability of workers at lower wage costs may also encourage businesses to be started up which are highly labour intensive; or may allow public services which are financed on fixed budgets to be expanded.

Wage rigidity or its opposite, wage flexibility, needs to be thought of in terms of changes, and even more so in changes in the rates of change, rather than in terms of the levels of wages. There is no reason to suppose that nations with low wages enjoy higher levels of employment than those with high wages. Furthermore, as has often been pointed out, wage reductions can have adverse as well as positive effects. Lower wages mean that people on average have less to spend on consumption, and this can depress the economy if the more positive outcomes only follow with a considerable lag. Restrained wages may also mean reduced motivation and less willingness to adapt to technical change. Most important, perhaps, the effect of wage moderation will depend, to a large extent, upon how other parties in the economy react to it; it will never be enough on its own. The international firms must have the capability and the drive to take advantage of improvements in labour costs; firms in general must plough back their improved profits into employment-creating investment; entrepreneurs and public authorities alike must be eager to provide more labour-intensive services when the labour is there at the right price. These responses, which are taken for granted in the economic wage theory of the labour market, are by no means automatic. In the absence of these conditions, wage restraint is a one-sided and fruitless piece of altruism.

These points suggest that wage flexibility, and wage rigidity, are best seen as long-term characteristics of a labour force, or better still of a whole society. Wage flexibility will be most effective where all parties in the society have an understanding that economic pressures or shocks will be absorbed in a flexible way, partly through wage moderation, partly through the re-investment of capital, partly through the actions of the state. The existence of wage flexibility, as a long-term attribute of the labour force, is one of the conditions most likely to foster a more generalized adaptability of the economy. But that wage flexibility, in its turn, is likely to be fostered by conditions which breed confidence in the outcomes to be expected from wage moderation. Indeed, adaptiveness in an economy is likely to reflect a generally confident society.

Conversely, a tradition of wage rigidity may be part and parcel of a less adaptive industry and society. In this case, wage reductions are likely to have less of an impact, because, in a very real sense, the economy is not ready for them. Conversely, the labour force is less likely to see wage reductions as having positive outcomes, in terms of longer-term demand, employment and economic growth, because it will not have confidence in the responses of other actors. Where wage rigidity is the norm, other forms of flexibility are likely to be developed (whether the use of overtime in Britain, or the use of foreign 'guest-workers' in Germany), and employment-preserving responses will be less available when economic shocks are encountered. Such reasoning suggests that what a national economy requires is not a short-term dose of wage restraint to cure the occasional economic malady, but a continuingly healthy regime of adaptability.

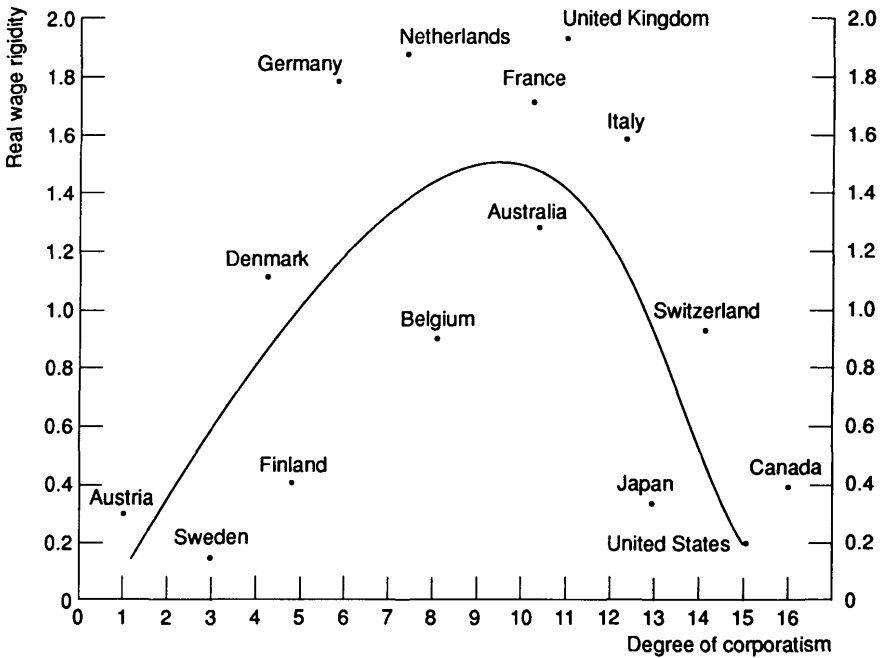
How then is such a regime developed? An obvious start to answering this question is to look at nations which have maintained high levels of wage flexibility (hence low increases in their rates of unemployment), and see what they have in common. As Figure 5.1 shows, there is indeed a clear separation between the high-flexibility and low-flexibility countries, which makes it far from arbitrary to draw a line separating them. But the high-flexibility countries, consisting of Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland, and the USA, do not at first sight have anything in common.

The now widely adopted solution is to divide the high-flexibility countries into two groups: the Scandinavian countries and Austria on one hand, and Canada, Japan, Switzerland and the USA on the other. Quite detailed statistical evidence⁴ has been adduced to show that the two groups do indeed have highly contrasting features, being located at the opposing extremes of the whole set of OECD countries. Figure 5.2 shows how the countries are distributed in terms of wage rigidity and 'corporatism', one of the main dimensions which have been identified to explain differences between national institutions. The figure demonstrates that while all these countries have maintained high levels of wage flexibility, they are indeed diametrically opposed in terms of the dimension of 'corporatism'. Scandinavia/Austria are generally referred to as the 'corporatist' economies, because of the strong central negotiating and planning mechanisms which they have established to achieve cooperation between the state, business, and trade unions on a wide range of economic policies including wage fixing. Canada, Japan, Switzerland and the USA are characterized as 'free-market' economies because of their low levels of unionization or large non-union sectors, and because of the lack of government intervention in wage fixing.

If, then, we focus upon wage flexibility as the key to economic adaptiveness, it seems that there are two equally good, though contrasting, ways of organizing wage fixing. One is through a highly centralized form of negotiation, involving the state alongside the representatives of unions and employers, while the other

is wholly decentralized and leaves things to the market-place with minimal state intervention. However, in line with what we said earlier about the wider context of wage fixing, the systematic differences between the two groups of countries with high wage flexibility are not simply confined to the 'corporatism' dimension. The two groups also differ markedly in the proportions of the labour force employed by the public sector, with the free-market countries tending to have low state welfare expenditures while the corporatist ones tend to have a large welfare state. Other contrasting characteristics include fiscal policies. The corporatist countries, for example, tend to favour relatively low levels of corporate taxation but high levels of personal taxation, whereas the free-market economies tend to have the opposite fiscal profile.

Figure 5.2 Real wage rigidity and degree of corporatism



The figure is reproduced from: OECD, *Economies in Transition, 1989*, Diagram 2.6 (q.v. for further details and definitions).

The corporatist and free-market economies, different though they are, can be thought of as sharing a certain consistency or coherence of economic and political stance. They have reached a stable end-point in policy which is sanctioned by the long-term support of the electorate. It is not just a matter of which political

party is elected, although these countries do, in a number of cases (Japan especially), have very long-lived ruling parties. The consensus is so strong that even when there is a change of government, many fundamental things about institutions and economic management do not change. When the Conservative party ousted the Social Democrats in Sweden during the 1970s, state welfare expenditure was increased rather than reduced; and the central negotiating arrangements at national level were not altered. Alternatively, as in the case of the USA, the two leading parties are so close together in their core policies that outsiders are completely baffled as to what the real differences may be.

Within such a stable framework of economic and political understandings, action to deal with economic shocks can evolve in a consistent way. In the Scandinavian-type countries, action takes the form of tripartite agreements at national level, covering not just wage fixing but also investment, restructuring, and public temporary employment programmes. In the free market economies, on the other hand, the mechanisms largely take the form of accepted corporate practices of labour mobility and wage reductions, which are not resisted by labour. Of course, as one looks in more detail at each country, the differences rather than the similarities become more apparent: Japan and Switzerland, or Sweden and Austria, are put in the same groupings but have actually developed quite different institutions and policies. Nor would it be prudent to place heavy emphasis upon the purely statistical identification of the various groups of countries, even if this is what has given respectability to the notion among economists⁵. The important point, perhaps, is simply the consistency of the position which has emerged in each case, a consistency which can be better seen in case study analyses of each national economy, such as those provided by Manfred Schmidt⁶. As Goran Therborn sums it up⁷, in the post-war period everyone wanted full employment, but it was these countries which set up the institutions which would keep their economies permanently on the track of that goal.

Britain's inconsistent economy

If the adaptive economies can be characterized as consistently free-market or consistently corporatist, then it seems likely that other, less adaptive economies will be marked by inconsistent or incoherent institutions and policies. In the case of Britain, it is not difficult to show how deeply ingrained such inconsistencies have become.

A central feature of Britain's institutional inconsistency has been the existence of trade unions with large memberships and sometimes considerable local bargaining power, coupled with weak central institutions for negotiation, coordination, or planning. This has meant that the power of trade unions has not been harnessed, even for goals of working-class solidarity, let alone in order to contribute to national economic solutions. Rather, each nucleus of union power

has striven primarily for sectional and often local interests. This decentralized nature of wage fixing in Britain has meant that there has been no easy way of achieving an accord on responses to economic pressures or shocks. In inflationary conditions, wages can leap-frog ahead in an alarming way, as happened in the mid-1970s and again in 1979-80. Moreover, the attempts of governments to impose incomes policies or wage controls of various types have generally not been successful for periods of more than 18-24 months, and have then commonly been followed by 'catching up' periods when wages are unleashed and race forward. Part of the explanation for this weakness of central state control undoubtedly resides in the lack of strong central representatives of either trade unions or employers. In addition, government itself (whether in the form of political parties or in terms of the elites of the Civil Service) has lacked confidence in central planning and control, so that the few attempts to establish tripartite planning institutions have been half-hearted and ineffectual⁸.

Furthermore, the decentralization of trade unions, the weakness of national representative bodies, and the diffidence of government, all reflect an underlying culture which is hostile to central power and favourable to individual and local freedom. It was Britain which produced the first exponent of market economics (Adam Smith), the most complete political theory of individual property rights (John Locke), and the first developed economy based on these principles. In a remarkable, though still controversial, historical analysis, Alan Macfarlane has traced the roots of these developments back to the legal and social institutions of individualism already established in the twelfth century⁹. Whether or not one attaches importance to these historical antecedents, there is little doubt that in practice, modern Britain has displayed an intensely individualistic and parochial aspect. In the post-war period, unions have had the utmost difficulty in controlling or shaping the outlook of local memberships, which have often been suspicious of the central leadership and happier to follow the lead of local shop stewards. Similarly, employers' bodies have been weakened by the numerous major employers which have left or remained aloof from membership, preferring to strike their own deals with their unions.

Yet this individualistic tradition which is so strongly marked in British institutions and industrial practice is itself deeply enmeshed and muffled by other, contrary traditions. It was clearly not a matter of chance that the Welfare State emerged so early in its modern form in Britain, for that also had both deep pre-industrial roots and a continuous growth from the time of the early Industrial period. With the Elizabethan Poor Law¹⁰, the State imposed an explicit obligation for the sustenance of the destitute upon local communities. When two centuries later Adam Smith laid down the principles of a market economy, he came to the conclusion that it would be wrong to disturb such obligations¹¹. Rather, he proposed that the State should assume much wider social responsibilities, notably

in providing free universal education, which he saw as an essential safeguard against the stultifying tendencies of the division of labour¹². During the following century, while Britain developed into a mature industrialized economy, the social responsibility for poverty and destitution was repeatedly debated and was a matter of the widest public concern¹³. Although there were periods of increasing harshness in the public treatment of destitute individuals, the long-term trend was towards a widening of State responsibilities. And this was augmented by the growth of charitable feeling and action among the upper and middle classes; by the late Victorian period, charitable relief agencies had acquired extraordinary resources and powers¹⁴. Then, with the growth of trade unions, a new source of collective support for individuals in hardship was created. Unemployment was identified as a social problem, distinct from poverty, towards the end of the nineteenth century¹⁵. Building on the trade union schemes, the State was providing quite well-developed unemployment insurance in the inter-war period¹⁶, and this provided the foundation for post-war welfare systems.

For all the current criticisms of Welfare, public attachment to its major institutions, notably the National Health Service and the provision of state pensions, remains unswerving. Moreover, the British trade union tradition of protecting workers, both individually and collectively, against the excesses of economic individualism, has remained in being. The trade union movement in Britain has a welfare-oriented outlook which limits the extent to which it can identify with economic objectives in a free market system. It would be inconceivable that the TUC could put forward a plan to close down whole industries which had become uncompetitive, yet this has been one of the chief planks of trade union policy in Sweden through much of the post-war period¹⁷.

Nor did a tradition of individualism hinder the growth of protectionism and monopoly power in industry and commerce. British industry and trade grew under the protective umbrella of empire, and especially of the Indian Raj¹⁸. The rise of British economic power was partly the result of successful competition, but also of the exploitation of controlled and captive markets. By the early years of the twentieth century the formation of giant firms with dominant market power was well under way. Even now, about half the jobs in the market sector of the British economy are provided by about 500 large corporations, a degree of industrial and commercial concentration which is paralleled in no other large industrial country. These great corporations have an economic and political power which is clearly far greater than that of the approximately similar number of trade unions. Like the trade unions, however, the private sector employers are weakly centralized and jealous of their separate prerogatives. The CBI is a public relations organization with no negotiating role. The local Chambers of Commerce lack the statutory obligations and immense organizing powers possessed by their German equivalents. Government seeking coordinated responses to economic pressures

has had and will have as much trouble with employers as with unions. For example, employers resisted the attempts of governments to impose strong incomes policies in the 1970s, and destroyed Industrial Training Boards with their persistent criticism.

These great patterns of the social and economic order may appear remote from the relatively humble business of wage fixing, but every aspect of social behaviour tends to be coloured by the values to which wider social institutions give rise. The major empirical study of wage determination in Britain¹⁹, conducted early in the period of rising unemployment, found that those responsible for making wage deals cheerfully gave their support *both* to criteria of the market-place (paying what the market demanded or what the firm could afford) *and* to criteria of social equity (the fair wage, the wage that maintained comparability). Such mixed values, combined with a diffuse, multi-level bargaining system, provide a powerful engine of wage inflation, because whenever one value is muted or disadvantageous, the other can be invoked. Furthermore, the mixture of socio-economic values in Britain shows itself in company payment systems which pile one thing on top of another, like fruit on a lady's hat. Job evaluation, merit rating, piecework bonus schemes, factory productivity bonus, and employee share options are found together by no means uncommonly²⁰. To the Dutch or Germans, who have the opposite problem of rigidly rationalized and centralized payment structures, this appears extremely odd.

Towards the free-market model?

In both the 1960s and 1970s, some ineffectual attempts were made to shift Britain towards a consensual, if not downright corporatist society²¹. We will not dwell upon these, since they left so little trace as now to be only of historical interest. Since 1979, however, there has been a new, and much more determined, attempt to escape the institutional incoherence which has marked the post-war years for Britain. Clearly, over this recent period, the policy of the Conservative government has been to shift the economy's institutions towards the free-market model.

Several strands can be discerned in this strategy. The curtailment of trade union legal privileges has been the most conspicuous, and has aroused most comment. This has been coupled with a removal of trade union central leadership from the counsels of state, although in view of the weakness of these central leaders, not much practical importance can be attached to this. Another important plank of the free-market policy has been the programme of privatization of the publicly owned industrial sector, and attempts to introduce elements of competition within the public sector itself, as with the legal enforcement of competitive tendering in some aspects of local government services. Most fundamental, perhaps, has been the encouragement of individualism, through such steps as the

sale of public housing, the reduction in higher rate taxation, the favourable treatment of small investors in the sale of shares for privatized corporations, the stimulation of employee share ownership schemes, and the freeing of personal pension arrangements from many previous constraints.

Yet, *by the acid test of wage flexibility*, this programme of reform had not succeeded by the beginning of the 1990s. High wage increases forced out employment all through the 80s, and, in the final years of the decade, pulled further away from the underlying rate of productivity. Despite a greatly weakened union movement and despite an unemployment level of more than 3 million for at least five years, real wages in the 1980s increased three times as rapidly as they did in the 1970s. Although unemployment fell rapidly during 1988 and 1989, this was certainly not caused by an increase in wage flexibility. On the contrary, the impetus for a recovery of employment was provided by the stimulus to consumption provided by the budgets of 1987, 1988 and 1989, and by other accompanying steps to increase demand. These were followed, before long, by a highly familiar cycle of accelerating wage increases and inflation. By the middle of 1990, unemployment was rising once again as part of this familiar cycle. And, once again, wages were displaying an extraordinarily slow and weak response to the onset of recession.

Moreover, the weakening of the union movement which formed part of the Conservative strategy now appears to have been partial and temporary. Trade union membership changed only in a structural way, through the shift in employment from large manufacturing establishments to the smaller establishments typical of the new service growth of the economy²². This seems to have left underlying attitudes and allegiances unaffected, with the majority of people seeing union membership as useful and desirable; indeed, a careful analysis shows that public attitudes to unions have during the 1980s recovered from their ebb point²³. Moreover, union influence over wage determination actually appears to have increased both in the public sector and in small and medium sized firms²⁴. When the economy moved out of recession in the late 1980s, the bargaining power of trade unions again emerged in a succession of victories over large employers in both the private and public sectors.

Whose wage rigidity?

Wage rigidity is, then, still firmly in place as the central problem of the British labour market, and it is time to ask how the responsibility for this state of affairs is to be allocated.

It has often been presumed that unwillingness to take wage cuts on the part of the unemployed themselves contributes to unemployment: the government has contributed to this view on more than one occasion²⁵. Hence, much attention has been given to the role played by unemployment insurance schemes and state benefits

in bringing about inflexibility on the part of unemployed people. Since unemployed people tend to be at the bottom of the labour market, qualifications might be presumed to be less relevant, and wage flexibility all the more crucial, for their chances of return to work: they should be able to 'price themselves into jobs'.

The evidence (our own and others') on this score will be discussed in Chapter 7, so we will not dwell on it now. It will suffice to say that there is little indication that unemployed people, themselves, have had much influence on wage rigidity, one way or the other. Their own level of flexibility appears to be high, much higher than generally appreciated, except in the case of some groups of unemployed people who have already been pushed onto the margins of the job market (such as older workers). But this flexibility has no effect, because what employers offer in the way of wages does not take into consideration what unemployed people would be prepared to work for.

The implication is, then, that we should look much more closely at the demand side of the labour market, that is, at the wage policies of employers. An additional reason for doing so is that employers have had more freedom to determine wages during the 1980s than at any time in the post-war period. Before the Thatcher government, a clear view of employers' wage policies was difficult to obtain, because of the interruptions continually caused by national incomes policies in various guises. Since 1979, however, employers in the private sector (the public sector is a different story) have been left to their own devices, apart from occasional mildly worded exhortations to prudence from Ministers. Of course, unions also have to be brought into the picture in due course. But the employers' role in wage fixing tends to be neglected in labour market analysis, and it will be a corrective to start with them for once.

Why would employers not recruit labour at the lowest price available, or why would they not seek to impose the wage level which labour market conditions seemed to dictate? A variety of possible explanations has been proposed. Perhaps the most widely known is in terms of pay comparisons, and this was used by (among others) Keynes²⁶ in his discussion of wage policy. According to this view, there is both a determination on the part of workers and trade unions to defend existing comparative levels of pay, and an inherent difficulty in reducing wages without arbitrary and inequitable disturbance of relativities. Employers are, one might say, deterred from pursuing wage flexibility by the expected costs of conflict. Keynes certainly saw this as reasonable behaviour on the part of all concerned.

More recently, theorists have tended to stress the positive advantages to employers of maintaining established wage structures and the stable labour force which they underpin. There is little or no attraction for many employers in obtaining low-wage labour if that is going to de-stabilize the existing system, lead to higher labour turnover, and additional recruitment and training costs, and

risk lowering the productivity levels achieved with labour of the existing quality. There is hence a built-in advantage for those already in jobs which it is difficult for unemployed people to overcome, even if offering themselves at low wages. This explanation, known as efficiency wage theory²⁷, permits wages to remain above the market-clearing level, and hence also permits unemployment to exist, although employers continue to behave rationally and competitively.

These explanations are based on realistic observation and form part of the truth, but not the whole of it. They do not provide a sufficient explanation of the workings of the labour market of the past decade. In this period one has to explain, not merely the lack of market-clearing wage reductions, but the development of substantial real wage increases against a background of high unemployment. Evidence from the CBI databank²⁸ indicates that during the early part of this period unions were mostly accepting employers' wage offers during annual negotiations without even token resistance. Most wage deals were, in effect, imposed unilaterally. Mere adherence to existing wage structures (as in the explanation developed by Keynes) cannot explain the development of accelerating real wages under such conditions. Similarly, efficiency wages should go down, not up, during a period when there are many skilled workers seeking jobs and when labour turnover is considerably depressed below its normal level: the risks of recruiting low-wage labour externally are much reduced. Both these conditions occurred during the early-to-mid 1980s, but real wages rose faster than ever. The 1980s, in short, present us with a specially severe test of any explanation of the labour market. We have to show why employers continued to accept, and indeed even to impose, high wage settlements in a period when labour was plentiful.

There is also a more general objection to either the pay comparability explanation or to the efficiency wage explanation. If employers were keen to take advantage of lower-waged labour, there are ways in which they could circumvent the obstacles created by their existing pay structure or their existing work force. They could, for example, redesign the division of labour in such a way as to make more use of existing lower-level grades of work, or to create new lower-level grades. They could then bring in more workers at these lower levels. Such a policy would avoid disturbing established pay comparisons while finding a productive use for the available surplus of lower-paid labour.

Another possibility would be the use of low-price labour on a temporary basis, thereby avoiding longer-term obligations to the workers. The existing labour force could be left untouched, while additional capacity could be created at low cost through the use of the temporary labour. Indeed, it has been widely supposed that just such a development has been taking place in Britain, and that such forms of precarious or peripheral employment are a natural accompaniment of the growth of unemployment. However, careful analysis of available survey

data²⁹ has shown that no such increase in the use of temporary labour has actually taken place; it has maintained a roughly constant share of employment. Large-scale use of such labour has been confined to a few industries subject to special conditions, and does not appear to have been a general response to new labour market circumstances.

The possibility should be considered that employers themselves have chosen to keep wage levels higher than what might appear to be necessary, or have deliberately avoided the use of low-wage labour. Since employers would probably not do so for philanthropic motives, their choice (if such it is) of relatively high wages must have secondary motives or justifications. Wages must be entangled in more complex or many-sided objectives which, in some sense, constrain them from being adapted downwards. Evidence in support of this explanation comes from a wide range of survey and case study material collected by ourselves and others during the late 1970s and 1980s³⁰.

Technology, job design and wages

We have referred to the notion of using low-cost labour by enlarging the role of low-paid jobs, perhaps through de-skilling. But it is obvious that in manufacturing industry, at least, no such development has taken place on any significant scale. Rather, the 1980s witnessed a decline in the use of manual labour in manufacturing, and especially of the lower grades of labour. This is not a new development but rather a continuation of trends already clearly established in the 1970s and before. However, in earlier years this trend might have been attributed to the shortage and price of manual labour, leading to its substitution by capital. In the 1980s, there was clearly a large surplus of manual labour, and the possibility of acquiring such labour at relatively low prices was open. A reversal of the earlier trend did not take place until the late 1980s; by this time, when manual jobs began to grow again in numbers, expanding demand was the simple motive.

Technology, and especially the new technology based upon microprocessors and computers, may help to explain the persistent preference of employers for more-skilled over less-skilled labour, with consequences for wage levels. The Workplace Industrial Relations Survey 1984³¹ indicated that the great majority of employers considered that new technology was leading to an increased requirement for skills, rather than the reverse. In those circumstances, there would be no point in employers seeking to modify the division of labour in favour of de-skilled jobs, to gain the advantage of lower wage rates. Such a move would merely retard the application of new technology and the adaptation of skill-levels to its needs as those were perceived.

In theory, if firms were able to reduce wages, by one means or another, they would tend to invest less intensively in capital. However, the perceived advantages

of the new technology³² are not essentially concerned with cost-saving substitution of labour, but with wider competitive considerations. Quality and reliability of products and processes are of high importance, as are flexibility to deal with small and varied orders, shortening of delivery periods, and reductions in inventories. In general, manufacturers are committed to new technology because they regard it as essential in order to provide a competitive product or service in the future, rather than because of narrower cost advantages. Although changes in the price of labour could affect the timing of particular decisions to invest in technology, the long-term trend is regarded as inevitable.

Our case studies in the electrical engineering industry, the food industry and the plastics processing industry³³ illustrate how technological change can be linked to wage policies through the design of jobs. Increasingly automated batch processing equipment commonly has the effect of eliminating substantial amounts of unskilled work. For example, transport of materials and partly-finished goods between process operations tends to disappear, both because of automated handling equipment, and because previously separate operations become fused together. The skilled operator's work is also 'eaten away' in certain respects, but not entirely displaced; at the least, a monitoring task remains. The tendency then is for the skilled operator to absorb both some higher level tasks (machine setting, condition checking, programme preparation) and some residual unskilled work (loading, cleaning). Similarly, visual inspection of mechanical parts tends to give way in importance to the use of instrumentation both in-process and at the test stage; and fault diagnosis in the case of electronic products is increasingly knowledge-based rather than skill-based.

Such developments suggest why firms tend to see the implications of new technology in terms of higher skills. The responses to this are varied. In some cases the firm may try to accommodate change with the minimum modification of the existing structure of skills, jobs and wage structures. In other cases, ambitious schemes of training, development and job re-structuring have been observed, which aim to create a unified structure leading from operator to technician, or to permit production groups or 'cells' to assimilate a wide range of administrative and control tasks. Sometimes this means the virtual disappearance of unskilled or semi-skilled grades. In the plastics processing industry, the division between operators (semi-skilled) and machine setters (skilled) no longer applies in the many firms using advanced injection moulding equipment: only setter-operators are employed. Yet another increasingly common response (in a variety of industries) is multi-skilling, both at the level of production (the flexible operator able to run a variety of processes) and of maintenance (the generalist maintenance craftsman or service engineer).

Such changes in job design naturally have substantial implications for wages. The most obvious of these are the compositional effects, since with smaller proportions of workers at the lower grades, the average wage of manual workers is increased. In addition, employers almost always increase wages to accommodate changes in job design, although these changes will commonly be incorporated within the terms of an annual settlement. The form of increase most commonly seen in case-studies (which tend to represent the more substantial examples of change) is through re-grading of individuals or re-evaluation of entire job structures. Such immediate effects are subsequently multiplied by annual increases calculated in percentage terms, and by incentive payment and overtime rates which are proportional to base rates. In addition, job structures can be changed in such a way as to offer increased longer-term opportunities for upgrading and consequent wage progression. This tends to be particularly true for multi-skilling schemes.

In this instance the evidence of case studies is consistent with findings from the largest-scale survey of employers' establishments of the 1980s, namely the Workplace Industrial Relations Survey. A special focus of the survey was the nature and impact of the introduction of new technology³⁴. It was found that the the introduction of advanced process technology on the shop floor in manufacturing industry often resulted directly in increases in pay, effected through regrading, enhanced bonus payments, special agreements, or overtime³⁵. New technology on balance increased the levels of skill and responsibility in jobs³⁶. It was also associated with initiatives to promote flexibility in the workforce, particularly the introduction of the jobs of enhanced craftsman and multi-skilled craftsman³⁷. The use and introduction of new technology also tended to lead to the recruitment of workers with higher levels of skill, which would again have implications for wages³⁸. And, finally and simply, the use of new technology was associated with higher earnings³⁹.

It is evident, then, that to imagine unemployed manual workers regaining employment in less-skilled jobs through availability at lower wages is, for a considerable section of manufacturing industry, implausible in the extreme. That large section of firms which is deeply engaged in new technology is already busy reducing its requirement for less-skilled work, while enlarging skilled jobs, with consequent increases in wages.

Labour surplus and work intensification

New technology may be the most obvious reason for employers to adopt high-wage strategies, but is probably not the most widespread or the most important. The 'productivity miracle' of British manufacturing in the 1980s has now received detailed analysis, and the consensus is that it did *not* result from increased technological investment⁴⁰. Indeed, capital investment tended to

remain at rather a low level for much of the decade, relative to the rate of growth of output. Most analysts agree that a more important source of productivity improvement has been the rationalization of labour and its more efficient organization and utilization.

Following the 1979 oil shock there was a great 'shake out' of labour in industry. Our case-study and survey work in the early 1980s⁴¹ gave us some insight into the way in which a wide range of manufacturing and construction firms carried through these workforce reductions, and into their motives in doing so. These turn out to have a relationship to the maintenance of wage levels during and despite the recession.

In 1981-82, the engineering, construction and printing industries were faced not only with managing recovery from a severe recession but also with the need to implement agreements to reduce the working week for manual workers. Firms which we studied not only accommodated the reduction of labour supply resulting from the shorter working week but also, in general, shed labour over this period. Average labour productivity increased while unit labour costs fell, and although a wide range of steps to achieve this were involved, the crucial one was reduction of labour 'surplus to requirements', as the managers we interviewed put it. At the time, it was natural to interpret this pattern as a lagged response to the recession. One consideration which told against this interpretation, however, was the recognition by most of the firms that they still held surplus labour; there was more of the same policy still to come. In retrospect, the cutting of 'surplus' labour in 1981-82 can be read as the first stage in the prolonged rise of manufacturing productivity in the 1980s, rather than as a cyclical adjustment of no deeper significance. Such cutting remained a policy of key significance for many employers, especially larger ones, by the time of a large survey carried out in 1986-87. This study showed that in the first half of the 1980s, cutting surplus labour was the policy most strongly linked to price competition⁴².

As firms cut away their surplus labour, they lost flexibility which this labour had represented. It is not surprising that flexibility became a preoccupation of management in the 1980s as traditional manning levels were sharply reduced. A great deal has been written in recent years about the emergence of the 'flexible firm'⁴³, but much of this is wide of the mark, focusing as it does on the use of a flexible workforce of disposable labour. British industry has traditionally made considerably more use of *variable elements of wages* than other highly industrialized nations, and it was to these familiar instruments of flexibility that firms again turned, more than to uses of new types of marginal labour.

One immediate effect in 1982-83 was an increase in overtime working, which was subsequently sustained until the economic slowdown of 1989-90. Operatives in manufacturing industry working overtime by 1989 averaged 10 per cent more than they did in 1980, and overtime was also more widespread. This reversed a

downward trend in overtime working during the period 1972-81; the level of 1989 was 20 per cent above the extrapolated trend. Higher overtime in its turn contributed to the resilience of earnings during this period.

Many firms also renewed their interest in incentive payment schemes of various kinds. Payment-by-results schemes have been widely used in British industry as means of getting workers to even out fluctuations in demand (although this has often worked out differently in practice from employers' intentions). In the early 80s firms were modifying the terms of these schemes to hedge their bets on improved productivity: if productivity was not delivered, then workers would bear some or all of the cost. In other cases, existing incentive schemes were capable of helping firms to increase productivity dramatically when coupled with threats to workers' basic earnings, for example through short-time working. Firms did not so much shy away from cutting wages, as give workers the chance to escape from wage cuts by producing more. Into the beginning of the 1990s, individual incentive schemes were being more rather than less widely applied, and a great extension of the use of merit payment schemes brought most white-collar workers within the reach of the incentive principle⁴⁴.

In addition to renewed use of overtime and incentive schemes, many firms were striving in other ways to increase work intensity. The use of work study techniques, already widespread, probably continued to be extended in the 80s, in non-incentive as well as in incentive-paid areas. Tea breaks were abolished or reduced in a large proportion of plants, and other time allowances ('starting and finishing', 'washing up', 'shift handover', etc.) were also affected. The tighter control of absence became an almost obsessive concern in many companies; it became more difficult for those with genuine health problems to hold a job.

Advocates of 'work sharing' have often pointed to high levels of overtime coexisting in Britain alongside high levels of unemployment⁴⁵. They have proposed that shorter hours, and the abolition of overtime, could substantially contribute to the reduction of unemployment. This can also be interpreted as a proposal to cut wages, in a form which would involve a restructuring of employment. For Britain, such an argument is ineffectual, because it fails to see that overtime, and the other measures described, have had precisely the aim of avoiding a return to 'overmanning'. The restructuring which work sharing would lead to is the opposite of what British firms have sought and largely achieved. Overtime pay and incentive pay have been part of the means by which employers have achieved operational flexibility, and at the same time induced workers to cooperate with the elimination of the internal labour surplus. Intensification of work may also partly explain why wage offers from employers have tended to run above inflation.

In short, when employers had so much to gain by removing their internal labour surplus, it was unsurprising that they should have been little attracted to risky policies of cutting wages or bringing in low-wage workers from outside.

Wages and unions as instruments of change

In considering employers' strategies for technological change or for workforce reductions, we have on the whole presented movements in wages as a consequence of those strategies. This is to do less than justice to the active part played by wages in helping British employers to bring about change. Unless one understands the reliance of many British employers upon wage leverage, one cannot fully appreciate the entrenched position of wage rigidity.

An important development in the active use of wages to promote change was the 'productivity bargains' introduced on a large scale in the latter part of the 1960s. A prototype for these bargains was the Fawley Productivity Agreement⁴⁶, which offered high rates of pay in return for elimination of restrictive working practices and of systematic overtime. In the late 1960s, spurred on by government incomes policy, several thousand employers sought to purchase more flexible and productive working practices with increased rates of pay. The effectiveness of this movement was disputed⁴⁷, but it left a lasting impression on British wage bargaining. A decade on, more than 40 per cent of a sample of large manufacturing establishments were found to have made similar deals in the course of one year, although these deals now had a lower profile within the total pay package⁴⁸.

These recently established traditions continued during the 1980s, as shown by the Workplace Industrial Relations Survey 1984. In fact, nearly one in five of workplaces with 25 or more employees, or two in five where there were 200 or more manual workers, reported having introduced a major organizational change in the previous three years⁴⁹. More than one in three of all manual workers were employed at workplaces where these changes had taken place. More detailed questioning of works managers revealed that many of the organizational changes in question were akin to the traditional productivity deals.

Employers are, then, long accustomed to using wage bargains as a lever to obtain change, either in the form of introducing new technology or in the form of achieving better working practices or organization. Such a tradition also ties employers more closely into their relations with trade unions. Bargaining in which change and improved productivity is traded against wage increases, implies (apart from a few exceptional cases) the existence of a trade union to bargain with. Through wage and productivity bargaining, employers have become highly dependent upon trade unions as a means of bringing about change. As one leading theory of unionism has propounded⁵⁰, unions can in many companies communicate with workers more easily and more credibly than can management, and hence can mobilize opinion in favour of change. A history of British industrial

relations of the past two decades remains to be written: it may well reveal a systematic change of orientation away from conflict and towards cooperation between the two sides. A recent survey showed that views of unions as both desirable and influential were more prevalent among managers than among lower-level groups of workers⁵¹. Strong *prima facie* evidence for the shift towards management-union cooperation is provided (again from the Workplace Industrial Relations Survey 1984 data) by the strong statistical link between unionization and employment contraction at the workplace level, identified by David Blanchflower and his colleagues⁵². Employers and unions, as we see it, have widely been working together to raise wages through workforce reductions. For employers, of course, productivity is the prize, while for unions it is the higher wages. Each side, however, now seems to be convinced that the trade-off is a good one.

The role of unions in change is assisted, in Britain, by their tendency to be strongly organized at the local, workplace level, which is where most change has to be implemented. This can be so taken for granted as to be invisible. But the importance of the union role can emerge from exceptions. We studied the implementation of a shorter working week in the construction industry⁵³, which has a well developed national bargaining system, but where on-site union organization and activity are thin. Firms in the construction industry made no effort to offset the costs of a shorter working week against improvements in working practices or better time utilization, despite the intense competitive pressures and market constraints which they were undergoing at the time. In the engineering industry, on the other hand, where workplace representation and bargaining are extremely well established, the great majority of firms found ways (often rather simple) of offsetting the costs of a shorter working week. Management in construction firms, lacking local union channels, could not even conceive how they might discuss the issue with their workers.

Bargains about wages and productivity do not only occur at the workplace level. Collectivism, in Britain, has to be balanced by individualism. At the individual level, also, incentive payment schemes of various types have been more widespread in Britain than in most other European countries. A deep practical problem in the 1960s was the existence of individual incentive payment systems which made it extremely difficult to make even slight changes of method, affecting but a single worker, without becoming involved in an informal process of bargaining⁵⁴. At the same time, complex payment schemes gave workers great scope to exercise pressures and achieve 'wage drift': increases in reward without corresponding increases in productivity⁵⁵. These problems have been overcome by leading firms which now use sophisticated work measurement and incentive systems⁵⁶, but it is not at all clear how far the smaller or less advanced firm has been able to follow suit.

To the extent that incentive systems still suffer from these defects, they will certainly contribute in a particularly unfortunate way to wage rigidity. If however incentive systems work well, they may tend to act like an efficiency wage, giving high productivity but at the (social) cost of keeping some workers out. Of course, the introduction of more efficient incentive systems does not exclude unions. They are always deeply involved in negotiations to introduce new systems. Moreover, few systems last for as much as five years without needing major overhaul or total replacement, and this will also generally call for re-negotiation. Collective bargaining is extended, not removed, by systems of individual incentives.

Within the firm, the notion of individual financial incentive has been extended away from its traditional domain, the factory floor, to encompass white-collar workers and managers themselves. This is a development of the highest importance, in view of the fact that these salaried groups now constitute nearly 40 per cent of the labour force and well over half the national wage bill. The forms of incentive used are diffuse and difficult to quantify. They include commission bonuses, merit pay increases, and profit-sharing schemes geared to salary. The great majority of white-collar workers and managers now probably enjoys one or more of these benefits⁵⁷. Even more important, perhaps, has been the trend of recent years for companies to widen the differentials between managers, white-collar workers, and manual workers. This tendency acts to spread the effects of wage-bargaining into the large upper-level and intermediate groups which are usually not directly represented at the bargaining table.

The propagation and wider consequences of wage increases

If wage increases of various kinds serve useful purposes for employers, in helping to bring about change and increase efficiency, why should they be regarded as harmful? The trouble is that what is good for one employer is not necessarily good for the economy; what is good for one group of workers, is not necessarily good for the society. In a decentralized, uncoordinated, but nevertheless highly interlinked economy such as Britain's, the wage policies pursued by any employer are likely to propagate their effects elsewhere. Processes of wage leadership and wage comparison exert powerful influences: one firm uses wage increases to bring about change, but others have to follow suit without necessarily reaping the same returns. 'Efficiency wages' can be thought of as largely defensive: workers may become disaffected when they see others doing better than themselves, so employers have to keep raising wages just to maintain the morale and commitment of the workforce at its existing level.

This picture is, once more, strongly supported by results from the 1984 Workplace Industrial Relations Survey⁵⁸. About one in four establishments

reported that their latest settlement was influenced by productivity or profitability, but the same proportion referred to the influence of other external settlements, and 30 per cent were keeping pace with the cost of living. Comparative considerations were, therefore, about twice as widespread as considerations of productivity or profitability.

A wide variety of analyses were also conducted to find links between wage policy and indicators of organizational performance, but the authors' conclusion was:

'...we found little sign of any association between the financial circumstances of workplace and managers' accounts of the considerations that influenced their most recent settlement, even in places where managers were unconstrained by any trade union representation.'⁵⁹

In the preceding section of this chapter, it was suggested that unions had worked with management to achieve higher productivity through workforce reductions, in order to achieve their chief objective of higher pay. It might seem implausible that unions would go all-out for higher wages while disregarding the security of jobs. Union leaders place great weight on security as an issue, in their utterances, and our analysis might suggest that they are insincere. However, a consideration of the processes of wage leadership and wage following shows that this is not so and suggests how the propagation of wage increases can give rise to job loss without running into union opposition.

The key to this explanation is to see that the impact of higher wages, even when linked with workforce efficiency, upon jobs is usually an indirect one. The company which tightens its manning levels in conjunction with a wage bargaining plan will usually make much of the workforce adjustment through natural wastage and control of recruitment rates. This is not a problem for existing workers in the company, but it is a problem for those who may be trying to get in. It is not so much a case of more people being pushed into unemployment, as of more difficulty in getting out of unemployment. These effects are not necessarily obvious to the managers and local union leadership who are fixing wages.

Where tighter manning levels do mean redundancies, then in many cases it will be the voluntary rather than the compulsory form which will be applied, in the large companies which are also exerting wage leadership. Evidence from the Workplace Industrial Relations Surveys shows how the use of voluntary or compulsory redundancy varies by size of establishment⁶⁰. Wage fixing in the leading employers may, therefore, be cushioned against the reality of job loss by the existence (in these establishments) of voluntary redundancy agreements which are both relatively generous and relatively popular with long-service workers. But those who enter unemployment come much more from follower firms, where compulsory redundancy far outweighs voluntary. According to this

schema, which will need to be tested by future research, the wage leaders have little direct confrontation with unemployment; it is left to workers in firms which are wage followers to bear the brunt.

That is not to say that the employees of wage leaders always escape unscathed. Since large employers (including wage leaders) are usually multi-site organizations, there will certainly be many cases where less profitable sites are closed or contracted, while effort is concentrated in more profitable ones; and the transmission of pay pressures from site to site will contribute to these decisions. This, however, is only a special case of what was described just now; there is a separation of the beneficiaries of higher pay from the casualties which result. In other cases, probably less frequent, a single workplace may quickly change its role from beneficiary to casualty, as market conditions or other external circumstances change. The unions and workers may switch their priorities locally to job protection. But it will generally be too late; and management has the powerful argument that contraction is for the health of the organization as a whole.

Employers' wage strategies in the social framework

The essential point which this review has been meant to convey is that employers' wage policies have to do a variety of important work. As Dan Gowler and Karen Legge expressed it⁶¹, wages are a 'primary infrastructure' of the organization, involved in all aspects of employer-employee relations and in many aspects of relations with the technical and product-market environment. Through involvement in wider organizational goals, wages lose some of the freedom to respond to labour market conditions which they might otherwise have. Employers use wages to address problems or pursue goals, in ways which reflect particular circumstances rather than the operation of general principles.

In the 1980s, specifically, many employers were intent upon removing excess manual labour which had accumulated during the preceding years of slow growth, upon adopting new technology more effectively, and upon raising productivity in general. There was also a growing interest in increasing the identification of employees with business goals and values. All these aims were pursued with the aid of wage policies in combination with a variety of other policies. The constructive role of wages in pursuit of these goals would probably have been difficult to reconcile with serious wage restraints. Moreover, apparently practical steps to expand low-wage employment, such as de-skilling, use of temporary work contracts, or work sharing, were not consistent with the underlying internal objectives for the reshaping of organizations to which wage strategies were harnessed. To a large extent, wage increases remained high because that was how employers wanted it to be.

Many of the detailed examples we have cited come from the unionized manufacturing sector, and our conclusions might be queried on those grounds. Is it

not the case that small firms, service sector companies, and the non-union sector, all of which overlap with each other, operate in a different way and can offset the wage rigidity in the unionized manufacturing sector? In principle this is true, and it is also true that a full analysis of what goes on in the small firm/service/non-union sector, and how this relates to the wage leaders, has yet to be carried out. However, we have not been trying to predict wage rigidity or to prove its existence; wage rigidity is already known to exist in the British economy. We have simply been trying to explain some of the mechanisms and the processes which are likely to be involved. Although we have not analysed the counteracting mechanisms and processes, we can confidently say that they have not been sufficiently strong to cancel the pressures which have kept wages far above the market-clearing level.

Our analysis has focused upon employers, but this focus has largely been for the sake of presentation. To have considered the mechanisms and processes of wage rigidity from all points of view would have expanded this chapter to book length; the employers' viewpoint was chosen, because it is the least hackneyed. There is no implied conclusion that employers are ultimately to blame for wage rigidity. Indeed, one is going seriously wrong to think at all in terms of blame.

Employers choose their direction within the context of British institutions and workplace culture, of which they form a part and to which they are attuned. Their strategies are the expression of that system, with all its inherent inconsistencies. They make use of decentralized trade unionism as an instrument, and they appeal to individualism as a motive force. The policies are tailored to a certain kind of trade unionism and to a certain kind of worker. The prevalence of this type of trade unionism, and of this type of worker, leads the employer to link almost any initiative to wage increases. Nothing else seems realistic. At the same time such policies are made possible by the lack of any effective central opposition to the repercussions upon unemployment, and by the lack of any effective local opposition in business terms, because of the concentration of industrial power. The localized trade union, the individualistic worker, and the monopolistic industrial structure, all play their part. In choosing to rely on wages as the lever for change, the employer incidentally chooses unemployment for the community; but in a very real sense, the community chooses it too; we all choose it.

Such thoughts, if they are on the right lines, suggest how far national policies are from bringing about a free-market solution to the problems of unemployment. The free-market situation, with decimated trade unions and downwardly flexible wages, is unlikely to emerge (apart from other considerations) *because employers themselves do not want it*. Employers do not wish to teach unions and employees a new language, when they themselves would have to be the first to learn it.

6 Working Class Unemployment, and Beyond

Unemployment is usually presented in terms of a single figure, the rate for the whole economy. But within Britain (or any other nation) there are great differences in the unemployment rates for people in different groups. Men and women, younger and older workers, those in different types of jobs or living in different areas, experience quite different risks of becoming and remaining unemployed. This chapter will particularly focus upon one of these differences: that between manual workers and other workers. This, in Britain, is by far the greatest of the contrasts in experience of unemployment. Understanding working class unemployment is crucial to understanding unemployment as a whole.

If a group experiences a high rate of unemployment, that implies either an above-average chance of becoming unemployed, or a barrier to leaving unemployment, or both. In early studies of unemployment, it was the barriers which received most attention. Pigou, the economist who did much of the early work on what we would now call labour market rigidities¹, pointed out that, just as unrealistically high wage levels could obstruct full employment, so too could various other obstacles to mobility. These included the incapacity of individuals to change from an employment, for which there was no longer a demand, to one for which there was a demand; or to move from an area where employment was declining, to an area where labour was in short supply. If an economy is characterized by widespread inability (or unwillingness) to be mobile, then it will be relatively slow to adapt to any external shocks, so that unemployment will become persistent instead of being quickly corrected. Immobility is obviously closely akin to the wage rigidity which was discussed in the previous chapter.

Furthermore, the problem of wage rigidity may itself be partially the result of barriers between groups in the economy. Because of these barriers, shortages of particular kinds of workers can continue despite high unemployment. The unemployed people may be in the wrong places, or have the wrong skills, and the barriers to their moving or retraining may be too great². As a result, wages are forced

up in the sections of the economy which are short of labour despite the apparent availability of an overall surplus, and this in turn may have knock-on effects on other sections of the economy. A recent econometric analysis³ has suggested that persistent inter-group differences in unemployment (which economists now label 'mismatch') could account for about one-third of total unemployment.

While this conceptualization confirms the importance of inter-group differences in unemployment, it takes us only a little way towards understanding them. The focus is upon barriers to mobility, but we need to understand what creates and maintains those barriers. Further, the analysis in terms of barriers takes the presence of a given mix of unemployed people as its starting point. It ignores the question of why some groups, notably manual workers, are at a relatively high risk of entering unemployment in the first place.

At risk of unemployment

Manual workers in the 1980s comprised about 45 per cent of the labour force⁴, but about two-thirds of the inflow to unemployment. The concentration of unemployment upon manual workers becomes still clearer if men and women are considered separately. Around 75 per cent of the male inflow to unemployment occurs among those with a background in manual work⁵. Among women, the proportion entering unemployment is about 50-50 from manual and non-manual work⁶. But very few of these are from the higher non-manual occupations; the majority of the non-manual jobs concerned have been in routine clerical or sales assistant work. It is now common practice to classify women in routine white-collar and personal service jobs along with male and female manual workers, to make up the *working class*⁷. So it could be argued that female unemployment is, to an even greater extent than male unemployment, confined to working class occupations.

As well as forming much the greater part of the inflow to unemployment, manual workers spend longer in unemployment than non-manual workers⁸. At longer periods of unemployment, fewer of the non-manual, and especially of the upper non-manual, workers remain. There are also considerable differences within the manual group. Those with a recent background in skilled manual work are more likely to get another job reasonably soon⁹. But this applies less to older skilled workers, especially if they come from declining industries¹⁰. In addition, many older manual workers in long-term unemployment have formerly held skilled jobs, usually for long periods, but have declined to unskilled work before becoming unemployed¹¹. Their employment prospects are poor.

The gulf between manual and male non-manual workers, in terms of experience of unemployment, becomes deeper if we take qualitative aspects into consideration. Male non-manual workers in unemployment are a highly distinctive group¹². They are particularly unrepresentative of all non-manual workers in their relatively low

level of qualifications. As will later be shown in this chapter, qualifications play a crucial role in separating white-collar from manual work, so underqualified white-collar workers are likely to have a precarious foothold in their occupations. Non-manual entrants to unemployment also include many older men, usually with occupational pensions, redundancy payments, their own home, and other financial resources. Nominally unemployed, many of these would be equally well classified as early retired, which tends to be how they see themselves. This also applies to some older manual workers from a background of stable skilled employment, but in much smaller proportions.

Because manual workers have longer average periods in unemployment, the proportions of manual workers among the very long-term unemployed grow still more disproportionate to the class structure of society. For example, in our 1980-81 survey of long-term unemployment, it was found that (after excluding individuals who could not be classified) 80 per cent of men were from manual occupations¹³.

There is little doubt, then, that the risk of unemployment has been largely concentrated, in the UK, within manual occupations. Is this, then, 'working class unemployment'? And, if it is, what is the advantage of speaking in these terms, rather than sticking with a description in terms of manual occupations? It would be useful to speak of working class unemployment if two conditions were fulfilled. First, the heightened risks of unemployment must flow from the position of the working class within the economy and society. This will be discussed further below, but for the moment it is the second condition on which we concentrate. The risks of unemployment must be higher by virtue of any individual being in more or less any kind of manual employment (or, in the case of women, in routine non-manual work). If risks of unemployment depend chiefly on individual attributes, so that it is not manual workers as such but particular kinds of manual workers who are at high risk of unemployment, then attention has to be focused upon individual rather than class differences.

The available evidence suggests that while there are on average some differences between unemployed and employed people, they are much less substantial than might be assumed. It is true that, at entry to unemployment, the age distribution is heavily skewed towards younger people (with nearly two-thirds being under 35, as against less than one half in the working population). Similarly, more than two thirds of unemployed entrants are men, whereas men constitute less than three fifths of the working population. But these biases themselves can be interpreted quite simply in terms of occupation. Women appear less in unemployment because they are less concentrated in manual occupations: those who are in manual occupations are indeed more at risk of unemployment than men in those occupations. Moreover, unemployment is certainly not a problem of youth as such: it is a problem of young male manual workers. Biassing of the

unemployment intake towards young males partly results from a similar biasing of manual occupations towards young males (or of young males towards manual occupations). Young males from non-manual occupations are rarely found long in unemployment, unless they have seriously sub-standard qualifications for white-collar work.

If attention is now confined to manual occupations, what is remarkable is how similar the levels of qualification for young people, even at six months' unemployment¹⁴, is to the qualification level of their employed counterparts. There are many young unemployed people without qualifications, or with only the lowest qualifications, but this applies almost equally to young manual workers in general.

In the case of older workers in unemployment, one might have assumed that problems of health and disability would distinguish them from older workers keeping their jobs. The 1980-81 survey of long-term unemployment¹⁵ did find that there was a higher level of disability among the sample than among the working population, but the excess was only some five percentage points, hardly enough to explain mass unemployment. In addition, when age and occupation were taken into account, the extent of health problems reported by the unemployed sample was no different from figures reported from the whole population¹⁶. Many older workers did have problems of ill-health, but such problems are also widespread among people in employment.

An important consideration to bear in mind, when assessing the characteristics of unemployed people, is that unemployment tends to have a destabilizing effect and often leads to a chain of short-term jobs and further spells of unemployment. To focus exclusively on the position at one time, while ignoring the history of the person, can give the impression that there is something abnormal about the worker, whereas in fact the only 'abnormality' is the advent of unemployment. Hence, for example, at first sight it appears that unemployed people have spent shorter-than-average periods in their previous employment, but this turns out to be attributable to the disruptive effects of recurrent unemployment itself. Or again, people who are long-term unemployed may appear to come from unskilled occupations, but frequently they have slipped down to this level after long periods as skilled workers¹⁷.

So it is difficult to maintain that any of the more obvious individual characteristics raise the risks of unemployment, rather than being in a manual occupation. As for some of the subtler individual characteristics (such as work commitment or flexibility of attitudes), detailed discussion will be deferred until the next chapter, but the conclusion, in brief, will again be that these have little power to explain differences in unemployment.

A further question to be considered is whether unemployment is a problem of manual occupations as a whole, or of manual workers in particular industries or

with particular types of employers. Conversely, there may be groups of manual workers who are in a protected position which is not vulnerable to unemployment. Hence the problem of unemployment may be less one of class position than of position in labour market segments.

This is an issue of considerable complexity, and definitive research to unravel the issues remains to be done. The answer given here is therefore a provisional one. That there are differences of labour market position within manual occupations seems unquestionable, but what is not so clear is their importance in relation to unemployment, especially if one takes a long-term perspective. The clearest example of manual workers in a relatively protected position, at the start of the 1980s, concerned those in the public sector, who were greatly under-represented in the inflow to unemployment¹⁸. A high level of unionization, and a low degree of openness to market forces, were characteristics of this kind of employment. But these advantages seem to be conditional upon government policies. For example, the formerly state-owned coal and steel industries were allowed to run down in the 1970s, and disproportionately large numbers of former workers in these industries were appearing in long-term unemployment by the early 1980s¹⁹. It also remains to be seen how far the policies pursued during the 1980s relating to local government, such as increased financial stringency and compulsory competitive tendering of some services, will be reflected in increased unemployment of former local government manual workers in the early 1990s. In the case of large, unionized private sector organizations, the probability of unemployment (and especially of compulsory redundancy – see Chapter 5) has undoubtedly been reduced on average, but far from eliminated. Large-scale redundancies, and closures of large establishments, became commonplace in the 1980s and provided a large element of long-term unemployment²⁰.

Some industries which are commonly classified as 'secondary employers', notably retailing, hotels and catering, and personal services, have high rates of inflow to unemployment, and jobs in these industries may on these grounds be seen as insecure. But these have been expanding rather than contracting industries, and they also provide disproportionately large numbers of jobs for people leaving unemployment²¹. They are industries of high labour turnover, rather than industries offering particularly poor long-term prospects. Another industry which has a disproportionately large impact on (male) unemployment is construction. Here there appears to be a uniquely unstable situation, with a system of temporary work contracts and extreme sensitivity to changes in the economy. Construction workers are heavily over-represented in long-term unemployment as well as in the inflow to unemployment.

In the aggregate, and after taking account of both long-term and shorter-term unemployment, it seems justifiable to stress the common risks of manual employment. Certainly there are variations in those risks, by industry, ownership,

and size of employer, but those variations are not so great, nor so permanent over time, as to suggest a complete division of working class prospects. Unemployed people come from a wide cross-section of types of employer, large and small, private and public. Although small firms are over-represented in the immediate previous employments of unemployed male workers, while the public sector is under-represented, yet still nearly two-thirds of inflow come from larger firms or the public sector²².

The unemployment of manual workers, then, constitutes most of unemployment. And unemployment is a problem facing manual workers, as a group, in a way in which it does not face other groups in society. This is not to say that manual workers themselves recognize unemployment as a problem particular to their own group, hence as a problem of class. In our studies of unemployment, especially the PSI/MSI cohort survey of the unemployed flow, we have shown why this does *not* happen²³. The value of recognizing unemployment as a working class problem is in directing attention to the particular conditions or circumstances which have affected manual workers as a whole, and so in suggesting the types of policies which would be needed to improve the security of their working lives.

The disadvantages of manual workers

The relatively high risk of unemployment among manual workers is not new, nor is it peculiar to Britain. Historical studies of unemployment in the nineteenth century²⁴ reveal that it was already a problem concentrated on manual labour, whether unskilled or skilled. Beveridge's early investigations of unemployment identified systems of casual employment as one of the chief causes, and these of course applied solely within certain sections of manual work. In the inter-war years, again, the unemployment fell primarily upon manual workers²⁵. In the post-war period until the late 1960s, although unemployment was low, it remained chiefly concentrated on manual workers. Time-series for half-a-dozen other industrialized countries²⁶ show that all, except Germany, have had persistently higher unemployment rates for manual workers.

Part of the explanation for manual workers' relatively high risk of entering unemployment must therefore be long-term or persistent in nature. It has to be inherent to the condition of being a manual worker. A partial explanation lies in the employment relations of manual work. In pointing to this explanation, one underlines the extent to which unemployment is a problem of class. Here it is helpful to cite the following explanation of class provided by John Goldthorpe²⁷:

- ‘... class analysis begins with a structure of positions, .. which is usually seen as being constituted in two main ways:
- i. by basic employment relationships which differentiate employers, self-employed workers and employees;

- ii. by varying employment functions and conditions of employment which differentiate categories of employee – most importantly (a) those in subordinate positions who, via a labour contract, exchange more or less discrete amounts of labour for wages on a short-term basis and (b) those in positions involving some exercise of authority or expertise, whose conditions of employment imply the exchange of ‘service’ for ‘compensation’ in a more diffuse and long-term fashion.’

As the quotation suggests, it is a matter of common observation that manual workers have different relations with their employers and their employments than do salaried workers. There is no need for us to cover all aspects of this difference in relations; it is only the parts which directly affect entry into unemployment which concern us.

- a. Manual workers are often employed on very short periods of notice, either explicitly or by unspoken understanding based on customary practice in the trade or industry. Non-manual workers on the other hand generally enjoy periods of notice of at least a week, more commonly a month, and in the case of professional staff or managers, often three months. Being dismissed or ‘put off’ without any notice, or with very short periods of notice, makes it inevitable that the worker affected will have to pass through a spell of unemployment. The longer notice periods of non-manual workers make it more likely that they will find a new job without entering unemployment at all.
- b. A much smaller proportion of manual workers than of non-manual workers is covered by employer sick-pay schemes, and where both are covered, non-manual workers tend to be more generously covered. Dismissal for reasons of ill-health is common among manual workers. Many others leave jobs during spells of illness, so avoiding dismissal but entering unemployment, because they cannot weather the illness through a spell of sick leave.
- c. As has often been remarked, manual workers have jobs while non-manual workers have careers. Non-manual workers, even in their early careers, tend to remain stable in their jobs and to develop long-term attachment. Manual workers have less attachment, partly because they find themselves, especially in early career, in dead-end jobs. It is customary for young manual workers to move around, accumulating experience and searching for better pay. This process almost inevitably leads to recurrent spells of unemployment.

Each of these general observations has powerful implications for unemployment, which can be detected in the results of various surveys. The PSI/MSC survey of the unemployed flow found that one quarter of male entrants to unemployment

had lost their jobs *without any prior notice*, while a further 45 per cent had lost their jobs at one week's notice or less²⁸. Turning to health, our study of long-term unemployment found that more than one in five had lost their previous job for reasons of ill-health, and this applied to under-35s as much as over-35s; it was concentrated among manual workers and rare among male non-manual workers, even though the latter were found chiefly in the oldest age-group²⁹. Ill-health is one of the most significant circumstances which precipitate unemployment. Concerning the issue of job stability, a particularly clear insight comes from the survey of local youth labour markets by David Ashton and Malcolm Maguire³⁰. It was shown that young people in manual jobs had high labour turnover, but once any of them moved into white-collar jobs, their turnover fell dramatically.

In short, manual workers on average have less favourable conditions of employment, and as a result (a) have less job security and (b) terminate their jobs under more difficult circumstances. These distinctions in themselves do much to explain the persistent differences in relative entry rates to unemployment of manual and non-manual workers. While a small number of British employers has in recent years taken steps to harmonize the terms and conditions of employment between white-collar and manual employees, this development has so far made little difference to the aggregate differences between manual and salaried work. Differences in the conditions of employment for manual workers are an important element in the explanation of class-specific unemployment. It seems strange that so many writers on unemployment make no reference to this aspect of the problem, but perhaps that is like being blind to the faded wallpaper one lives with.

Disadvantageous conditions of employment are only a first step along a path of cumulative disadvantage for manual workers. Inherent in manual work of the industrial age is narrow specialization upon specific operations (hence the ubiquitous term 'operative' to designate manual work in both manufacturing and services). These operations in their turn are frequently tied to particular types of machinery, so that the evolution of machinery is deeply intertwined with the unfolding of structures of occupations. Historical changes in the composition of employment have been analysed back into the nineteenth century, for a range of industrial and newly industrializing countries, by Giorgio Gagliani³¹. He has shown that the advance of industrialization is characterized by first an increasing ratio of manual workers, and then an increasing ratio of non-manual workers to total employment (excluding farm workers from the calculation). In Britain, the non-manual ratio has been in the ascendant since before the 1930s. This means that the composition of employment has been progressively changing in favour of non-manual workers, and against manual workers, for many years.

One must beware of the assumption that structural change in itself leads to unemployment. In each generation the popular view tends to be that portentous

changes are taking place, of a kind never seen before, yet a study of history soon shows that 'the only constant is change'. In nineteenth-century Britain, for example, agricultural employment declined from being the major source of employment to a very minor one, without mass unemployment resulting; and this story has been repeated time and again in other countries.

Whether or not relative decline of manual employment pushes people from that group into unemployment will in part depend upon how 'smooth' or 'lumpy' the process of change may be. It is perfectly conceivable that, in a smooth process of change, transfer from manual to non-manual employment could take place continuously, by natural wastage and recruitment, without any unemployment. But if the change takes the form, say, of periodic spates of industry closures, then this is likely to increase the numbers of displaced workers entering unemployment. Also, when the job opportunities for a particular group contract, the importance of mobility increases for its members. It is just as when jobs contract in Town A but expand in Town B: more workers from Town A will have to travel. As manual jobs become relatively less plentiful, and non-manual jobs become relatively more plentiful, a manual worker has on average to go further, in occupational terms, to find a new job. And this means that if there are barriers to occupational movement, their practical impact will increase. The barriers may hardly be noticed in periods of full employment or of general labour shortages, because there are plenty of slots for displaced workers to fit into. But when the general level of unemployment is high, for example as a result of the macroeconomic pressures described in Chapter 5, then the difficulty in moving across the boundary into non-manual work may play an important part in slowing down adaptation and recovery.

The ebbing of manual work

Some of the chief measures of the labour force structure, considered at the Census points of the post-war period, are summarized in Table 6.1.

Manufacturing employment rose slowly to a peak by 1966. At this date, also, the absolute number of manual workers was virtually the same as in 1951. As a percentage of total employment, however, manual employment was already in decline; this was partially obscured by the growth of the total economy, which permitted manual employment to be maintained in absolute terms. For the first two decades of the post-war period, then, existing assumptions about the scale of manufacturing employment and of manual employment remained unshaken.

It was only at the end of the 1960s that manufacturing and manual job losses in relative terms grew into losses in absolute terms. Between 1966-81, about one third of jobs in manufacturing industry, and nearly one quarter of jobs in manual occupations, disappeared. The loss of employment in manual occupations was steady, at about 1.4 per cent per annum compound, over this period. In the case

of manufacturing, however, job loss moved downward more jerkily. It began relatively slowly during 1966-71, then accelerated, especially at the end of the 1970s. This final contraction of manufacturing led up to the mass unemployment of the early 1980s.

Table 6.1 Change in the structure of the labour force, Great Britain, 1951-86

	1951	1961	1966	1971	1981	(1987)
a) Manufacturing employment – m.	8.74	8.97	9.16	8.61	6.09	(5.06)
b) Manual workers – m.	14.45	14.02	14.39	13.19	11.09	(9.18)
c) Manufacturing as % of total	39	38	37	35	26	(24)
d) Manual as % of total	64	59	58	53	48	(45)

Sources: Censuses of population, 100% and 10% tables; for (spring) 1987, Labour Force Survey estimates.

Note: Changes in classification of industries and occupations over time, and variations in the tabulation of statistical source material, mean that the figures cannot be compared in a precise sense, but are presented to indicate broad trends.

There are good grounds for believing that the accelerating decline of manual employment from the beginning of the 1970s reflected real changes in the structure of firms' manufacturing investment throughout the advanced industrial nations³². By the late 1960s, the demand for many consumer durables was becoming saturated, markets were becoming more internationally competitive, and the relationship between capital investment and jobs was disappearing: new capital investment was rising while jobs remained static. Finally, by the 1970s the growth of world trade slowed down, easily expanded markets largely disappeared, and the installation of new plant and equipment was primarily taking on a labour-saving purpose, so that more investment meant fewer, rather than more, jobs in manufacturing. An era of 'capital deepening' had begun.

The decline of the manual occupations for these reasons was largely counter-balanced by an increase in the higher occupations: that is, the white-collar occupations excluding routine clerical and sales jobs. The whole balance of the demand for labour was therefore shifting in an upward direction. It is important to appreciate that this change took place within industries, and not merely between industries with different proportions of manual and non-manual workers. The more sophisticated products in demand required a larger contribution of design, development and engineering. Similarly, more competition created the need for more expertise in advertising, marketing and distribution, and in management. Even while the total employment in manufacturing declined by a third, the numbers in higher-level manufacturing jobs increased *in absolute numbers*.

These higher-level managers and staff needed clerical back-up to process information, further shifting the balance towards white-collar and away from blue-collar employment.

At the same time, the wealth created by more productive manufacturing industry led to an increasing demand for services, such as banking, finance and property services. This again meant more white-collar jobs, including many at higher occupational levels. Competition through non-price factors, especially quality, variety, and fashion, came to supplant competition through price in a wide range of consumer markets, affecting both products and services. The emphasis upon quality and novelty was, once more, one which increased the qualitative demands for labour. Although, by the late 1980s, manual employment was making some recovery in absolute terms, higher-level occupations continued to be the leading area of growth in employment³³.

It is clear, therefore, that the period from about 1966 into the 1980s was one of exceptional change. As we have stressed earlier, change in itself does not create unemployment. But there is an interesting coincidence of dates here. The period from 1966 onwards also witnessed the emergence of a new and distinctive pattern of unemployment. Whereas previously unemployment had risen and then fallen back to its previous level, now it fell back only part of the way. The recovery after each bout of unemployment left it higher than before the recession. Unemployment therefore rose in a series of steps. Was it merely a coincidence that this new pattern developed at a time when the industrial and occupational structures were undergoing accelerating change?

The local structure of unemployment

We have focused upon the occupational changes in employment, but it could be argued that shifts in regional and local employment have been just as dramatic and just as important. In the depth of the recession of the early 80s, some local labour markets in the South had unemployment rates of no more than five per cent, while in parts of the West Midlands, the North, the North-West, Scotland and Wales, the worst-affected labour markets had unemployment of 25-30 per cent. Even in the recovery of the late 1980s, the proportionate differences between local labour markets remained great. In some parts of the South, traditional 'full employment' levels of two per cent unemployment were regained, while the worst-off localities, such as parts of Liverpool or Tyneside, remained with 14-16 per cent rates. However, it can be shown that to a considerable extent, changes in local employment have reflected the national changes which we have already described. Local decline has generally been the decline of working class communities.

Most local job markets underwent major changes, in terms of total employment, between the early 1970s and the early 1980s³⁴. In 10 years, for example,

Wolverhampton lost 18 per cent of the employment it had initially, while in the same period, Southampton gained 12 per cent. For particular industries within local job markets, of course, the changes could be far greater still: the car industry in Coventry fell to less than 40 per cent of its initial size within 10 years.

Almost every local job market which lost a substantial amount of employment between the early 70s and the early 80s, lost all of this employment in its manufacturing industries. Equally, almost every local job market which gained a substantial amount of employment over the period, and most which just about managed to stay level over the period, gained all their employment in service industries. This does not mean, of course, that there were no new factories or that no shops closed down; it is the net figures for the two sectors which we are talking about. In this net sense, then, losers lost because of manufacturing, while winners won through services.

A natural question to ask is how far these changes were essentially local, and how far they were a reflection of national changes in the industries concerned. It turns out that changes in *manufacturing* employment were very largely a reflection, locally, of national trends. In fact, since most manufacturing industries were declining in terms of numbers of jobs over the decade in question, any local job market depending initially on a large proportion of manufacturing jobs was likely to be in severe difficulties. Superimposed on this, however, was a definite North-South differential³⁵. An area in the North with the same manufacturing industry as an area in the South would expect on average a considerably greater reduction in jobs. The essential point for our analysis, however, is that the general decline of manufacturing was involved in job loss, whatever the area, even though there was in addition a North-South differential.

Local trends in employment also reflected, with equal or greater clarity, the national trends in occupational employment. In virtually every local job market where total employment had been in decline, the whole of that decline (or more) was accounted for by decline in manual jobs. Similarly, wherever employment had been increasing, that increase was accounted for by growth in the number of non-manual jobs. Decline of employment was greatest in those communities where, at the start of the period, the great majority of jobs were manual. Employment loss was a problem of *working class* areas, rather than of *geographical* areas which happened to be working class. Hence Liverpool was an area of deep decline, while neighbouring Southport, with its predominantly non-manual employment, was an area of buoyant employment growth.

Of course, there is a considerable overlap between the industrial view of employment and the occupational view of employment. Manufacturing industries for the most part (with the notable exceptions of a few high-tech industries, such as pharmaceuticals and electronics) have high proportions of manual workers,

while service industries for the most part have high proportions of non-manual occupations. There are, nevertheless, substantial numbers of manual jobs in services, for example in hotels and catering, in retailing, and in transport and communications. Yet, locality by locality, even where there was overall employment growth and a strong service sector, manual employment played little or no part in the new jobs provided.

The most remarkable point about this occupational analysis, however, concerns what happened in areas of severe overall decline in employment. Even in these areas, such as Glasgow, Liverpool or Sunderland, *non-manual employment did not decline*. There were as many, and sometimes more, non-manual jobs after an overall contraction of employment of around 20 per cent. In these areas, therefore, despite massive local recession white-collar workers could expect to hold their own in the long run. Within even the worst affected local labour markets, a white-collar worker displaced from a job by redundancy could still expect other jobs to come up.

The qualification barrier

We have now shown that manual employment was in decline nationally and at the level of local labour markets. However, the crucial question is still why structural change *should* lead to unemployment. Why does the labour force not simply move around to where the jobs are? Can a lack of mobility be demonstrated? Is this because workers are unwilling to move or because the new jobs are out of their reach?

In the first place, there is certainly a barrier, in a statistical sense, between manual and non-manual work. A variety of sources shows that the chances of someone moving from manual to non-manual work is much smaller than the chances of a move to a different job within each of those occupational groupings³⁶. There is also a straightforward explanation of the nature of the barrier. Educational qualifications are required for a large proportion of non-manual jobs, or if not for the jobs directly, for the training which leads to those jobs. This has not (in Britain) been the case for most manual jobs.

Some findings from the Oxford Mobility Study illustrate the point³⁷. They refer to the occupations attained by men who left school without an O-level or School Certificate qualification, and compare these with the occupations of men having school qualifications. To clarify the contrast, we restrict attention to those men whose fathers came from non-manual occupations. These men would tend to have been brought up with some expectation that they too would work in white-collar jobs. The outcomes of the comparison are shown in Table 6.2.

Table 6.2
Proportions of Men in Non-manual Occupations, 1972 (those with non-manual fathers only)

Those without qualifications	24 %	(N=512)
Those with qualifications	80 %	(N=1141)

Source: Heath (1981) Table 2.1 and Appendix 1 Table 1.

The table shows that lack of educational qualifications had reduced the chances of going into non-manual work to less than one third of the chances for men with qualifications. In more recent years, moreover, it is generally agreed that employers have been laying increasing weight upon qualifications, so that the barrier between manual and non-manual work may have become still more severe.

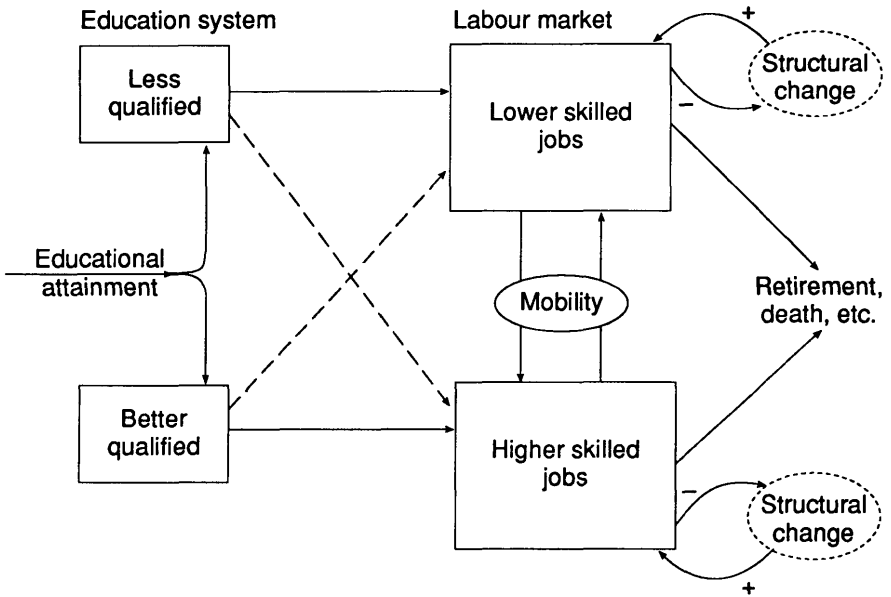
The findings just considered relate to men: what of women? Women are found clustered in the lower-level or more routine types of non-manual work, such as clerical work or retail work. Many of these jobs may not require qualifications, or may only require relatively low qualifications, so that the switch from manual to non-manual occupations hereabouts involves crossing only a low barrier. And indeed, analysis of the Census of Population tables for 1971 and 1981 showed that, in many industries, there had been an appreciable shift of women's employment from manual to non-manual jobs. For men, on the other hand, no such shift could be found³⁸.

The main growth in the number of jobs has taken place in the *higher and intermediate* non-manual occupations, where qualifications are much more important. The General Household Survey, for example, shows that hardly any members of the intermediate professional, technical and administrative occupations are without qualifications³⁹. For men in manual occupations, moreover, the fact that *lower* non-manual jobs have now been so largely taken over by women makes a move across the barrier more difficult. The lower-level non-manual jobs which might be easier to get into are largely pre-empted by being segregated into women's employment, and the step across to many non-manual jobs above that is too long and too dependent on qualifications. There still remain, however, two routes out for manual workers. One is into self-employment and small business activity, a route taken by many in the 1980s. The other is through supervisory jobs into management. Unlike many other countries, the majority of managers and small business proprietors in Britain have low, or no, qualifications. In this respect, then, the qualification barriers are low and the opportunities for upward mobility are considerable. Still, people going into business on their own account or becoming managers need qualities which perhaps could not be expected of the majority of working people.

Across the qualification barrier?

Let us now try to imagine how mobility might ideally work, across the qualification barrier, if change was smooth. Figure 6.2 depicts, in a highly schematic way, the flows in, through and out of a labour force consisting of two groups, non-manual and manual workers. We attach some numbers to this chart, to give a simplified view of the real picture around the late 1960s. Jobs at this time were split roughly into 60 per cent manual and 40 per cent non-manual, and the size of the employed workforce in total was around 22 million. Simplifying, we assume that the total size and the age structure of the workforce were roughly stable: with 600,000 leaving it each year (2.5 per cent) through retirement, long-term illness or death, and 600,000 entering it from education.

Figure 6.1 A Schema of Education and Labour Market Flows



Now let us consider what may happen when the proportion of manual jobs begins to decrease (as it did about this time) by 1.5 per cent per annum, with a corresponding increase in the demand for non-manual jobs. To simplify the illustration, we will assume that all the additional non-manual jobs impose an entry qualification, although in practice this would only apply to a proportion of them.

Imagine that the policy is to try to fill the demand for the additional non-manual jobs entirely by arranging for school leavers to have appropriate qualifications. A shift of 1.5 per cent from manual to non-manual jobs, which may seem a small change to cope with, amounts to more than 300,000 jobs and, therefore, more than

one half of the whole year's inflow of young people. If therefore the adjustment to the shift is to be made entirely through the qualifications of young entrants, and if the previous qualifications reflected the needs of the occupational structure as it was before, there must be a massive shift in those qualifications. Some countries, notably the industrialized countries of the Pacific Rim, have taken just this route to meeting the need for more-qualified labour. To do so, they have had to raise their post-basic qualification rates to the region of 70-90 per cent of school leavers. France plans to do the same.

The main alternative method of making good the changed demand would be movement of experienced workers from manual to non-manual jobs. This movement will be easy if, in fact, many of the people in manual jobs already have aptitudes and qualifications sufficient for non-manual jobs. Otherwise it may be necessary to provide training, which will probably be costly, to convert sufficient numbers of people for the new requirements. Or, there may be a choice for employers between being short of staff, or of employing people whose education, training and aptitudes are inadequate. In short, the adaptation towards a larger proportion in white-collar and higher occupations, depends critically upon the extent to which manual workers *already have the capacity for non-manual work*.

All the foregoing depends on the assumption that educational qualifications determine suitability for non-manual work, and this might be challenged. Many would argue that qualifications are only important as a means of identifying and signalling natural abilities, and hence of saving employers the time and trouble of themselves finding out about those abilities⁴⁰. Further, it might be argued that large numbers of young people who have abilities fail to do themselves justice in their education, so that there is, most of the time, a substantial pool of untapped ability in the lower levels of the workforce. From this pool, employers can when the need arises search out people of ability, even though in normal circumstances they do not bother to do so. According to this argument, then, it is ability rather than qualifications which matter, and there is always plenty of ability to be had if employers need it badly enough.

Despite these objections (which surely have a good deal of justice in them), there is much to be said for the importance of qualifications. Even the credentialist critics give education the role of signalling abilities, and the value of that should not be underestimated: the costs of finding out who is able and who is not, may be rather considerable. Education, moreover, provides basic skills, such as the skills of reading, writing and using numbers. These are directly used in a large proportion of non-manual jobs, which are to a considerable extent concerned with 'processing information', or more plainly, working with words and figures. A person with inadequate standards of such basic skills is unlikely to be able to perform many non-manual jobs, even at the routine level.

An underqualified working class

The analysis just presented suggests that the shift towards non-manual employment would have been accommodated through mobility out of manual work, if there was an adequate combination of two circumstances: a large stock of manual workers with the capacity to move, and a substantial increase in the supply of qualified new entrants to the labour force. Were these conditions satisfied? The answer may well be a familiar one to readers, since many reviews of British educational performance have appeared in recent years⁴¹. But it will be useful to re-emphasize several points which often tend to be overlooked.

First, the body of manual workers contains many people who completed their education before the start of the period of structural change which we have described here. In fact, in 1990 about half the working population would have completed their education by 1965. At the time of the 1980 recession, the corresponding proportion would have been about two thirds. All these people would have experienced an educational system which was totally orientated towards the production of a small academic elite, and offered limited opportunities for qualification to all the others. The Oxford Mobility Study of 1972, which reflects this period, records that 53 per cent of a cross-section of working-age males left school at the earliest permitted age and gained no school leaving or subsequent qualification⁴². Furthermore, nearly all these unqualified people had unqualified fathers. Qualification and non-qualification has run strongly in families and has been heavily influenced by social class. And those people who did achieve educational qualifications, despite the handicap of a working class background, naturally used them to move into white-collar careers. Educationally qualified manual workers have been a small minority in Britain.

This picture was blurred during the 1960s by the introduction of a lower level of qualification, the Certificate of School Education (CSE), recently consolidated into the new General Certificate of School Education qualification (GCSE). Increasing proportions of young people began to attain CSE qualifications, so that the proportions leaving school without any qualification had, by the start of the 1980s, dropped to 10 per cent. However, there are various indications to suggest that this has had little real impact on the position, so far as qualification for non-manual work is concerned.

- Until the late 1960s, as we have already shown with the data from the Oxford Mobility Studies, failure to obtain one or more O-level passes created a strong barrier to entering non-manual occupations. Since then, the qualification requirements of non-manual occupations (perhaps excluding the most routine level) have probably increased rather than decreased.

Against Unemployment

- O-levels or their equivalents have also constituted the widely accepted criterion for entry to further education courses⁴³.
- Recent evidence suggests that possession of O-levels or equivalents continues to separate sheep from goats in the 'career trajectories' of contemporary youth including the type of Youth Training Scheme they can get onto⁴⁴.
- Our 1984-85 study of youth unemployment found that those entering unemployment from white-collar occupations were disproportionately lacking qualifications⁴⁵.

The O-level qualification (grades A-C in the current GCSE examination) remains the best criterion to apply to assessing the capacity for non-manual employment. In 1966, at the beginning of the period of accelerated occupational and industrial re-structuring, the proportion of school leavers with O-levels was almost exactly in line with the overall proportion of non-manual jobs in the economy, at 42 per cent. Over the next 15 years, the output of O-level qualifications rose steadily, so that by 1981 53 per cent left school with at least one O-level. This increase more or less tracked the parallel rise in non-manual occupations, in percentage terms, but for reasons already explained, was inadequate in terms of actual numbers to fill the extra non-manual jobs being created each year. Over a period when 3 million new non-manual jobs were created, the total additional inflow with O-level qualifications was about 0.6 million, or about one fifth of the requirement.

It is also useful to look at levels of qualification by locality, following on from our earlier discussion of structural change in local labour markets. Local labour markets with high rates of unemployment, such as Liverpool or Bradford, typically have twice the proportion of low-qualified school leavers as the national average. With the educational policies of the 1970s, levels of qualification began to rise somewhat in places like Liverpool and Bradford, but not more than in other localities. The relative gap remained the same. There was also a marked negative correlation between the proportions by locality of school leavers with no qualifications, and the rate of employment growth by locality, whether in manufacturing or in services, from the 1970s to the 1980s. Both local rates of qualification, and local rates of investment and new employment, reflect complex collections of influences, so the link is not conclusive. But it would not be implausible if firms were deterred from inward investment to an area by the low skill and qualification levels of the workforce there.

It is clear, then, that educational qualification, whether assessed in terms of stocks or inflows, has been too low to provide for the needs of non-manual expansion. The working class in British society has been, and continues to be, characterized by a lack of the educational qualifications which would provide it with easy mobility into non-manual employment. The gradual improvement in educational

standards of the post-war years would have begun to change this situation, if the occupational composition of society had stood still. But the increased inflow of educational qualifications has been insufficient to satisfy the expansion of non-manual employment, let alone to create a more educated working class.

The implications of barriers to mobility

The argument, so far, contains an apparent inconsistency. We have said that there was a shift from manual to non-manual employment, and to adapt to this manual workers needed qualifications which, in general, they did not possess. But, of course, the non-manual jobs did come into being and were filled, otherwise we would not have known about them. Qualified or not, clearly movement must have taken place. Indeed, the post-war period as a whole has been one of considerable upward mobility in society, with many unqualified people climbing into higher occupations⁴⁶. Was there a problem, after all, and did it affect unemployment?

A conclusive answer to this question could probably only be given by a type of cross-national comparison which has not been undertaken as yet. One would need to show, looking at considerable time-periods and taking account of many other influences, that countries which had provided their manual workers (or their whole labour force) with qualifications had been more successful in adapting to structural change and had experienced lower levels of unemployment in general or of occupationally biased unemployment in particular. But despite the lack of such a study, it is possible to outline the kinds of problems which are likely to arise from under-qualification in a period of change. And it is possible to check some predictions from this account.

The most important point is that if there are barriers to the movement of labour into a growing sector of employment, the employment actually created in that growing sector will be less than it would otherwise have been. There are several reasons for this. One, mentioned earlier, is that wages will be higher than if there was free mobility of workers, so that expansion will be checked by costs. Similarly, if firms take on workers who are under-qualified, because of a lack of qualified applicants, then productivity is likely to be adversely affected, on average, and this will also raise costs and hold back growth. Another insidious effect, particularly important in the longer term, is that businesses will steer away from the types of enterprise which require the skills that are in short supply. They will adapt to the presence of labour barriers by concentrating on products or services which can be provided through less-qualified labour. If this happens then it may soon appear that there is, in fact, no shortage of labour, or no barriers to mobility, because potential chances of growth have been foreclosed. This notion has been crystallized by David Finegold and David Soskice into the phrase 'low-skill equilibrium'⁴⁷. Specific examples of the divergent paths taken by British and

French or German industries, arguably because of different labour availability, have been provided by S.J. Prais and his co-workers through numerous studies⁴⁸.

According to these arguments, therefore, the growth of white-collar and higher jobs, although considerable, could have been still greater but for the constraints on mobility (resulting from a poorly qualified labour force). Moreover, a greater expansion of higher occupations would have helped to support manual employment as well. For example, jobs for manual workers will tend to be created in a company run by high quality technical staff and by a management capable of achieving expansion.

Hence, the low levels of qualification which typify a good deal of the management stratum in Britain offer an outlet for manual workers, but at a cost. The under-qualified management which results may have adverse consequences for competitiveness and growth. For those who make the transition to management, this openness of the British system of occupations is an important compensation for the defects of the education system. But the position would surely be still better if manual workers generally possessed a reasonable standard of education and qualification. They would then be better placed to continue their training and to develop their careers in a variety of directions.

Meanwhile, one of the main ways in which non-manual jobs have been filled, despite the barriers to mobility for manual workers, has been by changes in the patterns of working life for married women. Many married women, out of the labour force while they raised families, have had qualifications and experience fitting them for non-manual jobs. Employers in service industries have been able to induce many of these women to return to work sooner, by offering them part-time hours. Although the jobs offered on this basis have usually been at relatively low skill-levels, this has indirectly freed up other non-manual employees to take on more senior work. Increasingly, too, well qualified women pursuing careers have been shortening their maternity breaks and returning to full-time work sooner⁴⁹.

While helping to fill the needs of expanding industries and changing occupational structures, these changes in the working lives of women have probably exacerbated the problems of displaced workers from manufacturing industries and manual employment. This applies not only to male workers, but also to female manual workers from manufacturing. Although long-term unemployment has sometimes been described as chiefly the problem of male manual workers, among those women who enter long-term unemployment, a background in manual jobs in manufacturing industry is particularly over-represented.

In short, there were, as we would interpret it, 'too many' people offering themselves for a contracting pool of manual jobs, while their lack of educational attainments reduced the possibilities for them to move into the white-collar occupations where opportunities were potentially expanding. At the same time,

the shortage of relevant basic qualifications in the labour force can be assumed to have constrained the growth of the overall economy, further intensifying its employment problems.

The interpretation in terms of a 'qualification barrier' has two implications which can be checked in an informal way. One implication is negative: if there were not a barrier, then over a sufficient period of time, the distribution of unemployment between differently qualified groups should become more equal. In normal conditions, this is difficult to test, since unemployment is dominated by inflows and these are unequal for reasons described earlier in the chapter. But the first half of the 1980s provided an excellent test, since for five years unemployment remained at a high level and was dominated by its long-term component rather than by inflows. Over this period, the disproportionately high level of manual unemployed continued virtually without change. This suggests that the barrier between manual and non-manual employment was real.

Again, if barriers to mobility between manual and non-manual work are important for unemployment, then increased average periods of unemployment should be an important component of the growth of unemployment. Moreover, this increase of the period of unemployment should be most noticeable in periods when manual employment contracts sharply. This fits with what was observed during 1980-83. Unemployment rose, with little change in the inflow, primarily because of increasing average duration of unemployment spells, and this was associated with a period of intense contraction of manufacturing and manual employment.

Unemployment as working class disadvantage

It has long been known that unemployment is specially a problem of manual workers in Britain. That is not the same as to say that it is a problem of the working class. Looking at the issues in terms of class has, however, been helpful in directing attention to some important aspects of unemployment, as it affects manual workers; aspects without which a balanced understanding of unemployment is impossible. To underline the argument, we will briefly recapitulate the main points of a class perspective upon unemployment, and suggest some links to issues covered in other chapters.

First, and most centrally, unemployment (and long-term unemployment) in the 1980s affected a broad cross-section of manual workers, rather than some special sub-group. It was a risk shared by manual workers, but not in the same way by any other occupational group.

Then, the persistent historical disadvantage of manual workers, dating back for a century or more of unemployment, can partly be seen in terms of customary conditions of employment which distinguish them from white-collar workers, and increase their chances of entry to unemployment in all periods.

Partly, also, long-term disadvantage in terms of unemployment can be seen as a consequence of periods of contraction of manual employment which appear to be part of a general secular trend among industrialized nations. The period from the mid-1960s to the early 1980s appears to have witnessed a particularly acute period of contraction for manual workers in Britain as industry and product-markets underwent a major restructuring.

However, such periods of contraction would not of themselves give rise to any special risk of unemployment, if it were not for the existence of barriers to mobility across occupational boundaries. Several such barriers can be identified, but we particularly focused upon the qualification barrier. The essential point here is not simply that manual workers in Britain typically have low standards of educational qualification. Rather, it is that this low level of qualification *reflects socially biased policy choices* in education. These have created a highly academically orientated educational system, serving routes into white-collar and professional careers, but offering little or nothing to those entering manual occupations. Manual workers have, historically, been regarded as requiring no general qualifications, and there has been an underlying assumption that entrants into manual jobs would subsequently not move into non-manual jobs. Education has been shaped by a model of the division of labour which assumes static rather than mobile classes.

The low qualification level of manual workers in Britain helps to explain why employers have pursued some of the policies described in Chapter 5. More advanced forms of productivity improvement, for example through intensive investment of equipment and systems coupled with retraining and updating, may simply have seemed too difficult to be considered, given the constraints of labour quality. Using the simple lever of wages and the crude method of cutting away to the more profitable part of the business did not run into this kind of constraint. Low quality labour, with its implications of high training costs, may also have been a barrier to entrepreneurs, who may for this reason have been slow to use the labour surplus created by high unemployment.

Seeing working class unemployment as, partly, the product of social relations and social choices points towards some important chances for policy. Social relations can be regulated by law, and Chapter 8 will consider, among other issues, the scope for improving the regulation of employment relations. Much the most important issue to which the present chapter has pointed, however, is the labour market barriers created by inadequate educational qualifications. Policies for lowering these barriers through education and training policy will be the main theme of Chapter 9.

Towards white-collar unemployment?

The analysis of this chapter has been intended to explain why unemployment has remained so heavily concentrated upon manual workers. The explanation refers

chiefly to the recent past. Will it also be applicable to the future? In particular, could unemployment in the future spread to white-collar workers, and what would be the necessary conditions?

Numerous forecasts appeared in the 1980s to the effect that the jobs of white-collar workers would be increasingly affected by the advance of information technology. Many of these forecasts were narrow and ill-considered, for they did not take account of the new types of products and services made possible by information technology, nor did they appreciate how businesses could use the technology to raise standards of quality and service rather than to make cost reductions⁵⁰.

Nevertheless, not all forecasts have been superficial. A careful study for the US economy to the year 2000, made by Leontief and Duchin⁵¹, is particularly worth noting. These authors concluded that there would be some resurgence in the need for skilled manual workers, to produce and maintain the ever-increasing volume of new equipment needed by society, while many jobs concerned with the routine processing of information, both clerical and lower managerial, would disappear. They estimated that about five per cent of total employment would be displaced by technological change by the year 2000, and they noted that this could result in structural unemployment if mobility was inadequate.

At the time of writing, the loss of white-collar jobs is much in evidence in Britain, though it is not yet clear whether this is leading to any significant increase in white-collar unemployment. For example, banks, which are among the largest employers of routine white-collar labour, have announced plans to rationalize their branches, with substantial cuts in their total staffing. On the other hand, these losses may eventually be made good by the growth of branch services offered by building societies and other specialist financial services, which will have the chance of further expansion as the banks retreat.

Our analysis of working class unemployment has been based on three main points: the nature of employment relations; the openness of occupations to technical and structural change; and the effects of the system of qualifications. These same points can be applied to an assessment of the possible future growth of white-collar unemployment. It cannot be doubted that the advent of information technology exposes white-collar, including managerial, work to technical and structural change to an unprecedented degree. It is on this point, of course, that the more sensational forecasts of white-collar unemployment are based. But the other two points are equally crucial, and – since the possibilities of technical change are not in dispute – it is on these other aspects that we will focus.

So far as the most routine types of white-collar work are concerned, both these considerations suggest that the underlying risks of increasing unemployment are considerable. We noted earlier that lower-level or routine white-collar jobs, of the type often held exclusively by women, is already widely regarded by authorities

on social classification as closely akin to working class positions. Such employees are usually on 'weekly paid' rather than monthly terms of employment, which means that they can be dispensed with at a week's notice. Moreover, some kinds of routine work associated with information technology, such as data-entry, have been organized like factory work, with narrow tasks, production flow-lines, and tight scheduling and control of output⁵². Further, many of these routine jobs are offered with part-time hours, and research has confirmed that part-time jobs are to a great extent excluded from training and promotion opportunities⁵³. This strengthens the similarity with the position of manual workers, making individuals more disposable because of the low training investments.

The question is whether employers will, in practice, treat these routine white-collar workers as easily disposable. Until now, large employers appear to have treated them with a consideration which goes at least a little way beyond the formal conditions of employment. The main method of reducing numbers has been natural wastage coupled with a restriction of recruitment. Even part-time workers, although often regarded as being in a precarious position, in practice seem to have experienced little insecurity⁵⁴. The key to the future of routine-level white-collar workers lies in whether these customary relations with employers will change. If market conditions became much more competitive, and this was coupled with moves towards labour-saving uses of information technology, then in a recessionary period one might see much larger waves of white-collar redundancies.

The final point concerns the qualification barriers to mobility for people entering unemployment from routine white-collar jobs. This has hardly been a problem in the past, because there has nearly always been a growing demand for people to do such jobs. But if structural change was forcing a contraction of routine clerical work, where could the displaced workers go? Present average qualification levels are rather low: there is a much larger qualification gap between the routine white-collar level and the superior administrative or professional level, than there is between manual and routine white-collar work⁵⁵. Low qualification levels, according to our earlier argument, tend to result in rising proportions in long-term unemployment. Furthermore, women have been less likely than men to take the route into self-employment. On the other hand, because information technology is so wide in its application, it may be that clerical workers with experience of it may prove much more mobile than the displaced manual worker of the past, who had learned only a narrow technology.

The other group under some threat from future developments consists of administrators and managers substantially concerned with handling information. Much of this middle-management work may be eaten away by information technology, and this could leave employers with considerable scope for rationalization. Many managers in Britain, moreover, are completely lacking in qualifications, and this particularly applies to older managers. Large-scale

redundancies at this level are certainly possible in the future, especially as companies would not wish to deprive themselves of new young managerial talent by following a policy which depended solely on natural wastage.

Here, however, the chances of rationalization being converted into open unemployment seem rather slight, because of the particular conditions of employment enjoyed by managers, and especially by those in large firms where substantial change is most likely. The managers affected can usually expect quite long notice periods (by comparison with either manual workers or routine white-collar workers) to plan their next steps. They are also likely to have considerable periods of service, giving them entitlement to sizeable redundancy payments; some will be able to obtain early retirement pensions. Moreover, even if managers are not qualified, their experience in managing people, money and other resources is a valuable and inherently flexible commodity. These displaced managers, therefore, would be more likely to find their way into self-employment or small business than into long-term unemployment.

In conclusion, the risks of large-scale unemployment among white-collar occupations are not negligible. The explanations of the unemployment of manual workers which have been developed in this chapter would be applicable to white-collar workers also, if and when their position in the system of employment became more like that of manual workers. Job loss, through economic conditions and structural change, is inescapable for any occupational group. But the crucial factors which then convert job loss into unemployment are the process of job termination and the resources (especially the 'human capital') which the affected individuals have in making transitions to new jobs. Routine white-collar workers are already closer to manual workers than to the remainder of the non-manual occupations, and recent and foreseeable developments may further weaken their position, making them increasingly disposable and hence increasingly vulnerable.

The alternative is to reform the system of employment relations, to the benefit of all workers, and to strengthen the personal resources of all adults, so that they are more capable of moving with change.

7 The Individual in the Job Market

The explanations of unemployment which have been considered in the past two chapters have concerned some of the main institutions and traditions of the society and the economy. They have pointed to the problems created by an economy of large corporations and sectional trade unions, without strong central coordination; the tensions and confusions between individualism and independence on one hand, and welfare and social cohesion on the other; the vulnerability of manual workers to the effects of rationalization; the rapidly changing structures of opportunity and the slowly responding systems of education and qualification. The picture we have painted is of a society too fragmented to produce a coherent response to economic change.

Missing from this explanation, so far, is the unemployed individual and his, or her, outlook and conduct in unemployment. Hamlet without the Prince, many would say. And certainly our explanation cannot be complete until we have considered the individual's role in unemployment.

The emphasis given to the individual's role took on a strong ideological character during the 1980s; ideology being a set of beliefs held because they support or legitimate the position of a power-group¹. Governments, not only in the UK but in many countries experiencing high levels of long-term unemployment, favoured the view that labour market rigidity resided largely in unemployed individuals themselves. Such a belief, as was pointed out in Chapter 1, helps to justify the continuation of unemployment and the inequitable treatment of individuals in long-term unemployment. Allies were found in the tabloid press, together with some sections of popular opinion, who were particularly impressed with the image of unemployed people as scroungers, drop-outs, or incapables.

Yet it would be a grave mistake to assume, because individuals were being used as scapegoats for collective social and economic problems, that there was nothing of substance to be considered here. Let us assume, reasonably, that individuals do not choose their moves from employment to unemployment. Something pushes them out; it could be the firm closing down, a spell of ill-health, or

simple incompatibility between themselves and the job. Nor do they choose the circumstances of the job market in which they find themselves, in terms of such things as the number of vacancies or the amount of competition for jobs. Still, given that they are out of a job, and in a particular kind of job market, their approach to job-seeking could make a great difference to their chances of remaining there. And the traditional outlook and behaviour of workers could, on a larger scale, affect the wider operation of the job market under particular conditions.

The 'rigidity' of workers, if this exists, does not even have to show up under 'normal' conditions where supply and demand are in balance and labour markets clear. Attitudes and behaviour which are quite suitable for ordinary working life and for job-changing when the conditions are favourable, may not be at all appropriate for job-seeking in long-term unemployment, or in an adverse job market struggling to return to an even keel. Rigidity in individual job-seekers could be, in this respect, rather like the rigidity of social and economic institutions: it may take adversity to expose it.

Whether or not unemployed people behave in a rigid or flexible manner, can and should therefore be investigated in detail. There is also another side to the assessment, which has not received so much attention. Individuals who have become unemployed are not merely actors in the job market, they are acted upon by the policies and practices of employers and of employment intermediaries (such as government employment services and training programmes). These policies and practices, outside of individuals but bearing upon them, can be more or less efficient, more or less equitable, and more or less rigid. And once again, they may be well suited to 'normal' conditions but relatively unhelpful for a job market trying to recover from recession.

Individual flexibility

There are three ways in which flexibility in the job market is usually judged. First and foremost, by whether people have realistic ideas of the wages they can get; then, by whether they are willing to change the type of job they do; and finally, by whether they are spatially mobile and willing to go where the jobs are. Of course, in looking at how people think and act in each of these respects, we have to be careful to distinguish between what they *would* do and what they *can* do. To take the most obvious example, people may be willing to move to a different area but if there is no housing for them there, they cannot do anything about it.

Before considering each of the three types of flexibility, it might seem that there is a more direct approach to the issue. We could simply ask whether unemployed people turn down jobs which they are offered. The more 'choosy' people are in this respect, the less flexible, perhaps, they should be regarded.

In a variety of surveys², it has been found that around 10 per cent of unemployed people report that they have turned down one or more jobs during their

unemployment. This figure might be an underestimate, if some people are reluctant to admit that they have refused a job, but let us for the moment accept it at face value. Is it 'high' or is it 'low'? The answer can only be given if we have some yardstick to make the assessment. If jobs and job offers are plentiful, then the figure would probably be interpreted as relatively low, by comparison with a situation where job offers are few and far between. When there are plenty of jobs, people can afford to be choosy; also, the job market will work more efficiently if everyone takes care to get into a job which suits their skills. If jobs are scarce, the individual would be well advised to be less choosy; moreover, even a low level of refusals could have a substantial impact on the overall state of the job market. To put the 10 per cent figure of job refusals into some perspective, during the depth of the recession only 15 per cent of a sample of people with one or more year of unemployment succeeded in getting a job over a 15-month period³. If all jobs had been accepted, it looks as though quite a substantial increase in the flow out of unemployment could have been achieved.

Underlying this kind of argument is the notion that it would be best if unemployed people simply took any job which came along, and indeed the trend of recent benefit regulation has been in this direction⁴. If this is true, then it should be demonstrable that unemployed workers who place no limits on the kind of job they look for, get jobs soonest. The PSI/DE cohort survey of unemployment, however, adduced evidence that workers prepared to accept 'anything going' actually fared less well in finding jobs than others who had a more focused strategy⁵. A qualitative study in France also suggested that workers with special disadvantages, such as recent immigrants and those with disabilities, tended (in their desperation to find work) to engage in an unfocused search which actually hindered their success⁶.

Some general considerations about the workings of the labour market further weaken the argument that unemployed workers should accept any job available, and that their unwillingness to do so is a major factor in rigidity. If all offers are accepted, whatever the wage rate, conditions and type of work, then there is no competition between employers for that category of worker. The notion of a job market depends upon both sides having real choices, and when one side ceases to exercise its choice, that removes the pressure of competition from the other; and absence of competition is not generally regarded as good for economic efficiency. Again, it is not in employers' interests to have jobs taken by individuals who regard the job as unsatisfactory, since the chances are that labour turnover and recruitment costs will rise as a result. All offers should be accepted by individuals only if employers are able to make perfect judgements about the suitability of the individuals for the jobs and vice versa. But to put themselves in that position, employers would have to invest in very expensive screening and selection techniques. In practice, individuals help to keep labour market costs down by

exercising their own judgement of the suitability of jobs. It is not surprising that employers are irritated, rather than attracted, by applicants who have no firm idea of what they want to do. There should, then, be some degree of choosiness and some proportion of refusals as part of a properly functioning job market; and it is hard to judge what proportion should be regarded as reasonable. The apparently simple or direct evidence about refusals of job offers turns out to be a dead end. We have to turn back to the more detailed evidence about spatial mobility, job search, and especially individual wage expectations.

Wages have provided the focus for much of the discussion by economists. A distinction is usually drawn between the individual's 'target wage', which is the amount expected or aimed for in looking for a job, and the 'reservation wage', or minimum below which a job would not be acceptable. If the reservation wage does not adapt to conditions where there are few jobs, individuals may become stranded in unemployment, and there will be less encouragement for employers to fill vacancies in adverse conditions. Conversely, if individuals offer themselves at sufficiently low wages, employers may feel there is an incentive to take on workers again; people are then 'pricing themselves into jobs'.

One reason why individuals may have inflexible reservation wages is because of their entitlement to benefits. It would not seem to make a great deal of sense to work at wages below the benefit level, especially given that benefits are supposed to supply no more than a basic subsistence. Against this, considerable numbers of workers do work at jobs below or very close to the benefit level⁷, and because unemployment particularly affects manual workers, many of them will appear at some time in the ranks of unemployment. It can be argued (as was pointed out in Chapter 3) that there is more to having a job than the pay, so that some people will be willing to work even below the benefit level, taking account of the other satisfactions. These contrary speculations can only be resolved by the findings of research.

We were able to get a detailed picture of how people's ideas about wages relate to finding a job, from our survey of 18-24 year olds⁸. We had two yardsticks to judge 'wage rigidity'. The first was to compare wage expectations and reservation wages, as stated by the individuals, with the wages which they had actually earned in their previous jobs. Someone who expected a lower wage than previously earned could be regarded as relatively flexible, while someone who expected a wage increase despite being unemployed in the interval could be regarded as displaying wage rigidity. The second yardstick applied to those who actually got a new job: how did the wage they took compare with their old wage and with the expectations they had registered?

It turned out that those with low previous wages (which would often have involved juvenile wage rates for this group) did seek pay increases when they looked for work, and could by the previous reasoning be called 'rigid'. But those

with relatively higher pay in the past expected wage cuts once they had become long-term unemployed. There was, therefore, a degree of convergence towards what was perceived as a norm for young people in their position. This weakens the interpretation that those seeking increases were displaying rigidity: they may have been making a reasonable judgement in view of the depressed level of their previous wages. Moreover, for both groups, in two-thirds of cases there was a substantial gap between the target wage and the reservation wage. This gap averaged about 15 per cent of the target wage at the time of the initial interview, but grew to about one-third of the target wage by the time of a follow-up survey 15 months later. So reservation wages were generally tending in the direction of flexibility; and the longer that the young people were unemployed, the more flexible they became. (An alternative explanation is that the longer they are unemployed, the more uncertain they may become about what is a reasonable wage to go for⁹.)

The most decisive evidence, however, came when using our second yardstick. New jobs obtained after unemployment were, in more than half the instances, at wages below the stated target level. Indeed, on average these young people were taking lower pay (that is, after adjusting for inflation) than they had had one year or more previously. (A similar finding came from our survey of the unemployed flow, which showed that new jobs involved average real wage cuts of about five per cent¹⁰.) But perhaps the most interesting group in the survey consisted of those who had come from relatively higher paid jobs into unemployment. As we have already pointed out, they tended to have a highly flexible approach, expecting substantial cuts in wages compared with their previous careers. The wages they actually got in their new jobs, however, were on average higher than their expectations, and considerably higher than their reservation wages. They were actually more flexible than the employers who engaged them! These findings are summarized in Table 7.1.

Two other related conclusions can be drawn from the same results shown in the table. One is that people's stated wage expectations have little bearing on what they actually do: faced with a real job offer, they tend to throw their targets away. Those who had shown signs of rigidity, in the sense of seeking wage increases despite being unemployed, nevertheless in practice took wage cuts when faced with an actual offer. (This finding has been confirmed in the research by McLoughlin and colleagues covering a wider cross-section of unemployed people¹¹.) The second conclusion is that there is no apparent advantage in having a low wage target (relative to one's previous wages). Those with higher relative wage targets were as likely to end up in a job as those with relatively low wage targets. A simple explanation for this is that employers, in most cases, do not know what wages the applicant is looking for; they make wage offers rather than conduct auctions for their vacancies. Combined with the apparent willingness

of young unemployed people to forget their wage targets, this custom effectively breaks the link between what is planned and what happens. The only worthwhile test of flexibility is the nature of the job taken.

Table 7.1 Wage flexibility of young unemployed people

	Total	New wage relative to target wage			
		New higher	New lower	Equal	Missing data
Male:					
Relatively flexible	246	39	32	18	11
Relatively inflexible	297	25	61	5	9
Female:					
Relatively flexible	187	29	48	11	13
Relatively inflexible	149	17	64	8	11

Source: M. White and S. McRae, *Young adults and long-term unemployment*, PSI, 1989.

Notes: "Flexibility" or "inflexibility" was assessed by comparing the stated target wage with the wage in the main prior job held. The "new wage" was the actual wage in the job obtained following long-term unemployment

This same test can also be applied to another aspect of flexibility, willingness to change the type of job done. It has long been supposed that one of the barriers to adaptation has been attachment by workers to their particular industry, occupation or trade, even when the opportunities for it are in decline¹². Studies of British unemployment in the 80s, however, repeatedly showed that in this respect flexibility was at a high level. For example, the DHSS's 1978 survey showed around two in three unemployed men changing to a new industry and/or a new occupation, and this was similar to our 1980 cohort survey¹³. Even higher proportions were encountered in our study of youth unemployment.

It could be supposed that the people who become re-employed are self-selected in this respect: conversely, those who do not get jobs may include substantial proportions of people who are unwilling to move to a new type of job. But details of previous work histories show that a great deal of this kind of job changing has already been taking place before the current period of unemployment started. Young unemployed people, for example, showed as much of a tendency to move industries or occupations before as after unemployment; *previous* movers were neither more nor less likely than stayers to find their way out of unemployment¹⁴. Occupational and industrial mobility seems to be very much a way of life for these young workers.

Movements between industries or occupations also have implications for wage flexibility. A large proportion of the people in long-term unemployment have

previously moved down the occupational ladder, which means that the wages they are likely to get in the long run are reduced. These downward steps are also strongly associated with changes of industry: people who have changed industry are more likely to have moved down the occupational ladder and taken wage cuts as a result. There is a question mark here about the limits to the usefulness of job mobility. Movements across industries and occupations may mean that skills previously acquired go to waste; and this suspicion is strengthened by the amount of downgrading. The costs of flexibility have to be borne in mind, as well as the advantages.

Spatial mobility in unemployment is the aspect of flexibility which is most difficult to evaluate, for purely practical reasons. People who are interviewed in surveys tend to be those who have not moved, because the mobile have disappeared from their address between the times of sampling and interviewing. The mobility data from the Census of Population, together with aggregate figures of population and employment, show that there has been substantial movement from the areas of high unemployment to areas of better opportunity¹⁵. But it is not clear how many of the movers come from the ranks of unemployed people; those with better qualifications and financial resources will find it easier to take such a step, and the expectations are that less-skilled workers have been accumulating in the high-unemployment localities. To go by what unemployed people themselves say, however, there is a far greater willingness to move area in search of a job than there are facilities for them to do so. The majority of under-25s in our survey had looked for a job outside their own area on occasion. In addition, the travel-to-work radius which they were prepared to consider when looking for a job was wider than the spatial distribution of jobs actually obtained¹⁶. All this is circumstantial, but the overall impression, on spatial mobility, is that the main problems are structural rather than individual. Unemployed people are, to a large extent, trapped within narrow, local labour markets when they themselves would prefer to have wider opportunities.

In short, there is little to suggest that unemployed people's flexibility, in terms of wages, job-changing, or spatial mobility, contributes much to the explanation of high unemployment. This judgement is underlined if we look in a more positive way at the strategy adopted by unemployed people to find a job. This was particularly addressed in the PSI/MSK cohort study which followed the progress of people from the time they entered unemployment for two years¹⁷. In essence, the strategy of most people was a simple one. It was to take the first job which came along, however unsuitable it might be, and then, after achieving an escape from unemployment, to continue looking for a more suitable or congenial job. Getting into a job quickly had two great advantages. One was that it relieved them of the experience of unemployment, which as was pointed out in Chapter 2, the majority found to be extremely unpleasant. The other was that

having a job of some sort was, for obvious reasons, a better base from which to seek a good job than being unemployed. Being flexible about one's first move out of unemployment, therefore, constituted a rational approach to restoring one's eventual position.

The picture we have painted, which is essentially of a high level of flexibility at the individual level, still has two possible flaws. The first of these concerns the completeness of the picture, or the exceptions to it. It may apply to the generality of unemployed people, but if there is a sufficiently significant minority to whom it does not apply, then the level of unemployment could still be substantially affected by inflexibility. The most obvious indication that there may be significant numbers of such exceptions consists in the proportions of people who appear to have largely dropped out of looking for a job.

The second possible flaw concerns the adequacy of flexibility. It could be, as for example Ronald Dore has suggested¹⁸, that many unemployed people have such low productivity that it would only be worth employing them at wages that are far below the benefits or subsistence levels deemed tolerable by a modern society; wages which they would not be expected to accept, and which no employer would stoop so low as to offer. Under this view, unemployed people could be highly flexible *within the norms of the society*, and yet not be employable. We will consider this possibility, which concerns 'labour quality' rather than flexibility in its own right, before returning to the issue of 'drop-outs'.

Are the long-term unemployed unemployable?

The argument about labour quality applies chiefly to people who have spent long periods in unemployment, rather than to those moving in and out of unemployment fairly quickly. The evidence to examine it, therefore, comes chiefly from our studies of long-term unemployment. First, though, it may help to review what might be *expected* to influence the labour quality of unemployed people.

In times of full employment, the number of people who are long-term unemployed is of course small (during 1966, for example, there were on average about 50,000 people who had been unemployed for more than one year, and these represented only 15 per cent of total unemployment). It would be reasonable to suppose that most of these had severe problems, making them hard to employ at any wage level. Under full employment, also, there are likely to be some people in jobs who are barely capable of doing them; employers however keep them because of the general shortage of labour relative to demand for their products or services. As unemployment rises, and product demand falls, one would expect some to lose their jobs and then find it difficult to get another. It is not implausible that long-term unemployment becomes progressively expanded and filled with such marginally employable workers.

But if there are very high levels of unemployment, it can also be expected that some capable and productive workers get caught by it in moving between jobs, or because they have fallen out of employment through a spell of illness, or because they have been made redundant in an area where new vacancies have virtually disappeared. The closures of firms (of which there were a great many in the early 1980s¹⁹) bring out this possibility particularly clearly, because obviously they affect a wide cross-section of workers. The higher the level of unemployment in a locality, the more we would expect individual unemployment to become a lottery. Moreover, once a person has spent some time in unemployment, it may become progressively more difficult to get a job, because of the hostile or suspicious attitudes of employers towards such a 'record'. Unemployment could become self-confirming.

How is the quality of labour to be defined? One simple approach is to consider the skill level of employment. It has repeatedly been asserted or assumed that long-term unemployed people can be equated with the 'low-skilled' or 'unskilled' segment of the labour force. This, however, is either untrue or an example of imprecise language. What is true is that the great majority of unemployed, and especially long-term unemployed, people come from manual occupations, as was discussed at length in the previous chapter. However, many manual jobs are highly skilled; it would be absurd to equate low skill with manual work, especially if it implied that all manual workers were potentially unemployable. Nor, in fact, are most long-term unemployed workers from the unskilled level of manual work. Many of them enter unemployment direct from skilled or semi-skilled manual jobs. Many in addition have originated in skilled jobs, which they have held for many years before moving down the job ladder into semi- or unskilled work prior to becoming unemployed²⁰.

Qualifications provide an alternative and possibly more refined method of assessing labour quality. And it is certainly true that long-term unemployed people have far fewer qualifications than the population as a whole. But two further considerations have to be borne in mind. One is that older workers (over-50s) are over-represented in long-term unemployment, and fewer people got qualifications in the period when they were being educated than is the case more recently. More important still is the fact that most long-term unemployed people have come from manual occupations, where qualification levels, in Britain at least, are much lower than in white-collar occupations. An assessment therefore must take account of both age and occupation.

In our 1980-81 study, with a sample taken from the early period of the growth of mass unemployment, differences in qualification levels between long-term unemployed and working population were appreciable, even after taking account of age and occupational level²¹. These differences were at their smallest for older workers, and for those in the lowest occupational level, when compared with the

corresponding groups in employment. The differences were extremely large in the case of non-manual occupations: there were relatively few long-term unemployed people from non-manual jobs, and these were to a large extent unqualified or underqualified for those occupations. There were also large differences in qualification, for each occupational group, between young people in long-term unemployment and their equivalent age group in jobs. There were, therefore, particularly strong grounds for supposing that lack of qualifications selected people into long-term *youth* unemployment at this time.

Through our 1984-85 survey of youth unemployment, we partly clarified the influence of qualification, but also partly modified the conclusion of the earlier study²². The clarification lay in carefully distinguishing the inflow into unemployment from the outflow from unemployment. Comparing the inflow (at six months of unemployment), and controlling for occupational level, we found much less difference from young people in employment than had been the case in 1980-81. The small proportion coming from non-manual jobs continued to be very underqualified, by comparison with young people holding white-collar jobs. There was also some (though much less marked) qualification gap in the case of those from a skilled manual background. But the majority of young unemployed people came from semi-skilled or unskilled manual work. In this inflow group, the qualification level by 1984-85 was no different from that of young people in work at a similar level.

The implication is, then, that as the mass unemployment of the 1980s continued, the composition of long-term unemployment was *not* becoming more differentiated from that of the comparable working population. On the contrary, it was becoming more similar. This was further supported by dividing the 1984-85 survey sample into an older group, entering the job market in the period 1975-79, and a younger group, entering the job market in the period 1980-83. The more recent entrants had considerably more qualifications, on average, than the group of earlier entrants, even though both had ended up similarly in long-term unemployment. Long-term unemployment was becoming more catholic, not more selective. Somewhat later in the 1980s, the Department of Employment's London Labour Market inquiry²³ found evidence of substantial numbers of well qualified individuals in long-term unemployment. This again suggests that the trend has been in the direction of unemployment becoming more of a lottery.

But on the outflow side of youth unemployment, qualifications continued to be extremely important; they also appeared to get more important, the longer that unemployment continued. In 1985, 60 per cent of our sample got a new job if they had vocational qualifications, and 58 per cent if they had any O-level or equivalent qualification; but only 26 per cent if they had no qualification whatever. The result of this selection process must be that, at still longer periods of unemployment, there will be increasing accumulations of low-qualified

individuals. So there are two contrary tendencies: on one hand, an increasingly widely-based inflow, and on the other, a selective outflow. How is this likely to work out?

The complication in answering this is the effect of the time spent in unemployment. The longer this time, the lower the chances of getting a job; and this has been shown to hold even when qualifications are statistically held constant²⁴. With a widely-based inflow into unemployment, difficult conditions in the job market, and some part played by luck, a proportion of well qualified people will build up long periods of unemployment; and the further this process goes, the more will it tend to cancel out the advantages of qualifications. So, even with a strong selective influence of qualifications, the composition of long-term unemployment as a whole can end up as a highly mixed one.

On balance, the notion that long-term unemployed people are on the margin of employability is not well supported by the evidence concerning qualifications. While it is true that long-term unemployed people are poorly qualified on average, this also applies to people in manual occupations. Moreover, the mix of people in unemployment has been moving more towards qualification than the reverse.

As the previous chapter argued, the UK has an underqualified labour force, in the sense that there are not enough manual jobs to provide work for those with low-level qualifications. This collective underqualification may have been confused, but should not be confused, with the idea that long-term unemployed people are individually unqualified to the point that they cannot expect to get jobs. This undoubtedly does apply to a minority of them, but the majority have held jobs, often at a skilled level, and many of them return to stable jobs. The point is that they cannot all expect to get jobs at this level. That is a structural, not an individual, problem.

Another possible confusion may have been between the employability and 're-employability' of workers. This distinction is likely to be particularly important in the case of older workers or those with disabilities or problems of ill-health. The older worker in a manual job, for instance, is likely to have accumulated many years of job-specific skill and knowledge concerning products, services and procedures. He is therefore a valuable and cost-effective worker, despite a lack of qualifications and, perhaps, despite increasing ill-health. Once separated from the job, however, the worker's ability to compete for re-employment may be limited, especially in a job market which is geared to young workers and to recruitment by qualification. If the new job in question involves a substantial amount of training or learning, there may not be sufficient time before retirement age for the costs to be recovered by the employer. These are real problems, which we will look at again from a different viewpoint at a later stage.

Job search and 'opting out'

Unemployed people are, broadly speaking, flexible in their approach to getting work and capable of holding a job. Yet we also know that a proportion of them end up in very long-term unemployment. This group, although only a small proportion of the flow through unemployment, forms a substantial part of the whole unemployed stock. Also, there are significant minorities who, as they themselves state, have completely given up seeking work; and others who, though continuing to go through the motions of seeking work, make not a single job application for a year on end. Could this point to a minority of unemployed people who are highly inflexible towards finding new jobs?

One way of answering these questions is to consider in a more general way the activity of looking for a job. There are in fact great variations in the activity of job search, as measured for instance by the frequency of job applications to employers. The circumstances which are linked to either higher or lower levels of activity should point to the reasons for these variations. For example, if the benefits they get make people more choosy about taking a job, then the more benefit they get, the less likely they should be to make a job application.

Several studies have shown that levels of benefits do influence the numbers of jobs applied for and the time taken to get into a new job; but *only within the early months of unemployment*²⁵. As noted earlier, this does not necessarily indicate rigidity. One of the economic arguments for providing unemployment insurance is to encourage people to look for a job which fits their skills (which implies a degree of choosiness and may take time), rather than taking the first job which comes along. The costs of maintaining a person a little longer in unemployment²⁶ should be balanced by the better utilization of skills. But in any case there has been little indication of benefits having an adverse effect on job-seeking once a person had become long-term unemployed. Our 1980-81 study looked at how the ratios of benefits-to-wages related to numbers of job applications, to self-rated increases or decreases in job-search effort, and to refusals of job offers²⁷. It made no difference to these things whether benefit-to-wage ratios were high or low.

Focusing on benefit-wage relationships is, perhaps, to take too narrow a view of human reason. At the time of the 1980-81 study, older workers formed the largest group in long-term unemployment. We found that the over-55s, especially if they had come into unemployment directly from a long-lasting skilled job, comprised the bulk of those who early on 'opted out' of searching for a new job, or who merely performed a ritual of job search without making any actual applications. This group had also made by far the best psychological accommodation to being unemployed; and relatively positive attitudes towards unemployment were linked to low levels of job search. Money did come into the picture, because these older workers (unlike most people in younger age groups) had some savings to draw upon. But there was more to it than that. The older workers were often

content to withdraw from work ('I've done my stint'), and were able to assume the social status of early retirement rather than unemployment. Indeed, in all this they continued to exhibit the same pattern of adaptation which was identified in the first (1974) PSI study of unemployment²⁸. Furthermore, their low level of job search could be rationally explained in terms of their low chances of getting a job. To some extent, it is true, these low chances could be read as a self-fulfilling prophecy. Yet few would dispute the reality of age discrimination, which long-term unemployed people have learned about through direct experience, and to which they themselves continually refer. Finally, the 'opting out' of older workers in long-term unemployment has been condoned and encouraged by the practices and the policies of governments and their agents, to which the discussion will return shortly.

One can therefore construct a full rationale for older workers to 'opt out', which can hardly be reduced to the simplistic terms of wage-benefit flexibility. But older workers could be a special case. The 1984-85 survey of youth unemployment offered an opportunity to apply a similar analysis in the contrasting case of 18-24 year olds.

The notion of 'subjectively rational choice' has proved to be one of the most effective tools of sociological analysis in the past decade. A part of this notion is that choices depend not only on the gain or payoff of the alternative options, but also on the probability of success in each case. The effort devoted to job search, for example, will be affected both by the value of getting a job and by the likelihood of success. For young people, to get a job will have a large payoff, since benefits are usually low at this age, and a job, as well as providing an immediate wage, also holds out prospects of getting a whole working life into gear. If then individuals choose not to seek a job, it may be because they believe that the probability of getting one is small. Against this, also, they may set the highly probable costs (of a psychological rather than financial nature) of being rejected when they apply for a vacancy.

On this reasoning, it is the perceived chances of getting a job, which may be crucial in determining the frequency of job applications. Since we had already developed a simple model of the main influences affecting success in getting a job, we applied the same model to explain frequency of job applications. It turned out to give a satisfactory account, statistically speaking, of job search²⁹. In particular, qualifications and the time already spent in unemployment each had a powerful influence on how many applications were made. Young people without qualifications and with very long periods in unemployment were more likely to have given up looking for jobs, or to make applications only rarely.

This tends to confirm that young people tend to give up looking for work because of the low probability of getting a job, rather than through preference for an alternative. But there is an important exception, which strengthens rather than

undermines this interpretation. Young women who have recently become mothers tend to give up looking for work, even though on average they have better qualifications than the remainder and shorter periods of unemployment. In this case, presumably, it is the pull of the maternal and domestic role, possibly acting in combination with job market conditions, which puts an end to job seeking or reduces it to a low level.

More generally, the size and composition of the family (and hence benefits, which are chiefly determined by these) do influence job search in qualitative ways. Where the family is large, the father will focus efforts on finding a relatively high-wage job, for obvious reasons. This inevitably puts him into a more competitive part of the job market and reduces his chances of becoming employed. It is not surprising, then, to find that in various studies, the number of dependent children adversely affects the probability of getting back into employment³⁰. But the difficulty of getting a job meeting the financial needs of the family should not be confused with an unwillingness to work or a passive reliance on benefits, for job search continues at a high level.

'Opting out', then, seems to be more a consequence of the same circumstances which prolong an individual's unemployment, than itself a primary cause of that prolongation. Yet opting out, and more generally levels of job seeking, do make a difference to people's chances of getting jobs, over and above the effects of qualifications and other basic influences. Although in a sense those who ease up on looking for work do so 'with good reason', they are still not well advised to give up, especially if they have many years of employment potentially ahead of them. This leads towards considering the ways in which unemployed people can be supported and helped to go on competing in the job market, even when prospects look bleak. First, however, we need to recapitulate what are the special problems of long-term unemployed people in competing for jobs.

Unemployment as unequal competition

Many of the findings which we have reported in this chapter, to some extent in passing, can be interpreted as one-sidedness in the job market from the viewpoint of the unemployed people. This one-sidedness arises because unemployed people can readily be identified as such by potential employers, and because employers tend to assess unemployed people in a different way from people currently in jobs.

The most important example of this concerns the role of qualifications. We have pointed out that unemployed people do not differ greatly in their qualifications from manual workers, once the occupational and age composition has been taken into account. At the same time, qualifications appear to exert leverage on the chances of getting a job again, once unemployed, and this leverage increases with the period of time in unemployment. Having qualifications to some extent

gives the holder a chance of over-riding his or her unemployment record. Conversely, being unemployed for a period and having no or few qualifications are cumulative disadvantages in seeking a job. Unemployment, therefore, seems to make qualifications more important, and this is a particular problem for people from the kinds of occupations which are at risk.

The reason for this one-sided emphasis upon qualifications becomes clearer by considering the role of training and experience in previous jobs. According to neoclassical economic theory, qualifications, training and experience all constitute human capital which determine productivity, wages and (hence) employability. Yet we found that whereas qualifications became increasingly important during unemployment, training and experience made not a whit of difference to individuals' chances³¹. They were, apparently, just disregarded by employers.

It is not difficult to see why this should be. Qualifications are meant to provide a publicly recognizable and standardized piece of information about the individual, something which can be relied upon even in peculiar circumstances, such as a period of mass unemployment. Training and experience, by comparison, are much more open to interpretation and to doubt, especially when the individual has long since lost the job which provided the training or the experience. They are not standardized or certificated, their value may decline rather steeply when they do not reflect current employment with up-to-date practices, and even their authenticity may be suspect when a reference cannot easily be got from the old employer. In addition, the very fact of having lost the job may lead a new prospective employer to be sceptical about what the individual achieved in it.

This contrast in value of different forms of human capital points toward the important additional role of 'information' in shaping the responses of potential employers towards job-seekers. Qualifications gain in unemployment because they are backed by an information system which is independent of employment status, whereas non-certificated training and experience lack this independent information support. By thinking oneself into the position of employers, one can readily visualize how their response to unemployed people is affected by the information available (or unavailable).

The fact of unemployment is itself a piece of information which is likely to weigh heavily in an employer's hiring decisions. That this is so has been confirmed directly by research³². Less directly, unemployed people report that in many of their job interviews, they are asked by prospective employers whether they are unemployed, and for how long³³. Under conditions of fairly full employment, employers may judge that the ranks of long-term unemployment will be made up largely of people with severe problems affecting their capability or reliability. As large-scale unemployment sets in, it might be thought that this view will change, since unemployment will become a wider cross-section of the labour force. But the employer still has the problem of distinguishing one type of worker from

another. The risk of taking on a worker with 'undesirable' characteristics may bias judgement against all unemployed people, even when the person making the decisions is well aware that there are many satisfactory workers among them. Similarly, an employer may be aware that not all older workers are inflexible and unable to learn, but through inability to judge which individuals are and which are not, may remain biased against the employment of over-50s.

This type of situation is sometimes referred to as statistical discrimination³⁴. In effect, the employer reduces risks by screening out whole categories of applicants which are likely to contain a proportion of undesirable cases. This policy, inequitable though it is to the many individuals who fail to get treated on their merits, can be quite efficient from the viewpoint of the employer, provided that there are plenty of applicants from other, 'safer' categories. Local labour market studies during the 1980s have shown that around 70 to 85 per cent of vacancies are taken by people who move straight from one employment to another, so that the availability of vacancies to unemployed people has been much less than it might have seemed.

A period of high unemployment also tends to increase the difficulties of those with disadvantages, through the operation of one-sided information. Consider the case of disabled workers. A potential employer will see the individual's disability and be anxious about its effect on productivity, perhaps also about the possibility of adverse reactions among existing employees. The potential employer will not see the conscientiousness, stability and loyalty of the disabled worker who had been given a chance; that only comes once the chance has been given. Disabled people are greatly under-represented in the flow into unemployment, a happy fact which reflects their own stability and the value placed upon them by existing employers. The unhappy fact is that disabled people also have the greatest difficulty of almost any group in returning to work, in conditions of high unemployment, once they have become unemployed³⁵.

The problems of unemployed people in finding jobs are reminiscent of the story which Bertrand Russell liked to tell, of the man who asked the way to Winchester. 'Ah,' replied his rustic guide, 'if I was going to Winchester, I wouldn't start from here.' Unemployment is the worst place from which to start looking for a job.

Schemes and supports

One plausible way of counteracting the bias against unemployed people is to establish special schemes of temporary employment or quasi-employment which give them a chance of showing what they can do. There is a long tradition, going back to the nineteenth century, of attempting to counteract unemployment with special employment schemes. Many of the earlier efforts were framed chiefly in terms of job creation outside the market sector. But since the onset of the modern mass unemployment, the tendency in the UK has been to induce employers

themselves, including those in the market sector, to provide places in these schemes. Leading examples have been the Youth Opportunities Programme (YOP) which ran between 1978 and 1983; the Youth Training Scheme (YTS) which has run since 1983 – currently in a more flexible version known as YT; the Community Programme (CP) which operated during 1984-1988; and Employment Training (ET) which commenced in 1988.

Because employers have been heavily involved in these schemes, an obvious advantage for those taking part in them has been that they can show their capabilities at first hand. Indeed, schemes such as YOP and YTS have been described as ‘extended job interviews’³⁶ because, on the basis of observing the individual over a period, the employer can decide whether to engage him or her after the placement. Even if the employer does not have a vacancy for a permanent employee, there is also the possibility of giving a favourable reference for the individual. This would be based on observation in a work setting and should carry some weight. In short, such schemes appear to offer a remedy to some of the worst ‘information handicaps’ attaching to unemployment.

However, it has to be appreciated that information for job screening inherently has negative as well as positive functions. Individuals are screened out as an inevitable consequence of others being screened in. This does not matter if those who are screened out are no worse off than they would have been if they had avoided the screening process. The evidence suggests, unfortunately, that this is not the case. Those who pass through schemes but fail to get jobs immediately or shortly after reappear in the unemployed pool, where they sometimes fare worse than would be expected on the basis of their qualifications³⁷. The overall effect of the schemes may, therefore, be to polarize outcomes rather than improving them throughout the group of participants.

This problem can again be understood in terms of information, provided that we think of information in terms of simple signals or labels. If those who get jobs after being in a scheme have been selected with unusual care (because of the ‘extended selection interview’), so too those who fail to get jobs have been rejected with unusual care. At least, so it may seem to another prospective employer. This must raise doubts about the individuals in question. The individual’s employment history or c.v. now carries on it the facts that he or she (a) was unemployed or unable to find a job, (b) needed the help of a special scheme, (c) failed to benefit from the scheme. In short, the individual has been tagged or labelled as what Americans might call a ‘three-time loser’.

It should also be noted that negative labelling of this kind is likely to be more damaging, the more successful the scheme in placing people into jobs. When most of the participants end up without a job after the scheme, failures are not marked out in any way; when most get jobs, failures are distinctive³⁸. And the same considerations apply to systems of qualification. As these succeed in becoming more

universal, the shrinking minority without qualifications becomes marked out as in some way defective or even perhaps anti-social.

Earlier on we described how people with a variety of difficulties, notably having long periods of unemployment, being over 50, or being young and without qualifications, tended to drop out of the job market or seek work in a very perfunctory way. The realities of the job market, with statistical discrimination, devaluation of training and experience, and the double-jeopardy of failure on schemes, help to explain why this is so. They become prisoners of what is, in essence, a realistic and rational assessment of their own job prospects. Yet if, in a sense, their withdrawal from the job market is an 'informed' one, it should be possible to influence their behaviour in a more positive way by providing them with more hopeful kinds of information, and especially with information about jobs for which they have real prospects of being accepted.

The problem is that people able to support job search in this way may themselves be biased against the more disadvantaged job seekers. At the beginning of the 1980s, it appeared that the chief objective of Jobcentres was to serve employers and to fill vacancies. They applied similar criteria as did employers themselves, in their dealings with long-term unemployed people, and so the main recipients of help were those with the better chances of getting a job to begin with³⁹. One unfortunate consequence of this approach was to provide tacit condonement for those in the weaker competitive positions to drop out of the job market. For example, older workers who had ceased to look for jobs were the least likely to be bothered by Jobcentre or Benefit Office staff; even among younger unemployed people, it seemed that the least active were the most likely to be left alone. Furthermore, government training schemes have persistently excluded workers over 50 from their terms. Although defensible as a reasonable use of limited resources, such distinctions may send out signals which confirm both Jobcentre staff and employers in regarding some categories of workers as no-hopers.

As high levels of unemployment continued, however, priorities shifted to some extent. By the mid-80s we found that young unemployed people had about equal chances of receiving help whatever their qualification level or period of unemployment⁴⁰. Under these circumstances, Jobcentre support (defined in terms of providing information about possible jobs) proved to be a powerful positive influence, both upon the continuation of job search and upon actually getting jobs. Similarly, the ability of relatives and friends to give unemployed people 'inside information' about possible job openings exerted powerful leverage on their job market activity and prospects.

One of the ways in which such support, whether from the official services or through informal contacts, is likely to influence unemployed people is through reducing their 'information costs'. A person in a disadvantaged position may have to go through a large number of job applications, incurring costs not only in the

sense of time and money but in the repeated feeling of rejection, before finding a sympathetic employer. Others offering job information and introductions cut through this cycle of rejection and offer the individual a hope sufficiently good to make him or her try again.

If altered provision of information can make this much difference to unemployed individuals, can it also work in the same way in influencing employers to be more broad-minded? Here the evidence is much more sketchy and unsystematic, because of the dearth of research into employers, but so far as it goes it points in the same direction. The 'extended selection interview' of government work experience and training schemes has already been mentioned. The admittedly sketchy indications are that many employers who would otherwise have closed their minds and their doors to young workers kept them open as a result of this facility. But if an extended look is what is needed, surely a period of less than the typical six months of a government scheme would suffice. At the end of the 1980s, an idea beginning to make its way was pre-recruitment training. Relatively short courses were being offered by some employers, in which unemployed people (and others, such as women returners) could regain work habits, and demonstrate their readiness for jobs. Case studies of these initiatives⁴¹ indicated that they were successful, not only in achieving recruitment and retention objectives, but also in strengthening positive attitudes among employers towards employment from the unemployed pool. It is also notable that, in the later 1980s, it was employers (such as Tesco) which took the lead in developing new approaches to the re-employment of older workers. However, these initiatives to a large degree reflect these employers' prior commitment towards more open recruitment policies; they are self-selected, and it cannot be known how readily other employers could be influenced, without larger-scale trials.

Attitudes and behaviour

Attitudes, according to a common conception, are supposed to shape behaviour. But the American psychologist Daryl Bem⁴² rather instructively reversed the relationship. Imagine someone expressing a liking for a particular type of cheese. Is this an attitude which will subsequently lead to the purchase and consumption of more cheese? On the contrary, it surely reflects the previous pleasurable consumption of the cheese in question. And it is that pleasurable experience, rather than the attitude hovering over it, which guarantees the continued consumption of the cheese. We adjust our attitudes to reflect our experience and the way we behave; we make our words consistent with our deeds.

Unemployed 'drop-outs' are commonly thought to have problems of attitude towards work. Their behaviour, in failing to seek energetically for jobs, has been attributed to being work-shy or to having too easy a life on benefits. And it is true that sometimes, when directly asked, they will put forth highly negative statements

about their willingness to work or their interest in looking for a job. Looking a little below the surface, however, we must question whether their attitudes are anything of substance in an explanation of their behaviour. The same people were, in most cases, working steadily in jobs, many of them highly skilled, in years gone by, and few seem to find much joy in being unemployed. Their withdrawal from the job market is based on the experience of unsuccessful job search, and reasonable assessment of prospects given poor qualifications, long periods out of work, and other disadvantages such as age or disability. In such cases, we would suggest, attitudes may have fallen into line with experience or have been shaped to support a stance of realistic fatalism. Since we naturally prefer to encounter stoical heroism, we may find the attitudes repugnant, but we do not do well to regard them as the basic problem. By offering practical support, such as an introduction to a job opening, we can demonstrate that the unemployed person's behaviour can change rapidly, and then attitudes are likely to fall into line. Similarly, to revert to an earlier topic of this chapter, we may easily be misled by what unemployed people say about their wage expectations into thinking that a substantial proportion of them are inflexible and unrealistic. Again it is the offer of an actual job which exposes how circumstantial these expectations are, and how flexible unemployed people are prepared to be if given an actual chance.

Just as unemployed 'drop-outs' are castigated for their attitudes, so too at times employers have been criticized for the 'stereotypes' which they apply in recruitment procedures, or for their biased attitudes towards unemployed people and others with disadvantages. But once again, we should not be deceived into supposing that it is employers' attitudes which determine their behaviour in these respects. They too operate strategies which are, from their own point of view, reasonable and effective within the labour market conditions which confront them. Doubtless they do then say things about unemployed people, sometimes rather offensive things, to lend force to the position which they have adopted. Still, the way to change their policies and practices is not by changing their attitudes (which suggests working upon them through exhortation or persuasion), but by making it cheaper for them to get reliable information about unemployed job applicants.

At the same time, we should not wonder at employers' policies, or their attitudes, towards unemployed people, when the framework of labour market and social security institutions is designed to set unemployed people apart and mark them out as a group to be given inferior treatment. The system sends out negative signals about unemployed people at every turn, an unintentional but nevertheless powerful propaganda to which it is inevitable that employers, and citizens generally – even unemployed people themselves – will respond. Even the large-scale schemes designed to give substantial help to unemployed people serve to distinguish them further and to tag a proportion of them as multiple failures.

The final part of our explanation of unemployment is, therefore, unemployment itself. Whatever the reasons which lead to an increase in unemployment, whether at the level of the economy, the locality, or the occupation, the individuals displaced are then obstructed from returning to work not only by the external conditions but also by the very fact of being unemployed. The longer that they have been out of work, the greater the disadvantage, independent of other characteristics. Whether themselves disadvantaged or not, they find that unemployment has been set up as a system to disadvantage them. And when they finally become discouraged or despairing of finding a job, there are ready-made categories with which to write them off. The cure of unemployment must, finally, include the disappearance of unemployment as a labour market category (not so far-fetched when one considers that it has existed, as such, for less than a century). And the treatment of unemployment, meanwhile, must be of an invisible type which draws no unfavourable attention to those who receive help.

8 Towards the Active Society

In a review of employment prospects by the OECD in 1989¹, a vision of the evolution of advanced economies in the 1990s was briefly sketched. The phrase which sums up this vision is ‘the active society’: a society in which there is wide economic participation, in ever more flexible forms and by an ever widening range of people. Although the authors do not go into detail, this could mean, among other things, more opportunities for participation by women at all stages of their lives, more choice for older people to remain at work if they choose to do so, more scope for self-employment and small business, greater variety of hours worked and of annual and lifetime patterns of working, more chances to split and share jobs, more opportunities to combine jobs, or to combine employment with self-employment – and so on. It could also mean, given a supportive framework of social policies, more opportunities for the unqualified, the disabled, the homebound, for ethnic minority groups and for migrant workers. And it could mean greater encouragement for work done in the home and the voluntary sector.

Such an aim expresses the notion of ‘labour market flexibility’ in a highly positive way, and has a powerful appeal for an era of expanding economic horizons, the decade of the Single European Market, and, hopefully, of East Europe’s liberalization. And yet, as the authors of the OECD report make clear, it is not the same as the old aim of full employment. There is no necessary incompatibility between the development of much more varied, flexible and widely spreading patterns of employment, and the continuation of unemployment as it is customarily measured. Hard-core groups of unemployed people could be by-passed by such developments and opportunities, which could be grasped instead by already more privileged groups and by newcomers. Social aspects of policy are critical if flexible opportunities are to reach unemployed groups. In addition, some sections of opinion, including many trade unionists, fear that labour market flexibility merely means a surrender of hard-won standards and a descent into banana-republic working conditions.

Despite these reasonable fears, freer and more flexible labour markets *could* contribute to the eradication of unemployment as well as to the creation of more participative and productive societies. In this chapter, we first of all show how. We then go on to discuss the role of regulation and, unlike many self-styled ‘free marketeers’, conclude that regulatory development and enforcement play an essential role in the construction of genuinely free and effective labour markets.

This is the first of three chapters on the policy options against unemployment. It might have been expected that we would begin with a consideration of national wage policies, or of policies against wage rigidity, which was placed at the front of our explanation of unemployment (see Chapter 5). In the British context, national wage policies are generally taken to mean incomes policies. We have no doctrinal opposition to incomes policies, provided that they command democratic consent. Such consent, in any case, seems in practice an essential prerequisite for the success of incomes policies, as in the Scandinavian countries. In general, democratic consent to incomes policies in Britain has been given reluctantly and for short periods. The deep-rooted reasons for this reluctance to engage in a long-term enterprise of national social consensus have been outlined in Chapter 5. Accordingly, we have little optimism about the practical prospects for incomes policies, and in any case they have been advocated in numerous other publications². Nor can we see much point in exhorting either employers or trade unions to behave differently, when their current behaviour makes sense to themselves and furthers their legitimate interests. We can neither support curbs on employers, nor interference with the rights of unions, which are sanctioned by widespread democratic support, and essential for the operation of a free and equitable labour market. Our policy offerings, therefore, do not include any *direct* attack on wage rigidity through incomes policies.

Still, there is more than one way to skin a cat. Wage rigidity as we have described it reflects a sclerotic society³. If we can grow, develop and loosen up that society, then we can change the conditions which breed wage rigidity. This is the simple thought which lies behind much of the next three chapters.

What makes markets flexible?

Our interest in flexibility is entirely practical, as a means to an end, rather than as an expression of some idealistic notion of market freedom. We equate flexibility with the removal of barriers to movement between one type of labour market position and another (for example, from being employed to self-employed, or from being unemployed to being part-time employed); and, more positively, with the creation of reserves of adaptability. The barriers which we have in mind, in practice reduce the sum of useful activity by deterring people from making contributions which they would otherwise want to make.

The criterion for success in policies designed to increase flexibility should be based upon labour force participation, but with the constraint that increased participation should not result in a reduction of the output of goods and services. We do not want to move towards an economy of underemployment and poverty, so characteristic of less-developed countries; that is, an economy where most people are working, but very unproductively and for little return. We would clearly want to preserve and if possible increase the trend of national productivity, while increasing rates of participation. Historically, a vigorously growing labour supply has generally been connected with increased output and productivity in the economy⁴. At a more long-term and strategic level, it is important to develop a labour force which embodies a wide experience of different forms of economic activity, so that there is the greatest capacity to respond to future needs.

All this may sound abstract, but should become more clear as particular examples are discussed. Three such examples, where opportunities for employment expansion are great but barriers are substantial, provide our agenda: part-time employment, self-employment (and small business), and employment in the social sector of the economy. These examples are not, of course, presumed to be all that is worth doing. There are many other ways in which more labour market opportunities could be created, and some of these were listed in the opening of the chapter.

Part-time employment

Nothing so fully illustrates the variety of issues concerning labour market flexibility as does part-time employment. In some respects, the growth of part-time working has been the success story of the British labour market, and yet the further development of this form of participation is beset with obstacles and surrounded with doubts.

Part-time working has been a form of employment special to women. In the UK, one third of all working women, but only three per cent of working men, have part-time hours⁵. The 1960s were the great period of expansion for part-time work in the UK, just as they were the period of expansion in female participation. In the middle of the 1980s, part-time working again expanded substantially in Britain, but did not play a large part in the jobs boom of 1988 and 1989⁶.

There have been many critics of part-time working, including trade unionists and feminists. Many part-time workers are unprotected within employment law, either because they have insufficient length of service in their jobs, or because they work fewer hours than the threshold to which the law applies. In principle, employers can regard them as a 'dispensable' group. This has led to the widespread view that part-time employment is also precarious employment. Part-time workers' average gross hourly earnings are lower than those of similar female workers in full-time jobs; and they have less likelihood of being in

pension schemes or of enjoying other types of fringe benefits. Many employers in the past have expressed the view that part-time workers have relatively low productivity, to some extent giving the impression that this form of work was regarded as a necessary evil. Finally, from a feminist perspective, part-time working is one of the main ways in which female jobs are segregated from male jobs; it represents a gender-based division within society and in turn helps to perpetuate wider distinctions of gender, especially those of household responsibilities. The reservations concerning part-time working are, therefore, many and varied.

There is little doubt, however, that those employers continuing to use substantial numbers of part-time workers have become convinced of the effectiveness and productivity of this form of working⁷. Indeed, there are sound reasons for believing that people who work short hours produce more per hour, other things being equal⁸. More crucially, the use of part-time workers has formed an essential part of the provision of extended opening hours, and in matching labour to patterns of customer demand, in a range of the growing service sector industries. Part-time 'modules'⁹ can be used as the building-blocks to match staffing to the times and days when customers want service, without making it necessary for the employer to carry under-employed labour for the rest of the time. Without part-time workers, the provision of more services to the public would have been uneconomical. Part-time jobs have, not surprisingly, been associated with faster-growing services, as Table 8.1 shows¹⁰. This means that they are also, potentially, a source of new employment for unemployed people, although how this works in practice we have to consider later.

Table 8.1 Part-time employment and industry growth in selected European countries

<i>Industry group</i>	<i>Part-time workers in total employment – per cent</i>			
	<i>UK</i>	<i>France</i>	<i>Germany</i>	<i>Netherlands</i>
	<i>Women</i>			
Growing	39	19	26	38
Middle	32	17	25	38
Declining	23	12	26	33
	<i>Men</i>			
Growing	3.2	3.8	2.5	8.5
Middle	3.0	2.9	2.1	7.1
Declining	1.5	1.2	2.3	2.7

Source: OECD, Employment Outlook 1989, Table 5.6 (adapted)

Note: Part-time workers exclude those self-employed or employed on a temporary basis.

Part-time working has also expanded in response to what many women want, especially in the years of child rearing, as well as in response to employers' needs. In PSI's 1980 survey of mothers¹¹ it was found that a better chance of a job with part-time hours was at the top of the list of what women were looking for. Surveys across a number of European countries¹² also showed that there were far more full-time workers wanting jobs with shorter hours (at correspondingly less pay) than part-time workers seeking full-time jobs. Similarly, sophisticated investigations in the USA showed that the opportunity to move towards shorter hours (at less pay) was the most widely preferred option¹³.

The critics of part-time working may reply, at this point, that women turn in this direction, during their child rearing years, because that seems the only option available to them, other than remaining out of the labour market. Because they are captives to the household division of labour, they also accept as inevitable an inferior type of employment with undesirable conditions. However, recent research has clarified the relative characteristics of female full-time and part-time employment¹⁴. This research shows that in many respects, part-time employment is more favourable to women (or less unfavourable) than has been assumed. At the same time, the research throws into sharper relief the special disadvantages of part-time workers, which can also be seen as obstacles to further development. On the positive side, part-time workers, contrary to widespread assumptions, do not regard their employment as precarious; they are particularly satisfied with the degree of security in their jobs, and indeed the firms employing large proportions of part-time workers rarely resort to cuts in the workforce, perhaps because of the inherent flexibility of this form of organization. Furthermore, although part-time workers receive lower gross hourly earnings than full-time workers, they also pay lower rates of taxation and welfare contributions; as a result, their net or take-home earnings, on an hourly basis, are at least as good as those of female full-time workers. Moreover, part-time employees are less closely supervised and have more freedom to do the job their own way than do full-time employees.

On the negative side, the central deficiency of part-time workers' jobs is the lack of training and the absence of opportunities for promotion¹⁵. Relative to their qualifications and previous experience, part-time employees tend to be employed in jobs which are below their capabilities, and yet have few prospects of making progress. They are aware of this disadvantage and it is not to their liking. In this respect, then, part-time working has been not only unsatisfactory for women but a substantial source of wasted skills for the economy. A further disadvantage is that part-time employees working fewer than 16 hours are, in law, far less protected against unfair dismissal¹⁶. It seems likely that the lower level of protection for part-time workers in UK employment law contributes to the image of second-rate jobs.

It is becoming increasingly likely that these weaknesses of part-time working, as currently practised in Britain, may jeopardize its future. As already noted, the prominence of part-time working in the 1988 and 1989 jobs boom was distinctly muted. PSI's 1989 survey on recent mothers suggests that this change may reflect new priorities and choices on the part of women¹⁷. Compared with 1980, the 1989 survey revealed a marked reduction in the proportion of women moving into lower-level, part-time jobs after the birth; they had become much more likely to remain in their previous occupations especially where this was a higher-level one; hence they were also much more likely to remain in full-time work. Because so much of part-time work has traditionally been supplied by women in the child-rearing years, this change of behaviour among recent mothers is likely to have momentous effects on the labour market, if it continues.

This is not to say that many women with young children would not still like part-time jobs. But they are less likely to accept them at the price of giving up their prospects and working below their capabilities. Behind this change in attitudes lie rapid advances in the educational attainments of females, both at school and at the tertiary stage, and the consequently higher occupational levels which they attain¹⁸. The further expansion of economic participation through part-time working may therefore become increasingly constrained because the policies of British employers, and the provisions of employment law, have not been keeping pace with social developments.

It needs to be stressed that these demand-side constraints are of two kinds. One is the lack of training, development and promotion associated with most existing part-time jobs. The other is the lack of part-time opportunities among those jobs which offer training, development and promotion. Of course, the line of division is not absolutely rigid. There are large-scale employers of part-time workers, such as some retail multiple chains, which offer systematic training to all employees. There are also some occupations, such as teaching, where part-time employees can continue to enjoy opportunities for professional development. Even in these cases, however, promotion opportunities may be adversely affected. Moreover, men who might wish to work part-time have few opportunities to do so since part-time opportunities are concentrated in jobs almost wholly occupied by women.

A group which is particularly affected by this barrier is older men. In principle, part-time hours would be of benefit to many men aged, say, 55 to 75 (as well as to women in the same age group). For example, for a man in his late 50s made redundant with a modest occupational pension, a part-time job might provide enough additional income to make life reasonably comfortable. If the work was simple and required little training, an employer should not be deterred by age from taking on such a worker. In practice, however, this still happens surprisingly seldom. Similarly, consider a worker in the later years of work who is becoming adversely affected by ill-health. Working half-time might be a good solution for

both the employer, who would retain an experienced worker, and for the individual, who would avoid almost certain long-term unemployment. This solution might be adopted more frequently, if some support from the State (surely less costly than benefits for an additional long-term unemployed person) were available to both individual and employer, to smooth out the transition. However, no such flexibility exists.

Other constraints on part-time working are imposed by the British system of benefits. In essence, the system is wholly oriented towards full-time employment, and systematically penalizes unemployed people who would be willing to take part-time work. An unemployed person may lose the whole of his or her benefit entitlement through part-time working, by running foul of the rules concerning availability for work. Where part-time working is allowed, financial penalties arise, particularly for those on income support, because only small sums of money can be earned before benefit is withdrawn on a pound-for-pound basis.

This applies not only to the unemployed individual's activity, but also to any part-time working by a spouse, because it is the family unit which is the basis for assessment of income support. There is little incentive for a wife to take a part-time job, to help out when her husband is on income support, because of this aspect of the system. Similar barriers limit the usefulness of government incentives to take low-paid work. Family Credit is only available for jobs of at least 24 hours per week (although a great improvement is to be made in 1992, by reducing this to 16 hours). Moreover, since the assessment unit is again the family, there is no financial advantage in both members of a couple working. A part-time working wife's contribution will be cancelled by corresponding reductions in benefit. Family Credit pushes families back towards the traditional pattern of a single breadwinner with a full-time job.

Part-time working can or could be particularly helpful to working people in making transitions in the job market. A person working part-time will generally be better connected to networks of information about job openings than one who is out of work. A prospective employer is likely to take a more favourable view of someone with a current part-time job than an unemployed person. Someone who has been ill or otherwise out of work for a considerable period may well find that part-time working provides a sensible way of easing back into employment. The benefit system should work to support sensible transitions such as these. Instead it forces people to jump from unemployment to full-time employment at one try – or to remain where they are. A well-designed system of motivation provides people with opportunities to progress by modest, achievable steps, each of which is positively rewarded so as to encourage further effort. The benefit system has blocked off some of the most readily available opportunities or penalized those people who have taken them.

Policies to encourage part-time employment

The growth of part-time working has provided one of the main new sources of flexibility in the labour market in the post-war period. Yet it has developed with institutionalized constraints which are now making it one of the main barriers to further flexibility. Unless the constraints can be overcome, both among employers and within the system of benefits, part-time working seems unlikely to make such a strong contribution to labour market flexibility and economic participation as it has in the past decades. At the top end, women are being drawn away from part-time working by pursuit of better careers and by greater awareness of the narrow limits of part-time occupations. The potential supply at the bottom end, from unemployment, is partially blocked off by the benefit system.

There are two corresponding changes needed to ensure that part-time employment is developed to the full in the future. One is that employers integrate part-time jobs into their internal career structures, and expand part-time opportunities among administrative, professional, technical and higher level jobs. The other change required is that the benefit system should be adapted to encourage part-time working, at least as a transitional form of employment, rather than obstructing it.

The reform of benefit systems to support labour market flexibility is the main theme of Chapter 10, so it will not be pursued here. Instead, we will focus upon public policies which would support the full integration of part-time employees within structures of opportunity.

The equalization of employment protection as between part-time and full-time workers is a step which would involve little or no economic costs, but would have considerable impact in terms of labour market signals. The absence of economic effects can be inferred from the evidence which was presented in the preceding section: namely, that part-time workers already, in practice, enjoy higher levels of job security than do full-time workers. The flexibility which they provide is not of the numerical sort, but of the operational sort. The signals from a change of legal status for part-time workers would have beneficial effects both on the side of supply and of demand. Any adverse image that part-time work now has, especially in the eyes of women attaching importance to long-term job prospects, would be weakened, and this should have a positive effect on supply. Some employers of part-time workers might initially feel threatened by such a development, but this would be a short-term reaction and one unlikely to have any significance for practice. This claim rests on previous experience with legislative change. Research conducted by PSI, both into the implications of the Employment Protection legislation in general, and more particularly into changes into maternity entitlements, have shown that these were absorbed by employers without adverse consequences¹⁹. Moreover, the participation of recent mothers

in the labour force has increased dramatically subsequent to the legislative changes giving them greater protections and other favourable treatment²⁰.

Signalling an end to the 'second class worker' legal status of part-time workers should in the longer run encourage employers to think seriously about their place within training and career policies. This, according to our analysis, is the crucial issue. It has to be recognized that training costs are a serious problem for employers with many part-time recruits, and little progress will be made with career development for part-time workers unless there are solutions to this problem. In some cases, however, a solution would exist if employers recognized the need for part-time working as a stage within careers. Employees would then, typically, be trained in the initial stage of their careers with the employer, and the employer would be able to recover the costs of training during this stage. Part-time working would be available as an option when required (most commonly, during the child-rearing years); by retaining existing, trained employees, part-time jobs could be provided without incurring additional training costs. Similarly, the provision of further training, or re-training, during part-time employment would be more cost-effective if employers could improve the retention of part-time workers and if they had flexible arrangements for moving them from part-time to full-time hours. These considerations suggest that part-time hours could be provided more widely in occupations which currently offer few such opportunities. The lead here has to be taken by employers themselves, rather than government. But central government, as major employers, could do more to provide a lead by its own example. Trade unions could also do more to promote and to bargain for career flexibility of this kind, which would be highly consistent with the long-standing union campaign for a greater degree of 'work sharing'²¹.

Existing part-time employment poses different problems in relation to training and development. It is highly concentrated in service industries and in labour-intensive, low-wage jobs, such as in retailing and in catering. Labour turnover in these industries is often high. Better training for part-time workers would help to integrate them into the wider labour force and so contribute to labour market flexibility. The availability of training would, also, often be important in order to open up entry for groups at present largely excluded, such as older male workers. But a background of low value-added and high labour turnover makes the cost structure most unfavourable for training. This is a problem unlikely to be solved without support from public policy.

A first step would be to recognize part-time work as a priority area by the National Training Task Force, which oversees the development of policy within the newly established Training and Enterprise Councils (TECs). It is the responsibility of TECs to stipulate the delivery of appropriate training to local communities. Giving a high priority to training for part-time work would be important both in equalizing training provision between men and women, and in

facilitating movement out of unemployment into the main growing, low-wage sectors of the economy. Further, more training investment would be expected to raise productivity and wages in these sectors, hence contributing to their competitiveness in the long run.

A general approach to training provision for low-skilled workers will be outlined in Chapter 9, and much of that is as applicable to part-time workers as to full-time workers. It involves a degree of State financial support, but we would argue that this would be compensated by reduced expenditure on unemployment benefits and income support. Training linked to part-time employment could also, in many cases, be provided at lower cost than the current Employment Training programme for long-term unemployed people, which has a norm of six months' training. For example, relatively short training courses could be provided to refresh basic job skills, build confidence, and provide basic knowledge and familiarization with the type of work which the person will be entering²². Financial support for this type of training on the part of the State would be linked to a commitment, on the part of the employers involved in such a scheme, to recruit the workers who completed the course. Hence training and recruitment costs would be reduced for employers, while the provision should also be highly cost-effective for the State relative to present expenditure, because of the high rate of transfer from courses to jobs. Of course, as explained further in Chapter 9, such schemes need not be confined to part-time jobs, but they could be particularly attractive in overcoming the training barriers which exist in that area.

Self-employment

Equal with part-time employment as a source of new flexibility in the labour market, is self-employment. It is not too unfair to say that, until the advent of the Thatcher government, self-employment was treated as an anachronism by both policy makers and labour market analysts. Britain, at the start of the 1980s, had the lowest self-employment rate of any of the OECD nations. Moreover, self-employment has been, and remains, relatively much lower in many of the industrial centres of Britain which were most severely affected by recession in the 1980s²³.

Nevertheless, self-employment, along with part-time employment, provided the main source of employment growth between 1980-87, and it continued to be important in 1988 and 1989. During the decade, self-employment's share of all employment rose from around 8 per cent to nearly 14 per cent, a truly remarkable rate of increase. It might be thought, accordingly, that no further policy initiatives were needed in this area. However, there is in fact scope for these gains to be consolidated, protected, and extended. The potential value of self-employment for the flexibility of an economy demonstrates why this should be a priority for policy.

Self-employment and family businesses can act as both a shock absorber and a labour reservoir for the sector of waged employment. For example, it has long been known that young people from farms tend to go to the towns to take waged jobs when these are plentiful, but when such employment contracts newcomers will be deterred from leaving home, and some who have already left, finding themselves without jobs, return and are re-absorbed into the farm economy. Similar processes are likely to exist in other sorts of family business. Of course, this retention of labour on the farm, or other family business, may amount to underemployment and reduced productivity; in other words, the extra person may not be needed. But although far from ideal, this reaction to economic adversity can hardly be as bad as the existing system of unemployment. There is almost certainly some gain to the output of the family business, even if not proportionate; the individual keeps up skills, work habits, and a work record to impress future employers; and the state is saved payment of benefits, which it can use in other ways.

One of the resources produced by self-employment is experience in running a small business. This is a generic skill, that is, it is transferable to a considerable degree from one line of business to another. Moreover, it is a skill difficult to acquire in any other way. A common characteristic of successful entrepreneurs is that they have previously worked as employees in small businesses²⁴. Localities dominated by heavy industry, and hence with few small businesses, find it hard to develop a thriving sector of self-employment and small business²⁵. Successful self-employed people will tend to take on family helpers and waged workers, and these in turn will have a chance to pick up some skills of running a business. So a thriving sector of self-employment recruits into itself and sustains itself, and is the foundation of employment growth through small business development.

The neglect, not to say distaste, with which self-employment and small business have been treated, reflects real though perhaps exaggerated problems. Wages in small business are on average (in Britain) lower than in larger enterprises, and self-employed people themselves on average make only a modest living²⁶. Tax fraud and false claiming of benefit are possibly heavily concentrated among self-employed people²⁷, although this is not to say that self-employed people are generally dishonest. Poor working conditions, breaches of employment law, non-payment of redundancy, and other similar problems, are all associated with small size of business. The great majority of small businesses 'fold' within a few years of being established²⁸, and this may involve some non-payment of wages and creditors, some losses for customers who do not have orders or contracts completed, and some stress and hardship for the self-employed people, their families and their employees if any.

Yet there is also a positive human side to self-employment and small business, apart from its more abstract importance in the generation of economic change and

growth. The desire for self-employment, the dream of being 'my own boss'²⁹, has been deeply rooted in British working class ideas, as well as in the professional world of the accountant or solicitor. The proprietors of businesses which fail generally try to get back into business at the first opportunity. Relationships among the people who work in small businesses tend to be less impersonal, and although conditions may not be of the best, this may be partly compensated by a greater sense of personal involvement.

From the admittedly narrow viewpoint of economic growth, the failure rate of small businesses, and all the cost associated with that, is outweighed by the impact made by those small businesses which develop into successful larger concerns. The greater proportion of all the growth in employment coming from small businesses results from a tiny proportion of 'stars' which grow into really large concerns³⁰. But without the operation of the market, which involves a process of selection by failure, these outstanding successes could not emerge. In addition, many small businesses grow to an intermediate size – say, 20-99 employees – without developing into 'stars'. The contribution of this section of businesses is a very important one, not only in terms of jobs but also in terms of competitiveness and innovation³¹.

By international standards, levels of self-employment in Britain are still below average, while British industry remains dominated by larger industries, to a quite exceptional extent. There remains, therefore, substantial scope for the small business sector to grow, and if it did grow, this would clearly provide a better climate of incentive for individuals to enter self-employment.

Under the Thatcher governments of the 1980s, some important steps were taken to foster entry into self-employment. Of these, the most significant was probably the Enterprise Allowance Scheme (EAS). This provided a flat-rate cash payment or subsidy, roughly equivalent to an average unemployment benefit payment, for those entering self-employment from unemployment. Participants in EAS have been provided with training opportunities, and allowed up to a year before they have to stand entirely on their own feet. By 1990, more than 500,000 individuals had passed through this programme and obtained experience of self-employment, with the majority remaining in business in the longer term³². Like so many labour market measures, however, the scheme's potential has been limited by its 'benefits orientation', being conceived as an alternative to unemployment benefit rather than as an incentive to flexible labour market transitions. Hence the programme has been open only to those already registered as unemployed.

Instead of promoting self-employment primarily as an alternative to unemployment, it would be better to foster self-employment in its own right. An EAS programme directed towards people who already have jobs, encouraging them

to launch into business, would surely give a far stronger boost to self-employment. Such an enlargement of EAS should be virtually free of cost for the economy, since for each additional person entering EAS, an additional job vacancy would be created to take someone out of unemployment, either directly or indirectly. It would also be possible to enlarge EAS by making it directly accessible to women thinking of returning to the labour market, and to people who have retired early; although these extensions probably would have cost implications for the Exchequer.

What is needed, also, is not only direct encouragement to self-employment, but policies which foster a larger number of successful small businesses. A strong small business sector, economically valuable in its own right, will also serve to pull people through into self-employment (rather than relying on them being pushed through from unemployment). As in the case of self-employment, it is only fair to acknowledge that there have been substantial and useful programmes of assistance over the years; the argument has to be that still more are needed, and particularly programmes which go more to the root of problems.

Small businesses which have passed the initial test of survival are the best hope for employment growth, and the best training ground for future entrepreneurs. The chief problems facing these businesses are finance for expansion, and customer relations. The British banking and industrial finance system is extremely unfavourable to small businesses, and especially to small businesses located away from the London area. In case studies of small engineering firms, the majority reported painful and damaging experiences in their relations with local banks, experiences which had resulted in some cases in bankruptcy or in loss of major business opportunities³³. Accordingly, these businessmen had ceased to use bank finance, and instead relied almost entirely on retained profits as a source of growth. Other methods of raising finance which are available to larger organizations are either foreclosed to small firms (as in the case of Eurobond transactions) or difficult to get access to in practice (as in the case of venture capital)³⁴. Finally, the many small business loan schemes provided by the government over the years, although used to good advantage by a minority of small firms, have in practice again favoured the prosperous South over other parts of the country³⁵, and provided less stimulus to the development of small business where it is most needed.

Numerous suggestions have been made for incentives or support to small business, and we need only refer briefly to the most persuasive. Sainsbury and Smallwood³⁶ argue forcefully for the introduction of Industrial Development Bonds, a scheme of financing widely and, apparently, successfully practised in the USA. The Congressional Budget Office claimed that Industrial Development Bonds contributed an increase to American GNP of 4.75 per cent during 1980-85, a massive achievement. The basic principle of these bonds is that they

permit investment in smaller companies (which have first to acquire an approved status) at favourable tax rates. The American scheme allows income on the bonds to be totally free of tax. Because of this advantage, the businesses concerned can offer a lower gross rate of interest and obtain their financing relatively cheaply. In addition, the bonds are at fixed interest rates, so that the firms are protected from fluctuations. The cost to the Exchequer would, of course, be the loss of tax revenue, but this is minuscule by comparison with the enormous impetus to economic growth reported from the USA.

The other idea which deserves attention is of providing more substantial loan finance from government, but on a more selective basis. David Storey, a specialist in small business research³⁷, has stressed that because the positive contribution of small business to the economy is located in a minority of firms, support should be targeted on those for which there is some presumption of success. In manufacturing, at least, there appears to be a simple criterion which would greatly aid a more selective approach. Those firms which have introduced a new product appear to be more than twice as likely as others to achieve high rates of growth³⁸. Hence, by focusing evaluation of loan applications upon the record of product innovation, government loan schemes could be made much more efficient. This in turn would permit them to be offered on a larger scale and on better terms to the successful applicants. Finally, clear targeting upon the product development record would obviously act as an incentive to innovation, another desirable attribute of industrial policy.

The position of small business cannot be considered independently of the position for big business. Where large business consistently squeezes the profit margins of small suppliers, scope for development and growth is limited. Where large business follows a more enlightened line, small suppliers can contribute to new ideas, and have resources for development left over. This is how things appear to be done in Japan and, to a certain extent, in Germany, but much less so in Britain³⁹. Of course, government cannot interfere in free contractual relations in the market-place, except possibly in an educational role. But an equitable and efficient industrial policy must take into account the power of large corporations to constrain small firms, and if necessary take remedial action to give small business more scope.

It has to be said (although we need not linger too long over it, because the story is so well known) that industrial policy has, over many decades, been heavily slanted in support of large corporations. From the early years of the century to the late 1950s, there was barely a pretence of withstanding the shameful spread of price-rings and cartels. The various forms of 'lame duck' rescue policy have, invariably, applied solely to large afflicted ducks, never to ducklings. Even now, government contributes huge sums to large firms through defence procurement and subsidies to research cooperation: the Alvey programme alone took

£200 million, most of which went to large corporations⁴⁰. European Commission support for R & D and technology cooperation, similarly, is primarily concerned with the large corporate sector; small firms, in any case, would not be able to afford the costs of finding their way through the bureaucratic labyrinth. The whole tenor of the Single European Market development, with its emphasis upon rationalization and economies of scale, and the massive impetus it has given to still bigger corporate mergers, seems ominous for the future of the small-firm sector⁴¹. It could, of course, be argued that small suppliers to large firms will thrive under their umbrella, but as we have already noted, the tradition in Britain at least has not been favourable to such a symbiotic relationship.

Such points help to show why an active policy to help small business is necessary and equitable. An Industrial Investment Bond scheme, for instance, can be seen as merely helping to cancel the disadvantage which small firms have in gaining access to capital markets, especially on fixed interest terms. It can be argued that stronger incentives and advantages would be justified in order to create a really attractive world of small business.

Here the example of Italy is instructive. A long established, and steadily extended, tradition of supporting small businesses has led to a situation where they are systematically favoured in a wide range of state and local taxation. For example, small firms have priority for state investment funds; value added taxes are lower for small firms; and they are exempt from most labour taxes, which are taken over by the state⁴². In addition, some traditional small firm sectors have considerable powers, through communes, to block the entry of large competitors into the locality (an advantage also enjoyed by small retailers in Japan). There are rather few supermarkets in Italy.

If this amounted to a 'featherbedding' policy, then one would expect that the small business sector in Italy, the largest among the fully industrialized nations of Europe, would have become inefficient and uncompetitive. However, that has not been the case. For example, the Italian clothing industry, which is very largely composed of small firms, has been the only national clothing industry in Europe capable of both withstanding and repulsing competition from less-developed countries⁴³. Italy has become the largest clothing producer in Europe and the dominant exporter of clothing. Furthermore, this has not been achieved through low wages and cost-cutting. Wages in the clothing industry in Italy are the highest in Europe, quality standards are high, and Italian clothing is at the forefront of 'mass fashion'. Investment in new technology, innovation in products and systems of manufacture and distribution, and attraction of highly qualified and talented individuals into the industry, have been among the elements of success. Other industries of small producers have achieved successes of a similar type, if not on quite the same scale. These successes have included high

levels of productivity, high wage rates, and opportunities for workers to achieve greater autonomy and self-realization⁴⁴. To the question earlier posed, whether the advantages of small business could be attained without the drawbacks, the most positive answer would be 'Look at Italy'.

A possible conclusion is that supporting small business and self-employment, and systematically giving it tax breaks and advantages, is *not* a form of featherbedding and protection. Rather, it corrects the systematic disadvantages which small firms face through essentially unfair (non-economic) competition from large firms. To provide such support does not weaken the competitiveness of markets, but extends it by, to some extent, equalizing the positions of smaller and larger enterprises, and encouraging the smaller ones to play a fuller part in the economy.

Small businesses in Britain enjoy a preferential rate of corporation tax, which is currently set at 25 per cent, the same as the basic rate of personal taxation. The self-employed individual with turnover below £40,000 benefits considerably from not being included in the system of Value Added Tax (VAT). The VAT threshold has been progressively raised in recent years, and it would be beneficial to self-employment if this were to continue. It might be argued that this was enough. But more help could be provided on the side of small business costs. The two major costs, for most small business proprietors, are the costs of premises and the costs of labour. Government adds to these costs through local taxation (Rates) and payroll taxes (employers' contributions to National Insurance). The recent introduction of the national Uniform Business Rate, in a way which has done nothing to increase the confidence of small traders, seems to block one avenue of assistance. There remains a strong argument for favourable treatment of *very* small employers in their contributions to National Insurance, with the State making up the difference. This would have the particular advantage of lowering the barriers or increasing the incentives when a self-employed individual is thinking of taking on the first employee, a crucial step in small business development. As has been emphasized at several points of this discussion, bringing people into small businesses as employees is probably the best form of training for future small business proprietors.

Self-employment and small business is the area of the labour market which has benefited most from government encouragement over the past decade. The remarkable growth in this area has shown what can be achieved in the labour market by a favourable climate of national policy. Our recommendation is, essentially, for this trend to be continued.

Social employment

In part-time working and self-employment, we have considered the two largest sections of employment growth of the 1980s. If one looked back to the 1970s, however, one would find that the chief area of employment growth was in

publicly provided services, such as education, health, and social services. It was only in the past decade that growth in employment in public services has slowed (although still not halted). Yet employment in this 'social sector' potentially offers one of the most flexible resources for employment policy, under direct control of public policy and capable of being adjusted counter-cyclically, so as to absorb a temporary surplus of labour during a down-turn in the economy, and to release labour into the private sector when the economy is becoming overheated.

To see such a policy in operation, one has only to look to Sweden. There, rapid adjustment of employment in the social sector has been one of the main instruments of policy by which unemployment has been checked. Much of the newly created public employment has been of a temporary nature, which underlines the flexibility involved.

The major problem of continuing to expand employment in the social sector, or of adjusting it in a flexible way, so far as Britain is concerned, lies in wage bargaining. Sweden has been able to expand employment in public services, when necessary, because this has not led to excessively rapid increases in public sector pay. In Britain, on the other hand, any indication of increased funding in the public sector has been the signal for increased wage pressure. Public sector employment growth, therefore, is one of the inevitable victims of wage rigidity.

For the purposes of the present chapter, the general issue of public sector pay and productivity is left to one side; we make the assumption that it will not easily yield to change. The question which we consider, therefore, is not employment in the public services as a whole. Instead, we ask whether it would be possible to create a flexible margin of employment on the edge of the public sector, serving socially useful purposes, and capable of being expanded or contracted depending on the condition of the wider labour market.

Such an idea has an extremely long history, and has led to numerous experimental schemes, most of which have been dismal failures⁴⁵. But this does not mean that better schemes could not be developed, with the benefit of experience. Recently, some encouragement for the idea was given by the Community Programme, which ran during much of the 1980s and provided employment, for up to a year, to people who had suffered long-term unemployment. Evaluations of the Community Programme have generally been favourable, showing not only that participants on the whole liked to work on the scheme⁴⁶, but also that it did useful work for the communities concerned⁴⁷. Part of this work was concerned with what we would now call environmental improvement, and that has become such an obviously important and valuable focus for social work, as to give further encouragement to the idea of an extended scheme.

Ultimately, however, the Community Programme itself became boxed in by the issue of wages. It incorporated the rule that all work had to be paid at the prevailing hourly 'going rate' for unskilled labour. Designed on the assumption

that it would mostly be delivered through local government sponsorship, it would otherwise have immediately fallen foul of local government unions. To create a large number of places, with limited resources, at standard rates for labour, pushed most schemes into offering only part-time employment under the Community Programme, and this in turn meant that it was financially attractive only to single people. The Community Programme was also widely criticized for its failure to provide training. In retrospect, the loss of the Community Programme appears tragic. The question to be asked is whether a new, improved, and possibly enlarged, scheme could be, or should be, developed.

For such a scheme to contribute to labour market flexibility, it should have several attributes or features. In the first place, the work to be carried out by such a scheme should be real work with a social value, and not a device for pretending that unemployed people are working. This means that the scheme will adjust the real demand for labour by seeking workers, not the supply of labour by withdrawing them from circulation. The second attribute of the scheme should be that wages are determined in the job market and not by the fiat of government or of trade unions. In other words, wages can find their own level within some kind of competitive process. This will also mean that the individuals who obtain employment in the scheme are subject to normal work disciplines and protections. The third attribute of the scheme is that it should be based on a planned flexibility, that is, capable of being contracted or expanded on the basis of periodic review. The fourth and final attribute is that it should be at least partially targeted on individuals with labour market disadvantages. Each of these attributes needs some further brief comment.

American Workfare⁴⁸ is clearly *not* the model we have in mind. Merely requiring unemployed people to be present in working hours, wearing their working clothes, does not constitute an improvement in the labour market. Indeed, it may actually cement dependence on welfare benefits (by legitimating the position of the recipients), and reduce job search (because individuals have less time to engage in it), while contributing little or nothing to the individuals concerned in terms of work experience and skills. Only if there is real socially valuable work to be done, currently not being done, can the scheme develop on a sound economic and financial base. That is one of the key lessons from the many failures with socially-provided work schemes over the past century.

However, few would doubt that there is a great deal of work to be done. In Nijmegen, in the east of Holland, there is a large and finely landscaped park, within which is a substantial stadium, the base of the city's professional football club. All this was created by unemployed people during the depression of the 1930s; other Dutch towns and cities have similar, if not quite so impressive, memorials of that period. British cities have only photographs of men on street corners to show for their experience of the great depression. This represents a failure of policy which

should not be allowed to occur again. The number of useful projects to contribute to environmental improvement and amenities is only limited by imagination. We are now beginning to understand that the creation of a safe, healthy and pleasing environment will be one of the major long-term tasks facing society. Work in this field is not, therefore, a short-term diversion of resources, but contributes to the long-term build-up of skills and experience required for continued activity.

Moreover, there will be substantial returns to the economy for environmental improvement. Tourism has emerged as an extremely important element of employment and of international trade balances. During the 1980s, Britain's trade balance on tourism slipped from equality to a deficit of about £2 billion per annum. An official report⁴⁹ pointed to the poor condition of the environment and of public services, as well as to low standards in the hotel and catering industries, as contributory factors in this adverse trend. Investment in environmental improvement projects would be an essential part of a plan to restore a positive balance.

In order to ensure that this useful work helps people who would otherwise be unemployed (or have a high risk of being unemployed), the funding of social and environmental projects must be targeted. A mistake is being made by those who argue that in order to reduce local unemployment, the simplest path is to increase the funding of local government services. Jobs in local government are widely advertised and draw applicants from wide catchment areas; the long-term security of the jobs is probably one of their main attractions. Hence increased local government service employment will tend to by-pass disadvantaged groups, for example those in inner city areas of deprivation, while possibly creating labour shortages elsewhere which hinder local economic development. The funding of social employment, whether through local government or otherwise, must be targeted directly on the disadvantaged groups, by means such as quota proportions, and contract compliance rules.

The problem of wages, as the recent history of the Community Programme and of Employment Training shows, is a crucial one for the creation of a social sector of employment. If government attempts to control wages directly in such a scheme, it runs a double risk. It may alienate unions, and hence all those organizations which work in close alliance with unions (this includes much of local government and many large private sector employers). And it may simply get the sums wrong, so that the scheme does not attract enough people to work in it. On the other hand, it is important for wages not to become tied to some external, and already rigid, norm, such as rates in local government. This will be simply to surrender all hope of flexibility at the outset. To avoid these traps, the only sensible path is not to specify wages at all, but to create a situation in which wages can be determined by competition. This could be achieved, we suggest, by specifying project funding but opening all projects to competitive tendering. It would be up to the organizations making the bids to judge at what wage levels

they would be able to attract workers. In doing so, they would of course have to take into account the categories of workers, generally from groups suffering labour market disadvantage, specified by the contract conditions.

The contracts would be let periodically, within an annually reviewed rolling programme. As economic circumstances changed, both nationally and locally, so the details of funding and contracts could be adjusted to provide the labour market flexibility which is one of the aims of the scheme. The fact that the programme is based on fixed-term contracts is important, both from the viewpoint of individuals employed under the scheme, and from the viewpoint of aggregate flexibility. For the individual, it is of course a drawback that the scheme offers primarily temporary employment, for (say) a year. But the needs of other disadvantaged people, outside the scheme and waiting to get on it, have to be given priority. A formerly unemployed person, who has had a year's experience and wages, cannot still be regarded as in an equally disadvantaged position as when first taken on to the scheme. The project basis of the scheme ensures that new people are continually being offered opportunities for work.

In aggregate terms, a project-based scheme also affords a great deal of flexibility for fine-tuning the labour market. Not only can funding be adjusted, but so too can the criteria for labour quotas, to reflect changing needs. Moreover, the scheme could be directed to selected local labour markets rather than being universal.

However, it is important to realize that this initial flexibility will have an inherent tendency to become ossified and institutionalized. Such schemes, therefore, should not be regarded as permanent, although continuation for at least five years is probably necessary to obtain good returns. Ideally, such a scheme would form part of the transition to conditions of low unemployment. There would be a continuing need for programmes of environmental improvement, but the requirement to link this to unemployment, through labour quotas, should be phased out as soon as possible, or confined to a relatively narrow part of the programme.

Similarly, the scheme should not be so large that it might come to be seen as the reserve employment for anyone without a job. This would undermine the flexibility and blunt the motivational edge of the scheme. It would have to remain small enough to choose its projects and attract its workers.

To summarize, we see a useful role for programmes of socially valuable, non-marketable work to be carried out, for example in the area of environmental improvement, with a specific link to the employment of disadvantaged groups. The programme would be centrally funded by government, but let by competitive contract on the basis of local projects (or packets of projects to make up units of reasonable commercial size). The special feature of the contracts would be that they would stipulate the employment of workers to be recruited from disadvantaged groups, in accordance with minimum proportions or quotas. Employers

would be free to fix wages in the normal way. The periods of employment available to these workers would generally be limited by the duration of the contracts on offer.

Obviously, the funding of the programme would have to be fixed at a reasonable level, to permit the wages on offer to be reasonably attractive to unemployed people and to leave the contractors with a reasonable profit. A possible criticism is that if the work is worth doing, it could be carried out more efficiently and at lower cost by removing the requirement to employ workers from disadvantaged groups. This is very probably true, but does not take account of the costs to the Exchequer of paying benefits to unemployed people, and/or providing them with expensive and possibly ineffectual training outside employment. On a net cost calculation, the work should be much cheaper than if there was no employment effect. Similarly, it would clearly be cheaper to the Exchequer to keep people on unemployment benefits, than to fund programmes on which they will be paid reasonable wages, not to mention incurring the costs of management and materials. However, in the former case, society does not get the benefit of the work. As we stressed at the beginning, the justification of the scheme depends entirely upon this work being of real value.

The role of regulation

In this chapter, we have advocated support for three types of flexibility in the labour market: for part-time working, for self-employment and small business, and for centrally funded but commercially managed programmes of temporary employment, targeted upon disadvantaged groups, to carry out work in the 'social sector'. Development of these types of flexibility will be all the more essential, as efforts to free the labour market of its deeply ingrained wage rigidity cannot be expected to have early success. However, the forms of labour flexibility which we have proposed in this chapter have all been criticized for the precariousness which they introduce into employment relationships and for their association with low wages and poor conditions of work. And this type of criticism could be generalized to other forms of flexibility. An opposition exists between those who propose increased flexibility, on the grounds that it reduces unemployment and increases participation in employment, and those who wish to protect the rights of workers, especially in terms of living wages and of job security.

Yet in Sweden, part-time working is well established at all occupational levels, and is not confined to low-waged jobs. In Italy, self-employment is extremely widespread and wages in the internationally competitive parts of the small business sector are high. More basically, one may question whether regulation through employment law is irreconcilable with flexibility, as many advocates of free-market principles appear to suppose. On the contrary, regulation which provides the right market signals can help to increase labour supply, improve wages

and conditions along with productivity, and yet still retain flexibility. This case has already been argued briefly for part-time working; we now wish to extend and generalize it.

In his classic résumé of economic history⁵⁰, John Hicks particularly stressed the importance of law for the growth of trade. Transactions of all kinds appear uncertain and dangerous unless they are governed by a framework of law which is generally accepted. Trust in the law underpins the relations of trust essential to the making of bargains. Standardization is also essential to the development of industry and commerce. Most obviously, the medium of exchange, money, has to be standardized and supported by a system which guarantees it. But the importance of law and standards goes far beyond that. The confidence of consumers in buying anything from a light bulb to a house depends upon the standards embodied in production, and the laws of sale. The notion of fair and free competition, on which liberal market economics is based, also depends upon universal adherence to laws and standards. Competition cannot be fair if firms in one country ignore health and safety standards while those in another country adhere to them, at some expense. That is why 'social charter' regulation is so important for the development of Europe as a level playing field for competitors⁵¹.

In applying the principle of regulation to labour markets, it is important to remember that supply as well as demand is involved. Surely workers are more likely to come forward to fill part-time jobs, to work in small businesses, or to take temporary jobs of social employment, if they feel that they are protected. Increased supply must also, other things being equal, tend to reduce the wage cost to employers of adding to their labour within the categories concerned. Standardization of conditions, across different categories of workers, leads to fairer and more stable competition, reduces market distortions, and hence should be conducive to growth. The possibly adverse consequences of regulation are, therefore, entirely concentrated in one issue: whether or not they introduce a permanent increase in costs for employers, which makes certain categories of labour less attractive.

The answer to this question does not necessarily go in one direction or another. It is a matter to be decided by fact, and by experience. The presumption of many who oppose the further regulation of the labour market, including areas of flexibility such as part-time working, is that significant costs would be involved for employers. They presume, perhaps, that the economics of part-time labour depend upon exclusion from pensions and other benefits, or the freedom to hire and fire without being concerned about the law on unfair dismissals. However, these assumptions may simply be false. The available evidence, admittedly fragmentary⁵² suggests that the larger employers at least offer benefits to part-time workers on very similar terms to full-time workers. The absence of many part-time workers from, for example, occupational pension schemes, may partly

be a matter of their own choice, and partly a consequence of working in establishments where there is no occupational pension scheme for any category of worker. Again, as we pointed out earlier in this chapter⁵³, part-time work appears to be exceptionally free from feelings of insecurity; apparently, employers offer part-time workers as much or more stability than full-time workers. Hence the costs of providing equality of treatment and contractual protection, would probably have little material impact on the employment of part-time workers, from the employer's viewpoint. On the other hand, it would send out signals to workers which would increase the attractiveness of part-time working.

In general, it seems that the costs of labour regulation tend to be exaggerated or over-estimated. Maternity rights legislation is a case in point. Although predicted to cause a severe set-back to women's employment, it soon became apparent that maternity rights involved minuscule costs and risks for employers⁵⁴. Between 1980 and 1989, maternity rights were much more widely and evenly implemented, and much more fully exploited by women⁵⁵.

It can also be argued, with support of a great deal of historical and comparative evidence, that improvements of the conditions of labour often lead to increases in productivity which far outweigh the apparent initial costs. Reductions in working hours constitute a case in point. Despite endless warnings of economic disaster, shorter working hours have been introduced, in country after country, decade after decade, with productivity increases which cancelled the extra costs⁵⁶. Improvement of working conditions for employees has become such a pivotal policy of one of Britain's greatest companies, Marks & Spencer, that it has insisted on its suppliers adopting similar welfare policies as part of general efficiency.

Turning to self-employment and small business, we do not see the way forward as one of encouraging subsistence-level economic activity. If, as we have argued, small business should be given more favourable treatment in terms of fiscal privileges and access to low-cost capital, proprietors could have little grounds for objecting to a more rigorous application of labour regulations to their own case.

Finally, when we consider the possibility of providing a margin of 'social employment' for disadvantaged groups, it seems apparent that the problem of fair wages can only be solved through market competition. But that process must itself take place within the general framework of labour market regulation. Individuals should not be coerced into taking jobs under such a scheme, because that would bias the wage-setting process as well as violating the international prohibition, to which Britain is a signatory, against forced labour. In addition, there is no reason why under such a scheme employers should not be expected to provide reasonable working conditions and hours, training to cover at least basic health and safety issues, and other basic protections.

Our advocacy of flexibility, therefore, has to be distinguished from that of primitive free-market idealists. We advocate flexibility in the sense of increased opportunities for economic participation in a wide variety of forms, with the inclusion of opportunities specially created for those who would stand least chance in an open competition for places. But widening the margins of the labour force should not mean marginalizing more of the labour force. The playing field should be even, right out to the edges.

We have so far argued that if flexibility is to be extended, then attention also has to be paid to extending the regulatory protections for workers in the most vulnerable positions. In recent years, it has become customary to think, when one makes a remark about vulnerable or precarious workers, about those on 'non-standard' forms of employment contract, such as part-time or temporary workers, or those in the 'secondary sector' of employment. But the analysis which we presented in part of Chapter 6 suggests how limited this view is likely to be. The problem of unemployment is one which affects a wide cross-section of manual workers. If there is precariousness, it applies to manual workers in general, not to those on non-standard contracts. And a significant part of precariousness arises from the basic relations of employment, such as lack of reasonable notice periods and lack of sick pay schemes, which distinguish the bulk of manual workers from the bulk of white-collar workers. Improved conditions of employment, for manual workers as a whole, could contribute significantly to a reduction in unemployment.

Various arguments in equity could be advanced to support the harmonization of employment conditions for manual and white-collar workers. Such a process is already well advanced among the more sophisticated of large companies, especially where the proportion of manual workers in the total workforce is relatively small. But we will confine ourselves to putting the argument solely in terms of unemployment.

It is a simple argument. When an employer 'dumps' a worker on the job market, without giving prior notice, costs are being imposed both on the individual and on the public labour market services and income support systems – which is to say, upon taxpayers. These costs could be avoided or reduced by giving more reasonable notice of termination. By externalizing what would normally be a modest cost (essentially, the costs associated with planning ahead and of communicating with workers and the authorities), the employer is likely to be creating, on average, a much more substantial cost in terms of unemployment. There seems to be a straightforward parallel here with environmental pollution. Legislation should impose minimum notice periods and standards of procedure, and employers failing to meet standards should be liable to penalties on the 'polluter pays' principle.

Our final proposals, therefore, concern the regulation *and especially the enforcement* of severance arrangements. The need for regulation of notice periods is already recognized in both European and UK labour law. Under the Employment Protection (Consolidation) Act 1978, an employee with one month's service must be given at least one week's notice of dismissal, and the required notice period increases by one week for each year of service up to a maximum of 12 weeks. More complex provisions covering collective redundancies are contained in the Employment Protection Act 1975. This stipulates that notification must be given both to relevant trade unions, and to the Department of Employment, at least 30 days in advance of a redundancy affecting 10 workers or more, or 90 days in advance of one affecting 100 workers or more. It is apparent, however, from the reports of people entering unemployment (see Chapter 6), that the requirements even of a basic one-week notice period are widely ignored. The collective redundancy provisions, moreover, are too much orientated towards trade unions; they do not necessarily increase the advance warning received by individuals. Finally, a notice period of one week appears hopelessly inadequate for a worker to get advice about job moves or re-training, let alone apply for new jobs. And it is profoundly inequitable that the workers likely to have most difficulty in finding jobs should be given one week, while the workers with less difficulty (that is, white-collar workers) should generally have one month or more.

Our proposal is that in all cases of termination, a minimum notice period of one month should be binding upon the employer. At the same time as notifying the individual, information should also be passed to the official employment services, who would then be able (where it seemed likely to be helpful) to invite the worker to attend a consultation well in advance of the job loss. Such a system would make it possible to check compliance very cheaply and comprehensively through administrative records, although such a check would in general only become necessary when an unemployed person claimed that notice had not been given. Enforcement through financial sanctions would then become feasible. It would be reasonable to link such sanctions to the costs of unemployment to the State.

To some free-marketeers, these proposals for regulation and enforcement of notice periods may seem to spoil our advocacy of more labour market flexibility. But we do not propose regulation for its own sake; rather, we accept judicious regulation as the inevitable price of effective markets. Regulation of notice periods, as we see it, would *not* be a constraint on the operation of the market. On the contrary, it would help people to make movements between jobs in a way which aided the general flexibility of the job market.

9 Towards a Capable Society

In Chapter 6 we pointed to the gap which has existed, since the 1960s at least, between changes in the jobs which the economy offers and the rate of change in educational attainment. To put it simply, there has been a lack of capability to adapt to economic change, and in particular to take advantage of the increasing demand for higher-level products and services. In adverse economic conditions, large numbers of people have been unable to find work in the lower-level jobs which they expected to get and for which alone they were prepared. This chapter considers the policies needed to overcome this problem.

Britain has perhaps 10 years of reasonably favourable conditions in which to work out a system which will succeed in the long-term. At the end of the 1980s the long downward slide of manual employment and of jobs in manufacturing industry was, at least temporarily, halted. Occupational change was continuing, but at a less strenuous pace, so that the situation was becoming more stable. World trade appeared in better shape than for some time. The Single European Market promised a further growth spurt in the mid-1990s, albeit at the cost of some painful weeding-out of weaker industries. The removal of East-West barriers enlarged the long-term prospects for markets and trade. Information technology continued to increase the opportunities for jobs, rather than the reverse.

By the first decade of the 21st century, the technological equation is likely to be changing. At least, it would be prudent, on the basis of past experience, to make that assumption. Many more semi-skilled jobs in manufacturing will be threatened by advances in robotized assembly. Routine white-collar work is likely to have passed its peak and to be contracting in the face of a rising curve of productivity in IT. This may also apply to many managerial posts, particularly those at middle level which have a substantial element in them of routine information processing. Technology will also affect jobs in low-quality services, for example in fast-food, and this will have serious implications for workers with low levels of qualification. In short, the 1990s may be a period of consolidation, after the occupational upheavals of the 1970s and 1980s, but then the pace of structural

change is likely once more to become fierce. Unless we are ready for such a period of intensified change, we will be vulnerable once again to rising structural unemployment. If we are prepared, then rapid change and rising productivity potential will be opportunities rather than threats.

In recent years, a wide consensus has emerged that education and training should be national priorities. This consensus spans the leading political parties, the CBI, the TUC, and many commentators upon economic policy¹. There is less agreement, however, about the specific targets which are desirable or achievable. And there is very little about the methods to be used. Our discussion, therefore, wastes no words on a general case for more education and training, which we take as read. Instead, we consider the particular targets which should be set and the practical problems which have to be solved if Britain is to create a much more capable labour force over, say, the next 20 years.

Training or education?

It is widely accepted² that general standards of education, at the end of the period of compulsory schooling (age 16), are unacceptably low. At the same time, Britain (especially England and Wales) has an extremely low staying-on rate between 16 and 19. Indeed, it was the lowest of 15 countries assessed with data from 1986³. About one half of young people in Britain, or a little less, stay for one year after the compulsory age, and this drops to about one third by 18. Presumably the problems of low attainment and of early leaving are interwoven. Low attainment at 16 makes staying on difficult or unappealing. And the expectation of not staying on lowers motivation and hence attainment at 16.

This dismal record in education has led many advocates of reform to look to training as the solution. For large sections of young people, they would argue, school is an uncongenial world and formal education a meaningless burden. Yet the same young people who reject education, it is said, respond with interest to practical work and to training which helps them to carry out a job. From the point of view of this argument, the cards are too heavily stacked against education; more and better training is the way forward, because it is so much more congenial. A further argument is that in any case, school-leavers form only a fraction of the labour force. A majority of the workers who lack qualifications are men and women of mature years, who have already missed their chance in education. The main hope for them will be training to upgrade their skills. Rapid change must involve retraining the existing stock of workers.

A training-led improvement in the labour force must, of course, involve employers, because training has to be closely linked with practical tasks. For those who advocate training as the main priority for improving standards in the labour force, much rests on the possibility of getting employers to provide more training. But, just as there has been a low level of educational qualification, so also there

has been a lack of willingness on the part of employers to offer systematic training. The tendency has been to regard this as a consequence of wickedness or stupidity on the part of employers, and depending on which explanation is preferred, the policy proposed veers towards more compulsion or more persuasion. It is more prudent, in our view, to begin by assuming that people (including employers) act reasonably, and to seek the reasons for their actions.

If employers act reasonably, then they will spend money on training when the costs and pay-offs of doing so compare favourably with other possibilities. When those costs and pay-offs are unfavourable, however, they will prefer alternative ways of getting the skills they need. One of the standard ways of viewing the economic value of education is in terms of an increase in 'trainability'⁴. A better educated person has more of the basic or generic skills which can be used in further learning, such as the skills of literacy, numeracy, or being able to organize a task. He or she therefore learns the task or job faster than a less educated person. When there is a plentiful supply of such recruits, the employer's training costs are low and this makes training a more attractive proposition than alternatives, such as de-skilling or recruiting experienced (and therefore higher-paid) workers on the external job market. Conversely, employers will look for alternatives to training when the supply of workers is poorly educated and the costs of training are correspondingly high.

According to this analysis, British employers' lack of enthusiasm for training is a reasonable response to the low educational standards which all agree are a feature of Britain. Conversely, in countries like Germany or Japan, where basic educational standards are high, much more vocational training also takes place⁵.

Direct evidence for the cost-of-training explanation comes from our research into the distribution of continuing training among adults in Britain⁶. This research showed that by far the strongest influence upon the amount of training received was the prior level of educational qualifications. Even if comparisons were restricted to those at similar job levels and of similar ages, a person with a high level of qualifications had far greater chances of getting training sponsored by the employer, than a person with lower educational attainments.

'Poaching' (the recruitment of trained workers by employers who contribute no training themselves) appears to be common in many occupational job markets in Britain. The 'trainability' argument helps to explain why this should be so. The larger employers tend to stress qualifications at recruitment, and since they can provide better training and prospects, take a disproportionate share of qualified new entrants⁷. As a result, the less substantial employers tend to be left with the less-qualified residue, and proportionally higher training costs. 'Poaching' can be seen as a natural response when larger employers hog the supply of qualified entrants. Once a sufficient number of employers adopt poaching as their strategy, it tends to spread throughout all or most employers as a kind of job market vendetta.

There are other responses to a low educational level, and a costly training process. One is adaptation of the business to the standards of the workers believed to be available. The employer can simply not attempt to make the products, or provide the services, needing highly trained workers. Instead, simpler products and lower quality services are offered, and too much change is avoided. Once employers have made this adaptation, their willingness to train is correspondingly reduced. They have removed their own reasons for training as they sink into a 'low-skill equilibrium'⁸. Because the equilibrium reflects an adaptation on the part of the employer, breaking out of that equilibrium is likely to need change on the supply side. If the supply of capable workers were to increase, firms might again see new opportunities and begin to feel that training is feasible.

These points suggest that it is a fundamental mistake to believe that training is an economically feasible way of making good the shortcomings of basic education, except to a marginal extent. Rather, the hopes of substantially raising the investment in training depend largely on improving the standards of education and qualification, and hence making training a more attractive policy for employers of all kinds.

The conclusion just reached does depend, of course, on the belief that training has practical limitations for remedying defects in basic education. Some evidence in support of this belief is apparent in the history of the two major national initiatives in training of the 1980s, the Youth Training Scheme (YTS) and National Vocational Qualifications (NVQ).

The design of YTS was evidently influenced by the need to make provision for large numbers of 16-year-old entrants to the job market, many of whom had few or no educational qualifications. It rapidly developed into a 'layered' scheme⁹, although this was never officially the intention. The minority of better-qualified 16-year-olds were creamed off into high quality training, often extending beyond the two-year period of YTS itself, and leading to worthwhile qualifications. The remainder went to work-experience schemes with low quality training – at no time did as many as three-quarters of YTS providers pass the quality review of the YTS inspectorate. By the end of the 1980s YTS was claiming that 40 per cent of its entrants were obtaining qualifications. The nature of this achievement can be gauged by considering that in the German apprenticeship system, with its internationally renowned standards, more than 90 per cent obtain qualifications¹⁰. There is probably worse: since no details of the YTS qualifications obtained have been made public, it can only be feared that many of these had little public credibility.

The explanation for this lack of progress does not lie in the YTS effort itself, for massive resources were poured into YTS during the 1980s¹¹, but in the quite unreasonable expectation that it could make amends for poor educational standards. One study showed, for example, that 16 per cent of entrants were

completely unqualified, a proportion which rose as high as 28 per cent in inner city areas¹². Moreover, a large proportion of YTS entrants made it their chief aim to get out of 'training' and into a 'real job' at the first opportunity¹³, which suggests that they had little interest in acquiring qualifications through training.

The progress of National Vocational Qualifications (NVQs) has similarly been boxed in by the need to provide for workers with low educational standards. Indeed, much of the basic thinking about methods of testing and certification was transferred from YTS into the development of NVQs. The central concept became the testing of competence, that is, the ability to perform a specified task or set of tasks. Broader, generic knowledge (which forms such a conspicuous part of both the French and German systems of vocational training) has been excluded from the lower levels of qualification. The specification of the relevant tasks, and the development of systems for testing and accreditation, have generally been turned over to industry bodies. In many cases, these bodies have decided that testing will be carried out by the individual's supervisor rather than by an external and independent organization. Experts who have examined the content of qualifications and compared them with vocational qualifications in leading competitor nations, have concluded that the British qualifications are of substantially lower standard¹⁴. NVQs seem to have consolidated qualifications at the existing, and generally low, levels. Once again, we would argue that this was inevitable. Standards cannot be raised simply by demanding that workers should be more highly trained, when the educational foundations to make this possible have not been laid.

None of this criticism means that training is unimportant. If we cannot have an effective system of education, then we will indeed have to do the best we can with training, in spite of that. But the best, in those circumstances, cannot be expected to be very good. If on the other hand we can improve education substantially, then what can be achieved with training will be expanded. This chapter will return to training at a later point, after considering the goals and policies necessary for education.

Fallacies of educational reform

Government, opposition parties, educationists, and a wide range of independent commentators, agree that large proportions leave education at 16 without a worthwhile qualification. The 1980s witnessed the most extensive educational legislation of the post-war period, and the decade drew to a close amid proposals from all quarters for further change and for more ambitious educational goals. What is so remarkable, however, is how little all these policies and proposals have to do with the problem of low educational attainment.

The policy consensus is strongest, the further distant it is from the basic problem. In higher education, where Britain already enjoys excellent standards,

and a rate of qualification comparable with any major European nation, everyone agrees that we should seek to maintain the steady expansion which is under way. The government, for its part, has apparently committed itself to open-ended funding of more places in higher education, on the lines of the 'Robbins principle'¹⁵. Investment in higher education is, of course, essential if Britain is to maintain its share of advanced product-markets (which includes advanced services). But expanding higher education does nothing to help with the educational problems of unqualified 16-year-olds.

The main focus of new proposals, at the end of the 1980s, has been upon an increase in staying-on rates in full-time education, in the 16-18 age group. The Advanced level (A-level) qualification, which remains the main entry route to higher education institutions, has become the focus of bitter controversy. The government wants higher staying-on rates, but thinks this can be attained by keeping A-levels along with alternative qualifications such as AS-levels and BTEC certificates and diplomas¹⁶, and by getting more higher education institutions to recognize the latter. Reformers, supported by a large body of opinion among major employers, are seeking to replace A-levels with a broader and less academic form of qualification, along the lines of the Baccalaureat or Abitur¹⁷. It is reasonably believed that larger proportions would remain in education to 18, without the severe barrier to aspirations created by A-levels. Similarly but still more radically, others have advocated that a national qualification, with equivalent status to A-levels, should be available through a vocational training route¹⁸.

Does any of this help the 30 per cent or so of 16 year olds with no qualifications, or with such low qualifications as to be virtually worthless? Doubling the staying-on rate in full-time educational courses to 18 would mean that these were pursued by 40 per cent instead of the present 20. Expanding vocational courses, to the same age and level, might raise the total figure to 60 per cent. This would be a great stride forward in improving the quality and capability of the British labour force. *It would still leave out the bottom 30-40 per cent.* Nobody suggests that members of this group would be able to embark on even drastically broadened A-level courses or their vocational equivalents. Furthermore, as greater proportions of those with some reasonable qualifications at 16 went on to post-basic qualifications, the bottom stratum would become even more exposed and disadvantaged in the job market.

The provision of wider and more attainable educational options for 16-18 year olds might provide more incentive for attainment at 16, to provide entry to these opportunities. This is the best hope that ideas to increase post-16 staying-on rates could also be beneficial to some of the least-qualified group. Having attainable post-16 qualifications would certainly be part of a policy to motivate higher attainment at 16. However, it would be unwise to rely on this single aspect of incentives. Research has shown¹⁹ that 16 year old school leavers understand the

consequences of their lack of qualifications, in terms of reduced opportunities in YTS and the job market. Despite this, they have not been motivated to perform well in the period up to age 16. And if the job market has been unable to motivate performance at this age, it is hard to see how increased educational opportunities, post-16, will do so (on their own).

Statements of government educational objectives in the 1980s have stressed increases in basic standards²⁰. The Educational Reform Act 1988 offered parental power and school-level financing as a quasi-market mechanism to make schools change, and to reward and reinforce their successes²¹. It also instituted a national curriculum, for the first time in Britain, and a national system of attainment testing at the ages of 7, 11 and 14 as well as 16. These policies of the Thatcher government have been in many respects far in advance of the ideas of those educational thinkers who can see no objective beyond qualifications at 18 and entry to higher education. Could changes stemming from the Act raise basic standards in a substantial way?

Although the policies are steps in the right direction, we have had to conclude that they do not go far enough to make a major impact on the fundamental problem of low educational attainment levels²².

- a) Parental power is likely to mean the power of parents already interested in educational issues and in the educational attainment of their own children. These parents are likely to have relatively successful children and to be pre-occupied with post-16 arrangements rather than with raising attainment amongst the lowest stratum. Conversely, the latter group are likely to have parents who lack interest in education and exert little leverage to improve the educational position of their children. In practice, the 1988 Act has led to the creation of very few grant-maintained schools²³ and these have generally either resulted from defensive action against school closures by local education authorities, or the recrudescence of grammar-school ambitions. Not a single case has arisen of parents taking an initiative against low attainment levels.
- b) For similar reasons, the pressure on schools to maintain their pupil numbers (and hence their budget levels) will lead to an increased emphasis on conventional success at A-level. This is the measure of success most likely to appeal to ambitious parents who 'shop around' for school places. Moreover, increase in sixth-form places contributes disproportionately to school budget revenues²⁴. Conversely, since schooling is compulsory until 16, low attainers contribute to school revenues: no steps have been taken to penalize schools financially for low attainment, or for truancy, which in any case is known to be substantially under-reported by schools.

- c) The introduction of national curriculum and national testing are undoubtedly the most important positive steps to help low attainers. These measures prevent schools from shunting low attaining children to the educational sidings, as has happened on a large scale in the past²⁵. However, the missing element is any specification of educational attainment targets or criteria to support the curriculum and testing system. Remedial action against under-performance is left to parental power – for the limitations of which, see above.

The strength of the 1988 Act is its belief in consumer values which can challenge educational norms and, where necessary, expose their inadequacies. Its corresponding weakness is that consumer values are themselves middle-class and conservative (small c), in education perhaps more than in most spheres. The framework provided by the 1988 Act would be a powerful one if it was allied to attainment targets for all levels of ability, and backed by strong public accountability. However, public target-setting has been avoided. In addition, steps manifestly designed to improve the educational and economic position of the weakest 30 per cent would hardly appeal to the Conservative Party's core of electoral supporters. Yet the 1988 Act remains an ingenious and bold piece of legislation, by comparison with the educational policies of previous governments, and contains ideas which could be further developed for a genuine assault on the problem of low attainment standards.

Basic educational standards

To improve educational attainment at 16, it would be worth knowing what basic standards are required. The absolutely minimum reference point would be the needs of jobs and careers of people entering work in semi-skilled manual or routine non-manual occupations. In view of the analysis of Chapter 6, it would be essential to provide some scope for mobility at least between manual and lower non-manual occupations. Unfortunately, research on the educational needs of such occupations, and of the careers which flow from them, has not been done, at least in Britain. A government intent on raising basic educational standards should begin by commissioning this research, which would give impetus and direction to its policies. Meanwhile, we have to make do with what we can learn from scattered indications and informed opinions.

According to a report of the USA's business-led Committee for Economic Development²⁶,

'a person cannot work in a factory today without a solid basic education, computer data entry skills, an ability to read and decipher manuals, and an understanding of how to organize and process information' (page 5).

Against Unemployment

The same publication, quoting research by the Hudson Institute, points out that telephone operators until recently

‘only needed to know the alphabet; now they have to know how to use computers and how to occasionally input fresh information’ (page 67).

Such examples help to explain why skills in numeracy, literacy, and the organization of tasks, are becoming universal requirements: universal, that is, in the sense of applying even to what are (apparently) the most straightforward of jobs. These are skills made accessible by basic education. We have argued elsewhere²⁷ the case that broader and more generic skills will be required throughout the labour force over the next 20 years. Similar conclusions about the broadening of skills have been reached by the Swedish Ministry of Labour.²⁸

Education should equip people, not only with the capacity to learn an initial job, but also with the capacity to change jobs and to sustain a long-term career in a changing labour market. Our research, described in Chapter 7, showed that people do indeed change from one industry to another, or from one occupation to another, in order to get out of being unemployed, but a great deal of this job-changing is *maladaptive*. It leads onto a helter-skelter of lower-skilled, shorter-lived jobs which, in the end, dump the individual in long-term unemployment. Yet the general long-term trend of the labour force is towards higher level occupations, towards white-collar and technical work. Basic qualifications should be helping to bring more people up to these opportunities. People losing jobs in manual occupations should have the capacity to learn jobs at higher technical levels as well as lower, and also to cross the divide from manual into non-manual occupations.

An example of what this means, in practical terms, comes from our recent research in the electronics industry. This industry has experienced severe shortages of technicians, in large part resulting from the increased proportions of able young people going into higher education rather than entering industry at age 17 or 18. There appear to be plenty of operators keen to move into technician jobs, and this makes more sense because semi-skilled jobs in the industry are contracting as a result of advances in automation. But most of these operators are unable even to begin the necessary training because of lack of basic mathematical skills. So while the industry faces growth constraints because of lack of technical skills, experienced operators who could fill some of this gap (if they could be trained) are being made redundant instead.

Another example concerns women displaced from jobs in manufacturing industry, such as textiles and clothing, in the late 1970s and early 1980s. Contrary to stereotypes, the decline of manufacturing was not solely or even chiefly a

problem of male manual workers: women manual workers, although in a minority within manufacturing, were much more likely to end up in long-term unemployment as a result of losing their jobs²⁹. Yet we also know that, local labour market by local labour market, there was a considerable growth in white-collar jobs. Better educational standards could have helped more of these unemployed women to find their way across into these newer opportunities.

Yet another way of looking at the basic requirement is in terms of what is needed to gain entry to an employer providing vocational training leading to worthwhile further qualifications. Recent experience of YTS provides a good indication³⁰. Once again, it is the O-level standard, or equivalent, which appears to provide the necessary passport.

It seems difficult, then, to resist the conclusion that a basic standard sufficient to impress prospective employers or training providers, and to increase the chances of long-term upward mobility, would have to be something like the old O-level standard (or currently, GCSE grades A-C). The lower tier of qualifications introduced at the end of the 1960s (the old CSEs, or nowadays the lower grades of the GCSE) have not proved to be substitutes for O-levels, from the viewpoint of the labour market. It would certainly be going too far to say that they had no value; the evidence of our own unemployment surveys showed that possession of CSEs increased chances of getting new jobs³¹. But CSEs did not break down the barriers between manual and white-collar jobs, and they did not open up entry to apprentice-level or technician training. Probably the chief effect of CSEs was to make it easy for employers to sift out young people with no qualifications at all. From the late 1970s on, the job market became increasingly adverse for these totally non-qualified young people³².

This reaffirmation of the old 'O level standard' is both disheartening and challenging. It suggests how futile it is likely to be to try and overcome the problem of qualification by offering lower standards to more people. Nothing can substitute for a real increase in standards: educational policy objectives, for the least-qualified 30 per cent or so, must be to achieve a substantial real increase in their case. *The target must be to get most of these young people achieving something like an O-level standard (grades A-C in GCSE) before they leave the educational system.*

But this does not mean that we have to accept the historical O level standard submissively. The O level standard, devised to suit the preparation of an academically orientated minority, is an obstacle and a turn-off for large numbers of young people. Alternative and improved forms of basic school qualification must form part of the future policy agenda.

Increasing educational performance

Educational attainment can be seen as the product of four things: innate ability, access to education, teaching, and motivation. Since innate ability is by definition fixed, we can only raise educational attainment through one or more of the other three. What should be the focus of policy to raise attainment for the lowest attaining 30 per cent of young people?

Access may have been a significant problem in the past, but some of the main barriers of access should have been removed, or lowered, by the 1988 Education Reform Act. The national curriculum should ensure that every child gets access to a broad range of essential subjects in school, and this is a change of the foremost importance³³. Then too, whereas schools in the past were often reluctant to permit children to retake their examinations, there is now a financial incentive to encourage them to do so, because their budget is increased by pupil numbers, and most of all by numbers in the sixth form. During the 1980s there was, in fact, a considerable growth in the proportions staying on for up to one year beyond 16 to improve GCE/GCSE results or to take additional non-advanced courses.

Improvements in teaching, broadly interpreted, were the aim of much of the 1988 Education Act. Parent power, local management of finances, and the publication of results from national testing, can be seen as ways of putting the pressure upon head teachers, and their staffs, to perform better. The limitation of this approach is that head teachers and teachers in most cases may not know how to perform better; if they did, they would be doing it already. Although there is now good evidence to show that some schools are much more effective than others³⁴, knowledge of what produces differences in effectiveness is virtually non-existent³⁵.

More fundamentally, the idea of putting pressure on head teachers and teachers to do better fails because 'better' is too vague and unfocused. But the principle could be applied to specifying clearer aims or targets for schools. The notion that financial expenditure should be linked to outputs rather than to inputs is spreading within government. This suggests that we should stop paying schools solely for 'bums on seats' and start paying them partly by results. Rewards should be provided for the reduction of low attainment levels, of truancy, and of opting out of school or examinations by children. It is government's responsibility to signal educational priorities. Until these priorities stress the problem of low attainment, teachers have little reason to apply themselves to the task of reducing it.

Something could be done, then, to stimulate and motivate teachers to give more attention to raising basic standards by age 16. But teachers could well reply, to such an initiative, that the effort was being misdirected: it was the pupils, not the teachers, who needed motivating. There would be a great deal of justice in this reply. So often the burden is shifted onto teachers to do what the rest of society has failed to do. Why should they be expected to raise the attainment levels of

less-favoured young people, when these young people have been given no reason for believing in the value of education for themselves?

Policy towards numerous aspects of unemployment, state benefits, and taxation (not just in the Thatcher government, but in previous governments also) has been strongly influenced by the notions of incentives and disincentives. Similar notions need to be applied to educational policy. Young people need to be able to see a series of clear links between their educational efforts, their educational attainments, their jobs, and the rewards of their jobs. They have to be able to judge that educational attainments are achievable through reasonable levels of effort. And they need to realize that there are no worthwhile ways around or soft options.

It is important to see that this specification of the problem is not a kind of wishful thinking about making young people 'see sense'. On the contrary, it assumes that young people already have a rational response to the system which faces them. If we want them to behave differently, *the system has to be changed* to give them reasons for doing so. That is the nature of a motivational policy.

Seeing the problem of educational low attainment as one of deficient incentives makes it clear that this is not just an educational problem. It is a problem of the links between education and the job market.

Britain has differed conspicuously from most other European countries in the availability of unskilled and semi-skilled jobs for 16-18 year olds. In the post-war period of full employment, 16 year old school leavers had no difficulty in finding such a job, irrespective of their qualifications. Moreover, trade unions pursued a policy of progressively raising juvenile wage rates to bring them closer to adult rates, and this policy was little opposed by employers. As a result, young unqualified people could not only find a job without difficulty, but could also earn money that was highly attractive. In the short term, there was little incentive to obtain school qualifications for young people who expected to work in manual occupations. Employers did not expect them, and jobs did not require them. It was even possible to enter an apprenticeship in many trades without any prior qualification, especially if one had the right connections³⁶.

In post-war Britain, then, young workers were conditioned by a labour market which offered, at its lower end, few incentives for educational qualification. The period of high youth unemployment, beginning in the late 1970s, altered the situation in many respects, but this new situation has not been used by employers and policy makers to send new signals to young people about the need for qualifications. The Thatcher government quickly introduced a one-year and then a two-year guaranteed period on a Youth Training Scheme. Anyone, even those who were functionally illiterate, were assured of a YTS place. Moreover, young people had the option of drawing unemployment benefit if they did not wish to

enter YTS; this option was only withdrawn when the recession was long past and employment was expanding vigorously. At the same time, employers scrapped apprenticeship schemes or places in large numbers, so that one of the main positive goals – winning an apprenticeship place – disappeared. It is true that having school leaving qualifications was important in getting young people into the better type of YTS placement, leading to good quality training and the offer of a job with the same employer. But in the short-to-medium-term, this still made no difference to financial returns. Indeed, research now suggests that employers offering these superior YTS schemes may have recouped their costs through paying relatively low wages in the post-scheme period of employment; young people leaving YTS early without completing qualifications were actually better off in terms of earnings, during the next few years³⁷. So although the youth labour market has been depressed, the *relative position of qualified and non-qualified* within it has hardly changed, in financial terms.

Compare this with the arrangements in Germany. The minimum qualification to enter the apprenticeship system is the *Hauptschulabschluss*, which is obtained by passing 9 out of 10 subjects at a standard of (about) GCSE grade D-E³⁸. Those who do not pass at the first attempt have the opportunity of taking a further year and resitting. The norm, however, is to pass: out of the 35 per cent who take this examination (the lowest level examination in the German system), four fifths get through. Those who go through into an apprenticeship placement, either with the *Hauptschulabschluss* or with a higher qualification, are paid a trainee wage which is about one third that of an adult worker.

Whether going to an apprenticeship place or not, all young Germans aged 16-18 must attend an educational course (away from the place of work) on a part-time basis. The small proportion failing to enter the apprenticeship system, for example, may enter a remedial course to improve their basic educational standards. The existence of a compulsory part-time educational requirement until 18 enforces a discipline upon the youth labour market, both for young people and for employers. Young people know that there is no easy way of opting out of education; they also know that their initial educational qualification is deemed essential for their apprenticeship and hence for their eventual career. Short-term rewards are low, which signals that their immediate goal is to continue learning and training for the long-term. For employers, the apprenticeship system provides a source of low-cost labour, but only on condition that training is provided in return. No employers can take on apprentices unless they, in their turn, have obtained qualifications which show that they are competent to provide training. The requirement to release young workers for continuing vocational education keeps them separate from the main workforce and acts as a disincentive to employing them as a part of general labour.

Post-16 reforms

The contrast between the British and German juvenile labour markets suggests what must be done to increase the economic motivation for educational qualifications, in Britain. First and foremost, British employers must be stopped from entrapping young low-qualified people with seductive rates of pay, into dead-end jobs without training or prospects. It seems probable, in fact, that many British employers (at least the larger ones) would dearly like to escape from this trap themselves, but cannot act in concert to change the system in which they are embroiled. In a highly decentralized and fragmented industrial society, the change can only be initiated by central government, and would almost certainly require legislation.

A statutory requirement that all 16-18 year olds spend two days per week in education or formal, off-the-job training activities is the obvious first step. This would in itself greatly weaken the incentive to employers to take juvenile workers into dead-end jobs: they would be forced to have a separate system for young people, and could not simply use them as substitutes for adult labour. Juvenile wages would become immediately limited by the part-time hours for which young workers would be available, and this would weaken the short-term pull on these young people of money over qualifications. Most important of all would be the signals sent to young people at school. They would be made aware that education was not merely a form of custodial detention before being released onto the labour market. Education would continue even if they left school at 16, emphasizing the continuity rather than the discontinuity between education and employment.

These advantages from instituting a system of compulsory part-time education and training for 16-18 year olds could be strengthened and built upon in various ways. Employers who wished to take on 16-18 year olds should, at the very least, be subject to inspection by Her Majesty's Inspectorate (HMI), in the same way as all educational establishments. Pushing this notion further, employers could have to apply for approved status or licencing to employ 16-18 year olds. The aim of such approval or licencing would be to ensure employers were competent to provide internal training and work experience which was complementary to the off-job continuing education of young people.

The content of vocational education and training, post-school, also needs to be as firmly controlled at national level as in the case of the national curriculum to age 16. Vocational education and training must supply flexibility and breadth: the ability to adapt and to acquire new skills, as well as highly specific skills to begin with. The award of a vocational qualification should always include a general educational component. This requirement will simultaneously protect young workers from the narrow concerns of many employers, from their own short-termism and lack of experience, and from the hazards of future changes which

nobody can foresee. Recognizing the crucial importance of flexibility, education and training policy must decisively reverse the narrow definition of vocational qualifications initially adopted by the National Council for Vocational Qualifications. When educational attainments become part of every worthwhile vocational qualification, the continuity between education and training will be emphasized and educational motivation reinforced. To strengthen the motivational aspect further, exemptions would naturally be granted within vocational qualifications to those who had certain levels of school leaving qualification. Conversely, those who left school with no or very low qualifications would have to devote a large part of their post-16 compulsory education to remedial courses.

At this point we have to consider the possibility that these proposals may be seen as harsh or even punitive towards low-achieving school leavers, the very group they were meant to help. The present system, it might be argued, whatever its faults gives the least educationally able a variety of chances to make up in other ways. They have free access to YT. They have free access to the job market and the chance to get themselves early established in a job. And they have, or will have, the opportunity (through competence based NVQs) to acquire qualifications which depend solely on their ability to perform a practical task, rather than on the 'book learning' in which they start out disadvantaged. Our proposals systematically remove these chances, it might be said, forcing them back onto the ground where they can least well compete.

It would certainly not be justified to introduce the kind of system which we have outlined, if it was not in the long-term interests of the young people who now leave school with low qualifications. The argument for strengthening the educational component of vocational qualifications is simply that this is what will stand individuals in good stead, in the long run, whereas qualifications based on narrow skills will be highly vulnerable to change. It is also based on the evidence of a long-term movement towards non-manual and higher occupations, from which low educational qualifications will tend to lock an individual out. Since educational qualifications are evidently in the long-term interests of individuals, everything possible should be done to make these qualifications accessible, after 16 as well as before, and to strengthen the incentives to obtain them.

More reforms, pre-16

We have so far shown how a reform of post-16 arrangements in the labour market and in vocational training could increase incentives for educational attainment at 16 and set new more demanding standards and expectations. We have put this aspect first to emphasize that post-16 arrangements are absolutely crucial to what can be achieved pre-16. But it would be a mistake to imagine that changes post-16 will do the job on their own. Changes have to take place inside

the school system as well. In particular, the change in expectations would have to be clearly signalled to young people, and their parents, well before they reach the age of 16.

One of the simplest and strongest ways of signalling new expectations would be to introduce a composite educational qualification, such as Germany's *Hauptschulabschluss*, in place of (or alongside) the present system of subject-by-subject qualifications. The composite qualification would set a new target to focus upon. It would also offer an opportunity of breaking free of the stranglehold of what we have called the old O-level standard. Reaching that standard is too large a step to be readily taken by children in the lowest third of the present distribution of attainment. But to attain a slightly lower standard, *in a reasonably wide range of subjects* – say, five passes at level D or E of the GCSE – should offer something which is attainable and easily understood. The subjects should include English and Mathematics, which are the most basic tools for working life, but could cover overtly vocational subjects as well as others of a more traditional academic type.

As well as providing a clear target for pupils to aim at, a certificate of broad educational attainment based on a range of subjects would be marketable to employers, who have had great difficulty in following the twists and turns of the qualification system in recent years.

Having established a new basic target, one would also need to take the steps which would permit young people to be fairly sure of attaining it provided that they made reasonable efforts. For those unable to pass all the necessary subjects at one sitting, there should be chances to resit and to accumulate passes, even after leaving school. However, an educational system which expects a substantial level of achievement at 16 cannot wait until 16 to test how well pupils are progressing. Young people who fall a little short at 16 can be helped, with the opportunity of re-sits and remedial courses, but this becomes impractical if the numbers needing this special support are huge, or for individuals who are far behind in their standards. Raised expectations therefore have to be transmitted back down to earlier stages of the educational system.

With the 1988 Education Act, a system of testing at the ages of 7, 11 and 14, as well as at 16, has been initiated, and when this is in place the basis for monitoring pupils' progress in a reasonably objective way will be available. Two further steps need to be taken. One is the establishment of national standards, at 11 and 14, which would be regarded as satisfactory progress towards the basic national standard at 16. The other is a remedial system to aid children who have failed to reach the standards at each stage. Testing without special aid to children who are falling behind will be an empty and expensive gesture.

The approach used in many countries – Belgium, France, Italy, Germany, the Netherlands – consists of intermediate examinations with compulsion to re-take

in case of failure. This appears punitive, rigid and costly to British eyes. Pupils in those countries often appear to detest the practice. But it seems to work, in the sense of delivering high eventual pass rates in examinations. It cannot make sense to pass on to the more advanced stages of a syllabus when pupils have failed to cope with the simpler stages. Doing so on a large scale, as in the British system, must signal to all concerned that the pupils who have fallen behind have been written off. We too dislike the idea of compulsory re-takes, but can find no better mechanism.

With a closer splicing of educational and training provision post-16, it would be natural to strengthen pre-16 vocational aspects, alongside general school education. Curriculum reforms pre-16, building on what has been learned from TVEI and other experiments, and bringing in more vocational subject options alongside basic educational ones, would help to achieve the large step-change in attainment levels which is needed.

It is also important to avoid merely talking of 'opportunities' rather than actual attainments. The actual attainment of the educational standard at age 16 should be at, or close to, 90 per cent of the stream. In support of this target, two points can be made. First, no country has been able to eliminate a 'drop-out' or 'early leaver' group of about 10 per cent, and it would be unreasonable to expect Britain to surpass countries which start from a much superior position to our own. On the other hand, 90 per cent is about the proportion now entering for some sort of qualifying examination at age 16 in Britain, and of these a little more than half now attain standards fitting them to enter post-basic level courses. We are, therefore, proposing a long-term target of a doubling of the attainment levels in compulsory education. That seems consistent with widespread perceptions of the degree of inadequacy of British education.

Second chances in education and training

Reform always creates some losers. Even with successful implementation of major changes in education and the youth labour market, a significant proportion, probably at least 10 per cent, will leave the system with no qualification. The higher the average level of qualification, the worse will be the position of these young people in seeking and holding jobs. Furthermore, there are now many people under 30 who failed to get qualifications (or achieved only very low levels of qualification), and have experienced a great deal of unemployment. These labour market entrants of the late 1970s and early 80s were caught out by shrinking opportunity for the low-qualified and failed to acquire the job experience needed to make amends for their poor start. Rising standards of qualification will place many of these people at a competitive disadvantage throughout their working lives.

Second chances are needed to compensate for these disadvantages. Hence remedial education and training needs to be available for young people who have made a poor educational start or a poor transition into the labour market. But it may be unduly narrow to develop such a policy on its own. There is a wider problem concerning workers in low-skilled jobs, who have the lowest chances of getting training³⁸. These will also be the people with the highest chances of becoming unemployed through recession or structural change. So initial educational shortfalls, low-skilled employment, and unemployment, come together into a closely linked group which it will be most efficient to treat with a unified policy. And the underlying problem in all these instances is identical: the unwillingness of most employers to provide training for people whom they see as offering a poor return on the investment.

One possibility is to accept employers' outlook on this issue as inevitable, and limit remedial efforts to the period of unemployment. This was the broad approach adopted in the 1980s, first with the Job Training Scheme and then with the Employment Training programme for people in long-term unemployment. There is reason to believe that, provided the training is of good quality, initiatives of this type can produce good results³⁹. But there are also obvious limitations in principle to such a policy. High cost of providing training outside of employment is not the least of these⁴⁰. In addition, there are the costs which are encountered *before* the individual reaches the point of remedial training: the costs of unemployment, and the costs of needlessly low productivity in earlier employment. Worst of all, there is the lack of penetration to young people and others in low-skilled or dead-end jobs without opportunities for training.

An alternative, and potentially more effective, model is provided by some innovative employer-based schemes. In the mid-1980s, the Austin-Rover group (as it then was) decided that a high priority should be given to the provision of enhanced training for the company's workers. However, the company soon found that it first had to bring their educational standards up to scratch, before they could benefit from training. Whereas most companies would have turned back at this stage, Austin-Rover decided to follow the logic of its priorities and provide the necessary opportunities for remedial education within its training programme. The favourable reception of this initiative by its workers later encouraged the company, by then metamorphosed into the Rover Group, to establish a wide-ranging programme of adult education, voluntary and not tied to company short-term business requirements, in the belief that a better educated workforce would also be more productive and conscious of quality⁴⁰. In 1990 the further step was taken of launching the Rover Learning Business, a subsidiary intended to develop educational and training opportunities among the local industrial community and down the supply-chain.

A more general, nationally sponsored system of second chances could well be built on the Rover Learning model. It is closely linked to the world of work and so is likely to have stronger credibility than a scheme built up around unemployment. Many large companies have substantial training centres which, as a result of the progressive contraction of their workforce over many years, are underutilized. Some Colleges of Further Education also have underutilized staff resources. Open learning is a development in which Britain has made a considerable investment, and is probably as well advanced as any nation⁴¹. The new Training and Enterprise Councils (TECs) could provide support for marketing and promoting open learning facilities in companies and colleges. The substantial funds now devoted to ET could be redeployed into partially financing these facilities.

Such industrially-based, open learning facilities, led by major employers in local communities, could offer great advantages for the remedial education and training of unemployed people and of those in low-level jobs who are particularly at risk of future unemployment. In Chapter 7, we pointed out that those entering training specifically designated for unemployed people could be labelled in an adverse way as a result, especially if they subsequently failed to complete a qualification or go straight into a job. An open learning facility, used jointly by people with and without jobs, could greatly reduce this kind of labelling or stigma. It would also help unemployed people to build up networks of contacts through meeting more people with jobs, and this is known to be an important source of new job openings, especially for people with long periods of unemployment⁴². Providing open learning centres on equal terms to employed and unemployed people, would also help to counter one of the main criticisms which has been levelled at Employment Training, namely inadequate quality. Centres capable of attracting employed people to take courses in their spare time, and backed by large employers who underwrite the quality, could not be accused of offering unemployed people second-class facilities.

The open learning centre is also potentially an effective way of bringing further education and training to people in low-skilled jobs and/or working for employers offering no training opportunities. But a real obstacle in these cases is access, and this would have to be resolved. Employers who do not train are often not merely uninterested in training, but hostile to it, perhaps because they see it as a threat to labour stability and to low wage levels⁴³. They could not be relied upon to inform workers of education and training opportunities, and in some cases they might victimize workers who attempted to take up such opportunities. Bringing education and training to low-skilled people in employment poses deeper issues of resources and rights than in the case of unemployed people.

One partial solution would be to apply the notion of training credits, put forward by the CBI amongst others⁴⁴, to low paid workers. The CBI proposed

a training credit scheme for 16-18 year olds, and this is being piloted during 1990-91 in selected localities by the government; all the signs are that the scheme will develop into a national one. The idea of credits is that it stimulates individuals' interest by providing an asset which they can use at their own discretion; and, indirectly, this puts pressure upon both employers and educational providers to offer what young people want. A practical problem would exist, however, in extending this idea to low-paid or low-skilled workers, and in getting credits into their hands if they became entitled to them.

TECs could be empowered to push through a scheme. They could require employers in their localities to distribute vouchers and related information to employees falling into designated categories, defined either occupationally or in terms of wage levels. But this would sit ill with the TECs' role as leaders and facilitators; TECs themselves would not welcome coercive powers. The alternative is to give TECs resources for publicising open learning facilities, relying on individuals to claim their rights, and, through legislation, protecting them against discrimination when they do so. This points towards a package consisting of financial aid for the low-paid (and unemployed), through education and training credits, together with a right to time off work for educational and training purposes for all employees, backed by legal protections. The right to time off work need not, in our view, be substantial: even modest entitlements could have a strong impact in signalling the importance accorded to education and training, both to individuals and employers. Educational leave entitlements have been available in some countries for many years (most notably, Sweden), and it seems probable, at the time of writing, that some principle concerning rights to training will be written into the Social Action Plan for the EC.

These proposals might be criticized for creating a potential gap between the continuing education and training provided and the needs of the workplace. Would there not be a danger of textile machine operators going off to take courses in flower arranging, so to speak? Of course, there could be some danger of people using their vouchers ineffectually or unwisely. Counselling and guidance would be an essential part of the service, just as it was built into Employment Training, and is being developed to support credits for 16-18 year olds. But there is great merit in trusting to individual choice; and the best safeguard against abuse is that training credits would be a limited resource. Moreover, the experience of companies like Rover or Ford which have used the open learning approach is that virtually everyone using the facility is serious and motivated. Most important, the purpose of an open learning facility is to raise educational standards and personal capability, thereby increasing flexibility, mobility and trainability. This should be to the potential advantage of all employers, and one aim for the development of open learning centres should be the attraction of local industrial funding, especially from healthy, growing

employers which wish to expand the local labour supply. However, this type of provision would not be intended to absolve employers from their need to train individuals in job-specific skills, only to make this training more cost-effective.

What are the costs?

A detailed and quantitative analysis of costs lies beyond the scope and resources of our inquiry, but this is bound to be a question posed about our proposals. We would suggest that the cost implications are likely to be fairly modest.

The proposals which we regard as most important concern the reform of expectations and targets within the school system, especially for present low attainers. It might be thought that high basic standards would be expensive, but there is nothing to show that this is so. France, Germany or Japan do not spend more per pupil on education than we do, though their standards are far higher. This is because the main factor in achieving high standards, provided that education and training facilities are of reasonable quality (as they already are in Britain), lies in pupil motivation, which is essentially a free resource: and our proposals are chiefly about designing a structure which will encourage an increase in motivation.

The first main proposal with cost implications is the requirement for all 16-18 year olds, not in full-time education, to partake of at least two days per week of approved vocational education and training. This roughly doubles the off-job training content of the YTS/YT programme. But since there is undoubtedly considerable spare capacity in the system of further education and training, the true economic cost of the additional provision will clearly be less than double, while the potential impact on national productivity of a raising of basic educational standards, promised by such a development, is great. In any case, the major cost element of YTS/YT does not consist in the training, but in the allowances paid to trainees. Inasmuch as the young people are performing productive work much of the time, rather than receiving off-job training, these allowances are hidden subsidies to employers. This leaves great scope for developing a more rational system in which State expenditure would be reduced while the employer contribution was increased to reflect the returns obtained from trainees' production.

When we turn to adult continuing education and training, the cost implications of our outline proposals are less easy to assess. The idea of open learning centres is still in the early stages of development, and undoubtedly many lessons about cost-effectiveness remain to be learned. In part our advocacy of this approach, for the benefit of unemployed people, depends upon the judgement that it will be more cost-effective than the present Employment Training programme, and certainly more cost-effective than leaving peoples' skills and job prospects to waste away in prolonged unemployment. But extending education and training credits and leave entitlements to lower-skilled or lower-paid workers, who now receive little training, would undoubtedly require new funding from the State and

hence an additional burden on taxation (the scale of which would depend upon programme details and take-up rates). This might be justified partly on grounds of equity. But if that is left aside, and only efficiency is considered, the case would partly rest upon the higher aggregate productivity which would result. That case depends, at present, on the general presumption that education and training raise productivity, a presumption which has been supported in a variety of research studies including our own⁴⁵. Chapter 10 will present a more general scheme of employment and training credits, with the aim, in part, of supporting mobility and adaptability in the labour market at all stages of working life. The special requirements of lower-skilled workers could be catered for as part of such a wider scheme. The costs of encouraging lower-skilled workers to take training courses to upgrade their skills would be offset by the openings so created for unemployed workers.

Costs are frequently used by policy makers as a means of knocking down proposals for change. This is legitimate, provided that it is based upon a full economic analysis of the options. In that case, one of the options which needs to be costed is doing nothing. The economic and social costs of doing nothing, in a country with such low standards of education and training as Britain's, are likely to be continuing comparative decline as a trading nation, and the poverty which comes of a low-skilled workforce with high unemployment.

10 Ending Unemployment

Even the most efficient labour markets we know of do not work perfectly. The British labour market, along with those of other large European countries, is well down the league table of efficiency. It has developed rigidities which it will take perhaps 10 years or more of determined structural reform, as advocated in the preceding two chapters, to overcome. Accordingly, this, our third and last chapter of proposals, considers the policies needed to cope with market failure and to provide renewed chances for its casualties.

The criterion or objective applied in the past two chapters has been the efficiency of the labour market, in the sense of getting people into productive economic activity. In the present chapter, however, equity or justice becomes the chief criterion. Unemployment, as we argued in Chapter 1, is a test of a nation's capacity for justice. Very few people choose unemployment; most are paying the price of economic policies chosen by government, in response to pressures created by employers, trade unions, and the citizen body as a whole. An economy or a society which requires some of its members to be out of work for the good of the whole, has obligations to the people who have lost their jobs. They should continue to enjoy the full benefits of citizenship in that society.

Achieving this aim must have two components: practical help to overcome labour market disadvantage; and financial arrangements to maintain income, and opportunities for self-advancement, at a reasonable level. The chapter accordingly considers both labour market services, in a broad sense, and alternatives to the present unemployment benefit and income support arrangements. Underlying and running through both areas of the discussion is an assumption of the need for active labour market policy.

The aims of equity

To say that unemployed people are owed 'full benefits of citizenship' does not get us very far. We need to state in what ways unemployed people are now denied

these benefits. Feasible proposals then have to be put forward which will remove the barriers and bring unemployed people closer towards equality of treatment.

The first barrier which has to be overcome is that of stigma and bias in the job market. The problems are those of discrimination, of recruitment procedures weighted in favour of people already employed, of restricted access to job information.

The system labels unemployed people as 'losers', and employers set up procedures to use this information and screen them out.

Access to various special government programmes or schemes largely depends upon being unemployed (or long-term unemployed), and this further separates the participating individuals from the mainstream of the job market.

Employers' recruitment interviews are designed to show up weaknesses rather than assessing potential under helpful circumstances. It is only too easy to show up the weaknesses brought about by a lengthy undermining of self-confidence.

With a shrinking circle of friends and acquaintances in work, unemployed people miss out on job information which comes through the grapevine.

Many are held back from applying for vacancies through the official employment services, because the staff there are anxious about adverse reactions from employers.

Benefit rules make it difficult or disadvantageous for unemployed people to take jobs with part-time hours, or casual jobs with irregular earnings, as stepping-stones to full time employment.

In all these ways, unemployment is associated with systematically unfair treatment in the labour market. Such problems get worse the longer that people are out of work; but all unemployed people share in them to some extent, however short the period of unemployment.

These problems are, moreover, added to other disadvantages such as low educational qualifications or poor health, which some unemployed people may already have. Although many people with jobs have similar disadvantages, it seems as if becoming unemployed draws attention to them and magnifies them. There is, then, a substantial area of inequity which needs to be addressed more effectively by labour market policies.

The material life chances of unemployed people are limited in two distinct ways (which were described in detail in Chapters 2-4). The first is that the level of financial support provided for people in unemployment is not in itself sufficient to maintain the life which every citizen should be able to expect in an advanced society such as Britain. Unless they have additional material resources of their own, unemployed people become conditioned to debt, to shortage of necessities, to absence of leisure and social activities and, indeed, to a general withering of active life. The second, and deeper, problem is that many ways of improving their position, open to other individuals or families, are foreclosed by the restrictive framework of benefit rules and the stultifying effects of benefit dependency. In part, then, the practical aim for new financial support policies should be to give access to a better standard of living, but in part also to offer individuals greater freedom of action to improve their standard of living by their own efforts.

Most people who become unemployed remain in that position for a matter of weeks, or a few months: it is a temporary condition. This has caused most attention to be given to the plight of people in long-term unemployment, on the assumption that those with shorter periods of unemployment do not have serious problems. In Chapter 2, we pointed out that this assumption is unsound. Unemployment has extremely adverse effects even upon those passing through it in a short period. Policies have to take account of the difficulties and the needs of those in short-term unemployment as well as of those in long-term unemployment.

Labour market services

Services which help to get people into jobs have been relatively low on the agenda in the past decade. In the early 1980s, against a background of deep recession and rising unemployment, the government's emphasis was upon reducing the costs of employment services¹. On the other hand, large sums were invested in special programmes for unemployed people such as the Community Programme and Employment Training. These policies were out of balance, and based upon a mistaken analysis. Continuous services have far greater potential to reduce labour market disadvantage than has generally been appreciated. Special programmes, in contrast, draw attention to the disadvantaged position of recipients, and this will always reduce their effectiveness and their fairness. We therefore place a strong emphasis, in our policy analysis, upon developing the capacity of continuous labour market services.

Labour market services tend to be thought of as primarily provided by government, as in the case of Jobcentres. However, services can also be provided by independent agencies. These may be commercial, as in the case of employment agencies. They may also be non-commercial although outside the government sector, as in the case of voluntary or community groups which provide counselling or placement services to jobless people. Moreover, it is important to remember

that all labour market services depend upon the involvement of employers to achieve anything worthwhile. Employers' recruitment and training practices represent, so to speak, an extension of labour market services, and the ability to influence these (or not) is one of the touchstones by which the services themselves are to be judged.

The scope of labour market services is suggested by this list:

- Information to assist job search and matching (services to both employers and individuals)
- Advice to employers on personnel policies
- Guidance to individuals about jobs, careers, and vocational education and training
- Help to the disabled, ethnic minorities, or other groups suffering particular kinds of discrimination
- Assistance with job preparation: pre-recruitment training schemes
- Assistance in gaining access to training schemes or special programmes
- Aid to enter self-employment
- Facilitation of local initiatives to develop community, voluntary and self-help activities
- Aid with mobility.

The foregoing list does not contain any reference to unemployed people or unemployment. That was deliberate. There is an important choice between developing general services for the labour market and targeting them largely, or exclusively, upon unemployed people. A wide and general service is favoured by active labour market policy which is concerned with improving the workings of the labour market, for all those who want to move around in it and for all those who want to provide employment. The problems of people without jobs are then handled as a natural part of a wider easing of labour market transitions, an approach designed to keep disadvantage in low profile.

What happened during the 1980s was the reverse of this: a progressive concentration of government labour market services and programmes upon 'the unemployed'. This too had reasonable arguments in its favour, especially the focusing of objectives and resources upon long-term unemployed people. At the start of the 1980s, there was little doubt that Jobcentres (under the control of the then Manpower Services Commission) gave priority to the needs of employers to obtain staff, and focused their help to the unemployed on those who were already the best prospects for placement². By the mid-1980s, however, information and help from Jobcentres was being dispensed in a much more even-handed manner to people in long-term unemployment³. It was a considerable achievement for the service to have improved fairness of treatment, against a background

of scarce resources and large increases in long-term unemployment over the period. The principle of help to the least successful was further extended and systematized through the Restart counselling service, which ensured that every unemployed person, however long unemployed, would get seen by a counselor at least once in six months. The targeting of services upon unemployed groups can have positive effects, and one must be cautious about recommending changes which would lose much of this explicit targeting.

The value of targeting, however, depends upon the existence of adverse labour market conditions in which the more deprived groups need to be given priority. Targeting and selectivity may appear to be a compassionate and equitable policy, but only because high unemployment has been permitted to develop in the first place. It fits into a framework of defeatist thinking in which unemployment is seen as inevitable, and the prior steps needed to control and minimize it are not taken. The beneficiaries of targeted labour market services have largely been the casualties of earlier failures of economic and labour market policies.

Targeting upon 'the unemployed', moreover, tends to draw a line between people without jobs and those with jobs, emphasizing and reifying the disadvantaged position of the former, tagging them as poor employment prospects, and making it more difficult to integrate them back into the labour force. Positive discrimination in the provision of services is therefore achieved at the expense of accentuating the status of unemployment which is in itself inequitable.

Continuous services, aiming to improve the efficiency of the labour market, should form part of a set of policies based on the assumption that unemployment can be kept at a low level. They would then blur the distinction between employed and jobless, and render unemployment increasingly invisible: not by pretending that it does not exist, but by treating it as part of a wider continuum of problems. In addition, labour market services should develop a more strongly proactive role. They should enter the scene at an earlier stage, encouraging and helping people to make transitions in the labour market rather than waiting for problems to become intractable.

Two practical illustrations will help to explain the style of service we have in mind. In 1988-89, innovative employers were reaching out into the job market to bring in groups which would normally have excluded themselves from consideration for vacancies, particularly in white-collar and service jobs: unemployed, ethnic minority groups, women returners⁴. With the aid of local Task Forces (funded by the Department of the Environment), community action groups, and specialist training providers, short 'pre-recruitment' courses were organized to bring people up to par in terms of self-confidence, self-presentation, and job-readiness, and to provide basic familiarity with the industry and type of job on offer. Such efforts cut across the normal labour market groupings, while bringing job preparation close to the employer's needs.

The second example concerns a service which is needed but cannot exist under present arrangements. One of the most substantial groups of long-term unemployed people consists of those who gave up or lost their jobs for reasons of ill-health⁵. What is needed is a service, both to the individual and the employer, which will as far as possible permit the individual to remain in the job, but if not will help him or her to make an orderly transition to a less physically demanding job. This might involve medical and occupational guidance (both to the individual and to the employer), temporary subsidy to the employer, and placement services. The service would be recognizing that an individual in ill-health is badly placed to make a transition, and the market if left to itself will probably fail. By tackling the problem early, it would not be allowed to develop into a situation of long-term unemployment. People with problems of ill-health would therefore be retained in the labour market wherever possible so that they could go on making their contribution as their health recovers.

Putting these two examples together suggests how an employment service with extended resources might more generally operate. On the one hand, it would be on the scene early to ensure that every chance for adaptation was taken, and every possible way of avoiding job loss was used. This would apply, not just to individual problems as in the case of ill-health, but also to collective problems as in the case of redundancies and closures. On the other hand, if the employment service is to get results, it must be closely linked with the main actors in the labour market, notably the employers, the providers of training, and the TECs. It has to be able to work alongside local initiatives and contribute to them in whatever ways are most useful to employers.

One of the chief ways in which employment services can make a contribution is through information services. The importance of information in the job market is difficult to over-state. Most transitions in the job market result from the decisions of employers and individuals. These decisions are nearly always severely constrained by the availability of information. Unemployed people, in particular, tend to run out of information about job opportunities, and need to be 're-fuelled'. Our research showed that passing information about jobs to young people, who had undergone long periods of unemployment, was linked to significantly higher job-seeking and better chances of getting a job⁶. Defining job market services in terms of information has the attraction that it leaves the initiative to individuals and employers, rather than making them passive recipients of aid. This is why we put information at the top of our list of services (see above).

There is great scope for innovation in the provision of job market information. At present, both public and private services provide relatively limited information to both employers and individuals. An individual can scan vacancy notices which contain outline information, but then has to pass through the employment bureau's filter before gaining access to further details. Employers rely on the

bureau sending along selected individuals, and do not have the facility of searching through a database of job-seekers. The employer generally (though not always) declares a pay rate for the job, but there is no information on what individuals will be willing to work for; it is accordingly difficult for individuals to price themselves into jobs. Indeed, it is difficult for either individuals or employers to get systematic information about local rates of pay. Another gap in public information, which can be particularly serious in metropolitan areas, concerns public transport routes and times. This means that many people are unaware of areas where they could reasonably look for work. All these, and other, deficiencies in information could be tackled through increased investment in computerized information services and in personal guidance.

At a more 'macro' level, labour market services form an essential part of active policies of industrial restructuring. Two countries with exceptional records of low unemployment, Japan and Sweden, have both had strong central policies on industrial restructuring backed by services to assure a high level of labour market mobility⁷. The aim has been to take out weak sectors of the economy before they become national burdens, and to effect an orderly movement of skills into growing industries which are in need of them (and would otherwise in many cases be held back by labour shortages and wage-inflationary pressures).

In Britain, such proactive industrial policy has been lacking, and both individuals and the economy have suffered from the long agonies of industrial decay. Any initiatives to anticipate the effects of industry contraction and site closures have been taken, in isolated cases only, by major employers⁸. Apart from such exceptional cases, people becoming redundant in the course of industrial contraction have had to wait until they become unemployed, or long-term unemployed, before they could qualify for re-training. This has meant that the adaptation of the labour force in such cases has been retarded. How much easier, and more efficient, it would have been for the employment services to help workers before they reached the point of becoming redundant, when they would be more confident and adaptable and have more time to plan a move.

Wherever one looks, one finds that the notion of 'services for the unemployed' creates a demarcation preventing the provision of services which could be given earlier, more effectively. Perhaps the strongest example of all concerns adult training and re-training. In Chapter 9 we argued for new provision for low-skilled workers, entitling them to upgrade their skills through short, subsidized and protected, periods of off-job training. The economic case for such training provision, when high unemployment rates are associated with low-skilled occupations, is solid⁹. Here we only need to add that the earlier the training is given, the better the return to society; the later the training is delayed, the greater is the cost to society. Yet the main resources in recent years have been devoted to Employment Training, a scheme largely reserved for people in long-term unemployment, where the per capita costs

of training are inevitably higher and the returns inevitably lower than a more general provision for those in low-skilled occupations.

If labour market services are defined in terms of the needs of the labour market as a whole, rather than of 'the unemployed', there is a far greater chance of encouraging employers to play an active part in the provision of services, including training. Within a few months of beginning operation, the employer-led Training and Enterprise Councils (TECs) had already shown that they were unhappy about defining provision in terms of unemployment rather than (more positively) in terms of local skill needs. This is a healthy and hopeful development of thinking. The aim should be to define the needs, then provide the services and support (preferably through substantial employer involvement) to deliver the solutions. Unemployed people are then to a large extent *incidentally* assisted through the improved flows of jobs and training. Better still, people at high risk of unemployment are helped to move into areas of employment with better prospects.

In the second place, redefining labour market services in terms of the whole labour market offers a chance to reconsider the category of 'the unemployed'. Why do we need to single out this group, and create special systems of supervision for them, when we do not do that for others who make labour market transitions? Why do we have to constrain and control them, when we otherwise seek to encourage independence and self-reliance? The answer is, of course, that they receive state financial benefits. In order to integrate unemployed people into the labour market, the present system of benefits, with the special categories it creates, has to be reformed.

Ending the benefits trap

There is no shortage of proposals for reforming benefit systems. In order to assess their merits, and compare them with what exists now, it is useful to begin with some criteria or aims. We propose three:

The system should provide a standard of living which enables unemployed individuals and their families to live a full life by current standards.

It should offer strong incentives to individuals to improve their own conditions, to find new work, to undergo re-training if necessary, and to be highly flexible and mobile in the job market.

It should reduce the distinctness of unemployment as a category of the labour market. People who are out of a job should be seen, as far as possible, as part of the much wider group of people who are making moves in the labour market.

The present system of benefits fails on all these criteria. It offers an extremely cramped life style, but on an open-ended basis which encourages dependence and

saps motivation. It gives people little short-term motivation to return to work, once they have been unemployed for a long period and sunk into debt. It discourages casual, short-term or part-time work, whether on the part of the unemployed person or the spouse, because all these will be financially penalized. It attaches large 'I am unemployed' signs to individuals, and forces people into two polar categories – full-time employed or wholly unemployed – by providing insufficient flexibility for intermediate status or transitional processes.

The available proposals for reform can be divided into four main groups.

- a) The first type of proposal is to keep the basic system but make it more flexible and more humane by various kinds of modifications and additions. This might be called the incremental or evolutionary approach to reform.
- b) The second type of proposal is not to change benefit as such, but to tie the payment of benefit to the performance of work which is provided by the State. The State then takes on the role of employer of last resort. Workfare, job creation and employment guarantee schemes to remove long-term unemployment, are variants of this type of proposal.
- c) The third approach is to provide all members of society with a minimum basic income irrespective of their circumstances. Other types of benefit, including unemployment benefit or income support, disappear and are subsumed in the universal benefit. The most important variations upon this approach are the basic income guarantee and negative income tax schemes.
- d) The fourth type of proposal is to supply a system of employment and training credits, which can be cashed in to provide support for a wide range of transitions in the labour market.

We will assess the four approaches against the criteria outlined above. The discussion of each proposal will be roughly proportional to its apparent potential to meet the criteria.

(i) Incremental change in benefits

There have been many distinct proposals for improving the existing benefit system, without a fresh start, and it is difficult to summarize all these since they do not all tend in the same direction. Several sub-groups are worth distinguishing:

- i. Proposals to reduce hardship. These include provision of premium rates of benefit to people who are long-term unemployed, and increases in benefit rates for families with children, which are clearly the worst off at present.
- ii. Proposals to increase work incentive. These include the introduction of a benefit ceiling which is a fixed proportion of previous wages; and stricter

- policing of the benefit system to ensure active job search. Also relevant are proposals to increase the income of those in low-paid jobs.
- iii. Proposals to increase flexibility of operation. These focus upon changes in 'disregards', that is, the amount of money which can be earned through casual or part-time employment without incurring a pound-for-pound withdrawal of benefit.
 - iv. Proposals to facilitate transitions back to the labour market. These include lump-sum bonus payments for those who get jobs, debt recycling schemes, and various forms of transitional financial arrangement.

One criticism which all these proposals have difficulty in escaping is that they are palliatives. Remaining within the existing system, they cannot be pushed far; and the more that such palliatives are adopted, the greater the delay in facing more fundamental needs for reform. A second criticism is that each type of proposal tends to have a detrimental effect with respect to one or more of the other proposals. This too arises because there is so little room to manoeuvre within the present highly constraining set of benefit principles. Finally, none of these proposals does much to remove the segregated treatment of unemployed people in the labour market, which is one of the three criteria which we have proposed.

A common proposal is that long-term unemployed people should receive a premium or additional payment similar to that paid to some other groups on income support. For example, a single disabled person on income support in 1990 received a premium of £15.40; a single pensioner received a premium of £11.80; and a lone parent received a premium of £4.10. The proposal to bring long-term unemployed people into line with other claimant groups was more commonly made under earlier arrangements when there was a distinct long-term rate available to other claimants but not to unemployed people, so that there was a clearer case on grounds of equitable treatment. However, the disadvantages of such a proposal, if put forward in isolation, are obvious. Both the exclusion of unemployed people from the old system of long-term rates, and their less favourable treatment under the present rates, and their less favourable treatment under the present system of premium payments, were not accidental, but a clear expression of the concern of governments (both Labour and Conservative) on the issue of work incentives. Any government would be cautious about revising this approach, unless work incentives could be strengthened at the same time. In particular, as eligibility for the long-term rate drew nearer, the incentive to leave unemployment might be expected to decrease. Furthermore, we have pointed out the distress often experienced by people in short-term unemployment, and this type of measure does nothing for them.

Increasing work incentives would be the chief aim of making benefits proportional to prior wages (say, 60 per cent, with some upper cut-off point). This

is intended to make it impossible for people to be nearly as well off, or better off, when out of work. But it would be ineffectual. The disincentive effects of the existing system are small (see Chapter 7); the majority of benefit recipients, as things stand, receive *less than* half previous wages; and the people most affected would be those receiving extremely low wages in their previous jobs. This last group would be reduced to complete destitution in unemployment if a proportionality principle was introduced in income support. The effect of such a principle would, most probably, be to increase wage rigidity, since low-skilled people would not jeopardize their future benefit entitlements by accepting low-paid jobs. Insofar as it did work, it would have adverse effects on the most disadvantaged sections of the labour force, increasing rather than reducing inequity.

These comments assume that we are looking at a limitation on all benefits (insurance-based and income support). It would also be possible, as in other European countries such as the Netherlands, for unemployment benefits to be proportional to previous earnings, but with income support to bring previously low-paid workers up to a minimum. Indeed, the earnings-related supplements to unemployment benefit, introduced in the 1960s under a Labour government, were similar in effect. Such an approach appears more equitable than the present system, where contributions vary with earnings but benefits do not, and clearly has a positive effect upon living standards. It does not however have in itself a positive impact upon work incentives; and it does nothing to remove distinctions in treatment between employed and unemployed people.

Increases in the level of part-time and casual earnings disregarded in the calculation of benefits is a step with much to recommend it. The potentially important role of part-time employment in helping to reduce dependence upon benefits is recognised in the recent extension of Family Credit, the chief benefit for low-paid earners, to cover people working as few as 16 hours per week. The raising of the (now very low) ceiling allowable on disregarded earnings for unemployed people on income support would be complementary to this development. But it could have adverse consequences if introduced in isolation. Initially, allowing a higher level of earnings from part-time or casual employment, without reduction in benefits (or with a tapered reduction), would permit unemployed people to improve their financial position by their own efforts, and would help to maintain motivation and skills. But it could encourage the growth of a new army of subsidized part-time workers, unless introduced within a carefully conceived framework of counterbalancing measures. Further, if disregards were taken too far, the incentive to return to a full-time job could be weakened (although, under a policy deliberately to foster part-time working, this would not necessarily be disadvantageous). Finally, it has to be recognised that if a more liberal policy towards disregarded earnings in unemployment makes

the beneficiaries more like low-paid workers on Family Credit, then it also inevitably tends to replace an unemployment trap with a poverty trap.¹⁰

Return-to-work payments, designed to loosen the grip of indebtedness and to offset the risks of moving from out-of-work benefits to in-work benefits, appear to be a useful idea with no obviously adverse repercussions, but with relatively limited impact. An ingenious example is the Action Credit scheme¹¹, being piloted during 1990/91, where the individual is encouraged to take a part-time job while remaining on benefit. Earnings from the job are then retained by the authorities in a frozen account and passed back to the individual when a full-time job is obtained, when it will often be particularly helpful. There is increased flexibility, there is a financing of the transition back to full-time work, and there is increased motivation. But such schemes do not profess to do anything about low living standards in unemployment, nor about the segregation and labelling of 'the unemployed'. They remove some rigidities of the benefit system, but do not break down the basic problems of inequity and discrimination.

If the incremental or evolutionary proposals could solve the problems posed by the benefit system, then we should certainly prefer them: there is no value in radical change for its own sake. But the available proposals of this type are individually too circumscribed to make a great impact. They do provide worthwhile ideas which can be incorporated into more extensive programmes of reform; our own proposals draw upon all these ideas.

(ii) Job guarantees

If the market fails to provide employment opportunities for all those who want to work, then it may be argued that the local community, or the State, should step in to create jobs. There have of course been numerous *ad hoc* programmes in the past, stretching back into the nineteenth century.¹² Most recently, the Community Programme provided numerous places for long-term unemployed people on projects that were chiefly devised by local authorities and voluntary organizations. In Chapter 8, we proposed that the State should finance a flexible programme of environmental improvement providing job quotas for unemployed people. However, the notion of a job guarantee goes somewhat further than that. Whereas our proposal was for a scheme of moderate size which could be accommodated within a market framework, a job guarantee must (under initial conditions of high unemployment) be on a larger scale. By promising work to everyone (with more than a certain period of unemployment), the State would become employer of last resort.

It is doubtful whether a job guarantee scheme can (within foreseeable economic constraints) offer much improvement of living standards to long-term unemployed people. Under the 'workfare' version of a job guarantee, for example, the individual simply receives customary benefits (together with an allowance to cover travel and other work-related expenses), while working.

Against this, it has been argued that since an increasing level of long-term unemployment has no effect on the general level of wages, a reduction of long-term unemployment through a job guarantee scheme will not increase wage inflationary pressures¹³. Therefore, it would be possible to pay going rates of pay for the jobs created, without wage-push inflationary effects. To avoid inflationary effects via consumption, however, it would be necessary to raise taxation to pay for the scheme. A calculation in 1987 suggested a net exchequer cost of about £1500 per trainee, but this was on the highly optimistic assumption that 90 per cent of participants would afterwards get a job in the normal market economy¹⁴. If the success rate for getting a job was more in line with previous experience of job creation schemes such as the Community Programme¹⁵, then this cost would turn out to be very much higher. Such considerations would make government unlikely to enter into the dual commitment of becoming employer of last resort, at going wage rates.

The second criterion to be applied is whether a job creation or job guarantee scheme increases incentives and motivation for individuals to improve their position through their own efforts. Getting work on a special programme should certainly have positive effects. There will tend to be increased self-confidence, and feelings of personal worth. On the other hand, the availability of guaranteed work in a relatively sheltered job may undermine the will to work in the market economy. The balance between these contrary influences will depend upon the chances of getting a job in open competition on leaving the programme (or more precisely, by the *perceived* chances). If working in a sheltered job greatly improves the chances of getting a 'real' job, then this, together with the boost to confidence provided by the sheltered job, should spur the individual on into employment. On the other hand, if chances remain little improved, the individual may well begin to prefer a sequence of assured and protected jobs to the competition for a 'real' job. Account also has to be taken of the 'signalling' and 'negative labelling' effects which were described in Chapter 7. Job creation schemes may polarize the chances of participants, leaving the 'failures' (those who do not move out into a 'real' job) in a particularly disadvantaged position.

A job guarantee scheme would have some value in regard to our third criterion, that of reducing the segregation and stigmatization of unemployed people. Those who worked in such a scheme would be more likely to feel that they were earning their keep and were part of the workforce; and others would also be more likely to regard them in the same way. But they would still only reach this position through an extended period of unemployment, and in their jobs under the guarantee scheme they would be kept separate from workers in the 'regular' economy. The scheme would, therefore, fall some way short of integrating unemployed people back into the labour force.

For these reasons, the notion of a job guarantee scheme does not provide the complete solution which its advocates sometimes claim for it. A more limited scheme, such as the one which was advocated in Chapter 8, could more assuredly be targetted upon work of genuine value, would be easier to finance and would bring greater advantages to its participants. On the other hand, of course, a more limited scheme would make only a partial contribution to the overall problem of unemployment. Other measures are needed to complement it.

(iii) Basic incomes

Even while Beveridge was capturing the public's support with his proposals for full unemployment and welfare benefits, an alternative view was being put forward which now seems in some respects more far-sighted¹⁶. The notion of a citizenship income or dividend has had a revival of interest and support in recent years, and several important new presentations of the ideas have appeared¹⁷. We will not discuss the many variants of the idea, which can be examined in those publications. The general idea of a basic income guarantee can be stated in general terms without implying a particular scheme. It is to provide every citizen with an amount which covers the necessities of subsistence (or whatever higher basic standard a society is able to afford), irrespective of employment status or of any other condition. The basic income could replace many or all existing benefits, including unemployment benefit and income support, depending upon the level of the basic income payment. As well as seeking to replace existing benefits, the advocates of basic income schemes propose the wholesale elimination of tax allowances.¹⁸ These changes in the structure of taxation are required partly for their contribution to equity and incentive, but partly also to finance a benefit which would be received by every citizen.

A basic income scheme would wholly satisfy two of the three criteria which we proposed for improving social policy towards unemployed people. Most obviously, unemployment would largely disappear as a category created by the receipt of benefits. Someone might be looking for a job, but could not be 'on the dole': everyone would be receiving the same basic, tax-free and inalienable benefit. Similarly, the many trespasses upon personal freedom which so many now have to submit to, because of the benefit system, notably availability-for-work checks and means-testing, would come to an end.

A basic income scheme, while providing all with at least a subsistence, would also provide the maximum flexibility for personal initiative in earning more. For example, there would be no question of an individual not being allowed to undertake study or training, or take part-time or casual work, while looking for a job. There could be no 'benefit trap' or 'poverty trap', since the only benefit – the basic income – could not be affected by whether or not the individual took a job or moved to a better-paid job. There could also be much improved financial

incentives for individuals to take low-paid jobs, because the marginal tax rates on such jobs could be much lower than under the present system of in-work benefits for the low-paid, known as Family Credit. Essentially this is because Family Credit, which currently imposes a marginal tax rate of around 80 per cent on its beneficiaries¹⁹, would be absorbed into the basic income. The low-paid would therefore face only the same marginal tax rate as other workers, a highly desirable outcome from the viewpoint both of equity and of incentive²⁰.

Against these positive aspects of motivation, two points of doubt have to be considered. First, the results of negative income tax experiments in the USA²¹ indicate that the effects of structural changes in benefits can be complex and unexpected, and can differ from group to group. This suggests the need for a cautious assessment of the incentive effects. In Britain, where a substantial proportion of the labour force has become inured to being without work and to surviving on a low income, a basic income scheme might encourage some permanent movement out of the labour market. Furthermore, it is important to take account of the incentive or disincentive effects, not only on people already in the labour market (employed or unemployed), but also on those who are out of the labour market but might enter it at some time in the future. In particular, married women might find less attraction in paid work if their aim is only to satisfy some level of additional income, which might be equally met through their basic income payment. Women's participation is known to be particularly sensitive to changes in earnings and taxation.²² However, it seems unlikely that these disincentive effects could continue in the long-run, once people re-adjusted their aims and expectations to take account of basic income. It can also be argued, with considerable force, that the increase in economic choices for married women would be one of the most important contributions of basic income schemes; it would be up to other actors in the labour market, notably employers, to adjust their approach. In the longer run, moreover, the participation and motivation of the labour force would depend on individuals' economic prospects (and hence upon education and training); employers would also perhaps have to think more about offering attractive conditions at work. These would be healthy pressures upon the economy.

The second, and much more substantial, point of doubt concerning the incentive effects of basic income lies in the unavoidable need to increase marginal rates of taxation across the tax structure. Even the relatively frugal proposals from Steven Webb²³ lead to a basic rate of tax of 40 per cent. The results of research, and of cross-national comparisons, suggest that high income tax rates in themselves do not damage the motivation and productivity of individuals or nations²⁴. But the effects of *moving rapidly* towards a higher rate of taxation are unpredictable and could be adverse, quite apart from the unpopularity of such a move.

Despite these doubts, on balance the idea of basic incomes appears to offer positive advantages in terms of labour market flexibility and individual incentive to self-betterment. But on the final criterion – the raising of living standards for unemployed people – relatively little could be expected from a basic income scheme in the short run. Any addition to the level of basic income provided would have massive implications for the total cost, and hence for the tax rate. The pressure would be to keep the basic income as low as possible, and to depend upon the incentive effects. For those suffering disadvantage in the labour market, or for people displaced from jobs during a recession, this would be cold comfort.

In any case, even the most committed advocates of basic income guarantees do not argue that such a scheme could be introduced in a single step. Instead, *partial* basic income schemes would be introduced as stepping-stones towards the full system. For example, the Liberal Democrats party has proposed an initial level of basic income of about £10 per person per week²⁵. Under such partial schemes, the living standard of a person in unemployment would continue to depend upon unemployment benefit and/or income support. And, of course, so long as the existing benefit systems remained, unemployed people would neither be freed from the social segregation involved in those benefits, nor given the full advantages of flexibility and incentive which are promised by a well developed basic income scheme.

Conceptually, basic income schemes offer a complete resolution of the social injustices created for unemployed people by the existing system of benefits. But the practical achievement of these advances would depend critically upon the level of the basic income. Nothing much short of a full basic income scheme will be of help to people in unemployment; and for their living standards to improve significantly, the basic income would have to be set at a generous level. The convulsions required in the system of taxation to permit this (not merely high marginal rates, but a root-and-branch removal of tax allowances) completely rule it out as a political reality.

Basic income is an idea of immense importance for the long term, but it offers relatively little in the short- or medium-term, for the pressing problems of unemployment. This is disappointing. But, like Brittan and Webb²⁶, we would like to see steps taken in the short- or medium-term to help pave the way towards basic income in the long term. It lies outside the scope of this book to consider these preparatory steps in the broad sense, but it is worth asking whether anything could be done specifically from the viewpoint of unemployment. It is also worth considering whether any changes stimulated by basic income notions could help to liberalise the benefits regime for unemployed people.

The area in which useful progress could be made is the disregarding of casual or part-time earnings for people who are unemployed. Under a basic income scheme, such earning would, as has already been stressed, be treated no differ-

ently from any other. Under the present benefit system, however, a mere £5 is disregarded for an unemployed individual on income support, or £15 in the case of a couple. Beyond this, other benefits are reduced pound-for-pound (a 100 per cent withdrawal rate of benefits), or the person concerned goes into the black economy at considerable personal risk. A more generous treatment of casual earnings in unemployment would help to adapt the regime in the general direction of basic income, and would encourage activity and self-help on the part of those unable to get a place in the full-time or regular work-force.

The difficult questions are how rapidly, and how far, one should go in relaxing the constraints on disregarded earnings. Answers to both questions are suggested by the notions of basic incomes. First, the eventual aim should be to remove the constraints completely, because only this position would be consistent with a basic income scheme. Second, adaptation could be progressive: as society moves closer to being able to afford a basic income scheme, so should the constraints be relaxed.

It seems reasonable to suppose that a society three times as wealthy as Britain is now (or about twice as wealthy as Sweden or the USA now) would be able to afford basic incomes for all. In that case, we could regard ourselves as being, notionally, one third of the way towards basic incomes. Apply this fraction to mitigate the benefit withdrawal rate on income (above the disregarded level) in unemployment. The withdrawal rate would, therefore, be initially reduced by one third, and would therefore become two-thirds instead of its present rate of 100 per cent. In other words, for each pound earned above the disregarded level, there would be 67p reduction from benefit.

This is still far from an attractive proposition to unemployed people. But the same reasoning suggests that there should be annual adjustments to the withdrawal rate. As the economy expands, as national income grows, the withdrawal rate should be progressively and perhaps proportionally reduced. Within five years or so of vigorous growth, there would then be good prospects of it being reduced to only 50 per cent, on this basis. In 15 years, it should be down to 25 or 30 per cent. Of course, the possible effects on work incentives would need to be monitored. They would depend, in our view, upon what other reforms were introduced at the same time (see other sections of this chapter).

This may seem rather a puny mouse to be born of the mountains' labour. Of course, we have considered benefits only from the viewpoint of unemployment, while basic income is an idea for the whole system of benefits and taxation. Parallel adaptations are needed in other aspects of benefits, and if these are brought into the picture the short- or medium-term implications begin to look much more substantial. (For those interested, a concise but illuminating discussion of these wider implications will be found in Brittan and Webb). Nothing can really alter the conclusion, however, that basic income is a solution for the long-term,

offering relatively little for current problems. Even the adaptation of disregarded earnings could be proposed quite independently of basic income, though the arguments in its favour are much strengthened if one supports basic income as an eventual aim. One should support the goal of basic incomes, but should not depend upon it to resolve the problems of unemployment. Other radical changes are needed; the development we next propose draws heavily on the notion of a universal entitlement to produce a lower-cost, medium-term, system targeted upon labour market transitions.

(iv) A system of flexible credits

In Chapter 9, we pointed to the growing interest in schemes of credits or vouchers within the field of education and training. Piloting is under way for a system of training credits to be used by 16-18 year olds, and if successful this may well become a national scheme. In Chapter 9, we proposed that the notion of education and training credits should be extended to adult workers, and especially targeted upon those in low-skilled jobs. Even wider applications of the notion of credits can be visualized. The most ambitious ideas have been those of the Swedish economist, and former Director of Manpower at the OECD, Gösta Rehn. Rehn indeed proposed that a system of 'flexible credits' should completely supersede all forms of benefits and entitlements²⁷.

Since such an idea remains generally unfamiliar, let us try to sketch how it might work in practice. It must be appreciated, of course, that innumerable variations could be developed. In our version, the focus is upon the labour market, and transitions within it, and the system to be sketched is narrower than one trying to encompass all kinds of social need, although wider than one purely concerned with (for example) training. It should also be stressed, at the outset, that we do not aim to present a system in which all the details have been fixed. The emphasis here will be on the principles and broad outlines of such a system; a particular advantage is that it is highly flexible and adaptable.

Suppose that on entering the labour market or on reaching some age, perhaps 18 or 21, each individual is allocated a certain number of credits intended to cover the whole working life. Credits can be cashed in to provide income support during periods when the individual is not working full-time, or when income is exceptionally low (as when starting up a business). Such periods could cover or contribute towards unpaid training or educational leave; sabbaticals; job search (including, for example, by visiting other parts of the country); maternity and paternity leave; temporary periods of part-time working; and many other changes of position in the labour market.

They will also cover unemployment, but not as that is now defined. Under the credit scheme, no distinction would be made between employed and unemployed people. Credits would be drawn for a specific purpose – such as job search,

retraining, or beginning a business – rather than for unemployment as such. They could not be drawn solely to create or supplement income, but would be tied to what one might call a *labour market need* – that is, a need to *do something* in relation to the labour market. For example, someone wishing to use credits for job search (whether unemployed or, perhaps, working part-time while looking for a full-time job) might have to join a public or private job agency and draw up a professionally backed plan of job seeking.

As well as being limited in use to specified activities, credits would be finite. Everyone would have considerable freedom over how to use credits, but they would also have to take responsibility for using their credits sensibly. Credits would give people flexibility in planning and scheduling their lives, but not unlimited flexibility. If credits were squandered, they would run out. (What happens when they do run out, will be considered shortly.)

Crucial questions in the design of a labour market credit system would, of course, be the number and value of credits available.

a) Number of credits. Suppose (for the sake of illustration) that the long run expected rate of unemployment is five per cent. If people on average work 40 years over a full working life, then the average time in unemployment would be two years. Credits might therefore be set to a limit equivalent to two years per person. There would be an advantage in making the units in which the credits could be drawn rather small, because they could then be used in a highly flexible way. If one notional day of income support = 5 credits, then a scheme based on a two-year allocation might offer a pool of 2400 credits per person, on the basis that there are about 240 working days per year.

b) Value of credits. Since the credit system serves the operation of the labour market, it is advantageous to define the value of credits relative to wages. There would be two main ways of doing so: relative to each individual's own earnings, or relative to average earnings in the economy. In either case, extensive studies would need to be conducted in order to identify a sound basis for valuing credits. A system based on average earnings in the economy, and uprated in line with national average earnings, would have the value of simplicity, would have a predictable cost, and would tend to be most favourable to low-paid workers. These are highly desirable properties. But such a system would be more attractive to single than to married people, might be particularly unhelpful to earners with large families, and more generally would tend to suffer from selective biases and distortions in its operation. A system based on some proportion of the individual's recent earnings (with perhaps a ceiling and/or a floor in valuation) would be more complex to administer, plan and control, but would also tend to be more consistent with the existing structure of earnings, and so be even-handed between different groups of people. On balance, though we would not rule out the more complex type of scheme, we suggest that there is much to be said for the simpler one. If

that were adopted, then the drawing of credits might be equated with, say, a level of two-thirds of the median wage, that is, the wage which divides the top half of earners from the bottom half. Or the basis chosen could be three-quarters of the median, or some other proportion.

How would drawing rights work in practice? A person would first of all need to establish that he or she satisfied the rules concerning the application of credits (that is, there would need to be approval of the activity for which credits were being drawn). A person would then be able to draw credits at a maximum rate of 5 per day, on the basis of the allocation described above, and this would yield (say) two-thirds of the median wage. There would probably be a need to prevent drawing at a rate higher than the individual's current or recent earnings. Similarly, for those working part-time and seeking a wage supplement, the limit on daily drawing rights would be reduced, so that it was impossible to earn more than the full-time equivalent wage. Workers would in any case be permitted to draw less than the maximum of 5 credits per day, if they wanted to conserve their stock of credits for the future. They could therefore fine-tune their use of the system. In addition to a limit on rate of withdrawal, the scheme would also have a limit on the total permissible withdrawal within any one continuous period, or for any one kind of transition. There could be one limit for job search, another for training, a third for business start-up. These limits could be adjusted for changes in labour market conditions. The system, as already stressed, offers great flexibility.

How does such a system measure up on the three criteria which were specified earlier in the chapter? First, and most obviously, it would (within itself) require no distinctions to be drawn in the official treatment of unemployed and employed people. It would be a scheme to facilitate labour market transitions, for employed, unemployed, and non-employed alike. Unlike the basic income approach, it would require a structure of tightly administered rules and controls, and to this extent it would maintain and strengthen the disciplines of the present benefit system for unemployed people. But these would apply as much to employed people, seeking help with (say) training, as they would to unemployment as such. In this way treatment would be more even-handed. A flexible credit system would, therefore, be a substantial step towards ending discriminatory treatment.

Our other two criteria concern living standards for people without jobs, and opportunity and incentive for self-improvement and progression. We suggest that there is a good case, on both these grounds, for choosing a level of value for the credits which is substantially more generous than present benefit levels. Workers should have a reasonable standard of living while making transitions in the labour market. In the case of a system based on wages in the economy, a level of about two-thirds to three-quarters of the median should meet this requirement. In the case of a system related to individual earnings, some tapering or 'curvature' would be needed to make the scheme attractive across a wide range of earnings

levels. In any case, this credit-based income can also be added to, in a highly flexible way, by part-time or casual earnings. But the *time limiting* which is a feature of the credits system protects the relatively generous level of payment against abuse, and provides a clear incentive for effective use of the credits.

Workers would be allowed to use up remaining credits in their later working years, by adding them to part-time earnings, or even perhaps by supplementing full-time earnings when moving into a relatively low-paid job. By making credits particularly useful and flexible towards the end of working life, everyone would be given an incentive to conserve them.

A difficult set of questions would surround the relationship between credits and the existing pattern of benefits. Successfully resolving these questions would be essential to developing a politically feasible and economically effective scheme. The credit allocation would have to be in line with the average unemployment propensity of the economy, much as we calculated it above; if it were much higher, the scheme would become prohibitively expensive. But many people never become unemployed; others spend far more than the average time in unemployment. What should be done about people who use up their credits (either in total or within a particular transition) and still have no job? Since leaving them without any income cannot be condoned, income support has to continue as the final safety net, much as now. Hence *the system of credits could replace insurance based unemployment benefits, but not income support.*

The chances of becoming unemployed are highly skewed, with the less-skilled having high vulnerability and those in higher occupations having low risks. There is an argument for introducing some differential allocation of credits, so that less-qualified workers would get a larger allocation to allow for their higher likelihood of going through long spells without a job. In particular, those with higher level qualifications could be deemed to have used up their credits because of the prolonged financial support they received in completing their education. Such a step would, at a stroke, roughly halve the long-term resources required for the credit system, and give more scope to provide generously for the labour market needs of less-skilled people. But such a compromise measure would confuse the aims of the proposed system of credits with those of the present system of benefits, and we must therefore defend it against such a suggestion. To reintroduce such distinctions would be to send out the wrong signals and to create the wrong structure of incentives. The system of employment and training credits should facilitate mobility and adaptability throughout the labour market; improving the position of people who have lost jobs would be a by-product of increased mobility. To exclude better-qualified people from the system's provisions would have several undesirable consequences. It would directly reduced the incentive to obtain qualifications, yet these are needed more than ever for national competitiveness. It would also be inequitable (why not go the whole hog, and

exclude highly qualified people from redundancy payments and employment protection provisions?). By reducing the mobility of the higher-qualified, it would reduce the scope for upward mobility among intermediate-level and less-skilled workers; yet this upward mobility, as shown in Chapter 6, is crucial for adaptation to structural change in employment. Finally, by making credits once more into a selective benefit, rather than a universal entitlement, it would perpetuate resentment and discrimination towards the recipients.

From the viewpoint of the individual, a credit system of the type outlined would have several important advantages over the present insurance based unemployment benefit. It would offer, for most workers, a higher standard of living than benefits. It would not be subject to insurance contributions. It would not be tied to a narrow definition of availability for work, but could be used flexibly to support a range of transitions. The trade-offs would be a requirement of tighter advance planning of how the credits were to be used; and a finite stock, rather than a renewable stock, of credits. The limit in any one spell out of work, moreover, could in many (perhaps most) cases be less than the present one year.

From the viewpoint of State expenditure, the system's attractiveness or unattractiveness would depend upon its effect on the frequency and average duration of dependence upon support. Either or both of these have to be reduced in order to offset the higher daily cost of credits by comparison with unemployment benefits. Fortunately, there would be good prospects of improving matters in both respects. People becoming unemployed, with good chances of getting another job fairly quickly, and with reasonable financial resources to tide them over (such as personal savings, redundancy payments, or spouse's earnings) would in many cases choose not to draw upon their credits, or to draw them at less than the maximum rate. The numbers of people in this category, though a minority of all unemployment, are not inconsiderable²⁸, so that a scheme which discouraged take-up in these circumstances would make substantial savings.

Furthermore, there would be a three-fold motivational pull upon individuals, who did need to draw upon their credits, to do so for as short a period as feasible.

The first incentive would be from the firmer planning of labour market activity – whether training, job seeking, or whatever – which would be required to gain access to credits.

The second incentive would be from the knowledge that credits were finite and needed to be conserved.

The third incentive would be from the knowledge that when the time limit ran out, the individual would have to drop onto a substantially lower level of income, under income support.

These circumstances should lead to more purposeful behaviour, and less time lost, in the early months of joblessness.

Of course, if the credit system is truly flexible, and genuinely breaks down barriers between employment and unemployment, it will lead many people, who would not have been users of benefits, to draw upon credits. For example, it will encourage people to take time out of work in order to train; or it will encourage others to try their hand at starting a business. But, in the first place, these are things which need to be encouraged in order to create a capable and flexible labour force. It is worth investing in these activities, in their own right. And, in the second place, they will be far less costly additions to active labour market policy than they would appear to be, and far less costly than most of the measures used in recent years. For as some people come out of employment for a time, to learn new skills, to set up a business, or to take a sabbatical, gaps will be created in employment *which people lacking a job can fill*. Hence all these extra types of activity will have savings set against them. By stimulating useful mobility, credits will at the same time reduce wasteful unemployment. An employment and training credit system would offer an economically feasible approach to the 'work sharing' which has been so elusive for so many years²⁹.

The system of employment and training credits provides a package which is much more favourable than present arrangements for the early period of job-loss. But it seems to do little for people who have already fallen into long-term unemployment. As we have argued earlier, people in short-term unemployment have severe problems which have often in the past been neglected, so we would make no apologies for shifting the emphasis. But that is no reason for disregarding those who are in long-term unemployment. In fact, employment and training credits could be used in a selective and targeted way to help overcome long-term unemployment. People already in long-term unemployment and on income support could be transferred onto credits provided that there was a feasible plan to get them back into jobs. This could be particularly useful in the early years of such a scheme, in breaking down the accumulated effects of demoralization and dependence. A period of, say, three to six months on credits could be used to raise income and pay off debts, provide pre-recruitment training to raise confidence and job-readiness, and carry through a programme of job search and applications; or alternatively, to support a period of part-time working which would be used as a step to a full-time job. Such uses of the credit system could also be linked with employer compacts designed to increase individual motivation and reduce employers' costs of recruitment and retention.

There is one final, and crucial, point to be made about a system of employment and training credits. It makes sense only as a part of active labour market policy, and would be futile if introduced in isolation. It would complement and support

other proposals in earlier chapters, notably those, in Chapter 8, to develop part-time employment and self-employment. Strong employment services, as outlined in the earlier part of the present chapter, are essential for success. As unemployment begins to fall to lower levels, a credit system, combined with active employment services, helps to push it still lower and to build up mobility and adaptability. A credit system in a sense assumes that unemployment will be low: it is not coincidental that the idea originated in Sweden. This is a strength, not a weakness. If we want to have low unemployment, we have to start believing in it, and developing the systems which will maintain it.

The costs of justice?

Many steps are needed in order to extend the full benefits of citizenship to people who become unemployed. There is no one policy which offers 'the' solution; there is no short-term package which will set matters right. But there are medium-term and long-term solutions, and there are numerous steps which could and should be taken in the short-term to pave the way forward and to give at least somewhat fairer treatment to unemployed people immediately.

The best help which can be given to most unemployed people remains help to find a job. Whatever system of benefits is in place, and whether thinking short-, medium- or long-term, it will be worthwhile to develop better labour market services, providing information and guidance to individuals and employers. We have argued that there is scope for considerable improvement in the provision of job market information. We have also argued that the trend, over the past decade, for public employment services to become increasingly focused upon unemployment has not been in the best interests of unemployed people themselves, but has deepened their segregation. Future development should be in the direction of wider labour market services, helping to achieve general mobility and flexibility. Services should also be geared to the early recognition of oncoming problems and to taking action in good time. Too few services and programmes of recent years have been available to people before they have been deep and long in difficulty.

The structure and administrative principles of benefits to unemployed people have been one of the influences distorting the effective adaptation of the labour market. The system of income support has to cope with the consequences of market failure, but in the past decade it has aggravated the problems of the labour market rather than helping to minimize them. Work incentive arguments have been at the heart of British policy on unemployment benefits throughout the post-war period. Yet the resulting system has severe shortcomings, precisely from a motivational point of view. Keeping benefits at or near subsistence level has in itself reduced many people in long-term unemployment to a state of demoralization. Their whole attention has become concentrated upon the struggle to make ends meet, and to avoid sinking deep into debt; they have neither the

resources, the energy, nor the self-esteem to pursue jobs with determination. At the same time, availability for work rules and limits on disregarded earnings have foreclosed some of the real opportunities for maintaining personal motivation and getting a foothold in the job market. The character of benefits administration has been primarily negative and constraining, rather than facilitative and motivating.

The motivational weakness of existing benefit systems provides the main chance for innovation and reform. Any new scheme has to pass a test of affordability; in a climate of stringent control of public spending, this is taken to mean that the cost will be no more in real terms than at present. This seems to make any increase in equitable treatment of unemployed people impossible. But a system which increased motivation and labour market flexibility could be more equitable at no net additional cost.

A fundamental long-term solution lies in the notion of a basic income guarantee scheme, which would end unemployment as we have come to understand it. But such a scheme, because of the massive changes in the whole system of taxation which would be needed, could not be implemented for another generation. Steps to prepare for such a change could begin now, but in a relatively limited way.

Meanwhile, there is a great deal to be said for an equally radical type of reform, which (unlike basic income guarantees) could be introduced within, say, one or two terms of government. A system of employment and training credits would replace insurance based unemployment benefits and offer support for a wide range of labour market transitions. It would fit in well with active labour market policies geared to adapting the labour force continuously to the changing requirements of markets and competition. A relatively generous level of income support for recipients would be made possible by the powerful incentive properties of such a system. A flexible credit system would not, however, be able to replace long-term income support, because an essential requirement for its incentive effects would be fixed limits on lifetime and single-period drawing rights. The long-term income support safety net would still be required.

Fair and equitable treatment of people without jobs has been the focus of this chapter. We conclude by summarizing, from the individual point of view, how the various changes we have reviewed could be of help.

In the long run, a basic income system would

- end signing on for benefit, filling in forms and questionnaires about availability for work, and fear of the benefit fraud officers
- eliminate non-claiming of benefit or income support
- make sure that nobody could be financially worse off working than not working

- give people more choice and more personal responsibility about when they worked or did not work, and what hours they worked for.

In the medium term, an employment and training credits system would

- end many distinctions between ‘unemployed’ people and others looking for a job or making various kinds of transition in the labour market
- encourage people, especially low-skilled or low-paid workers, to take part in off-job training to improve their job prospects
- provide a better standard of living than the present benefit system for those looking for a new job, undergoing training, or making other moves in the labour market; while making sure that any such changes were properly planned and carried through
- help to keep out of debt or to clear existing debts
- give temporary financial support for people who moved to a part-time or lower-paid job
- give choice and responsibility to individuals to plan their use of the credit scheme over their working life.

In the short term, people seeking jobs can be offered a more supportive and flexible system promising worthwhile advantages:

- employment services which can help to tackle job and training problems in advance – before they turn into ‘unemployment’ – and so help workers to take full advantage of improved notice periods and training facilities
- increased availability of information about jobs and training opportunities
- better guidance services
- more direct help from employers, through (for example) pre-recruitment courses to improve interview skills and general job-readiness
- higher levels of disregarded earnings, and a tapered withdrawal of benefits above this level, making it more worthwhile to do casual or part-time work (without cheating on benefits).

The title of this chapter was ‘ending unemployment’. In one sense, that title is a false promise, because our proposals offer no assurance that people wanting jobs will always be able to get them. But the proposals of this chapter (especially if taken together with the two previous chapters) suggest that the *harmful substance* of unemployment can be removed or neutralised, and in this sense unemployment can be brought to an end.

11 Summary and Conclusions

The context

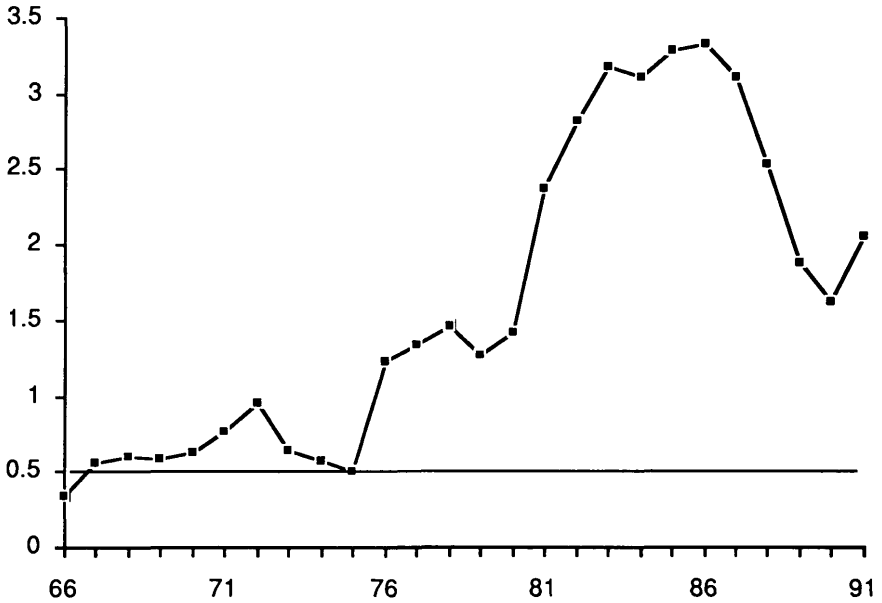
Unemployment continues. In the time it has taken to write this book, the level has risen from a trough of 1.6 million to breast the 2 million mark. The increase is set to proceed much further. Some say that this is the price we pay ('we'?) for entry to the European Monetary System. Whatever the reason for the recession which began in 1990, most authorities agree that the new rise in unemployment will be long lasting. This will provide another demonstration of the British labour market's inability to adapt to economic setbacks.

There is a still darker conclusion if one looks back to 1979, the peak of the employment cycle preceding the last major recession. Unemployment did not fall to the level of 1979 even at the end of the 1980s boom, though employment rose well above the 1979 peak. This continues the pattern (shown in Figure 11.1) which began in the mid-1960s, with each rise of unemployment higher, and each fall failing to take unemployment back to its prior level.

Furthermore, there are the first signs that unemployment may be on the point of extending its impact, in a major way, to white-collar workers. British clearing banks have been declaring redundancies in thousands. Staff have been hastily redeployed to unemployment benefit offices in the South to cope with a new phenomenon: unemployment concentrated in areas of previous service growth. Of course, these are only short-term indicators; the longer term outcome may be different. But it would not be so surprising if a rise in structural unemployment among white-collar workers should begin to emerge. If it turns out that this is the case, then levels of unemployment of 4-5 million become distinctly possible at the time of the next major recession.

This progressive intensification of unemployment constitutes the first main part of the context for our conclusions. It also simplifies the issues to be considered in these conclusions. One of the arguments which this book might have needed to face, namely, that unemployment will simply go away of its own accord, can now be ignored.

Figure 11.1 Aggregate Unemployment in Great Britain, 1966–1991



Source: Department of Employment Gazette and Employment Gazette, statistical series: April of each year.

Note: Changes in the definition of unemployment mean that aggregate unemployment cannot be compared over the long-term in a strict or precise sense.

The second part of the context which is important for our conclusions is something which we have, so far, alluded to only in passing. The 1980s, in which mass unemployment became so entrenched, were also marked by great changes in the level and distribution of income and wealth. The average earnings of those in employment rose at the unprecedented rate of three per cent per annum, in real money terms, for most of the decade. Even this understates the average gains made by families. Employment rose to a level exceeding the pre-1980 high point, and this meant that, on average, there were more earnings per family, because more earners. The main element of growth in employment was, in fact, the participation of married women in work. There were more part-time jobs for women in the first half of the 1980s, and more full-time jobs for them in the jobs boom of 1988-89. Even in the early 80s, two-earner couples were the norm, but this had gone much further by the start of the 90s.

The 1980s were not only a decade of rapidly rising incomes. Partly as a result of government policy in the sale of local authority housing, owner occupation rose

in a period of 10 years from 53 per cent to 65 per cent of households¹. This represented a great increase in real personal wealth, especially as property values rose more rapidly than inflation for most of the decade. Another signal development was the extension of share ownership. A range of developments (the encouragement given to small investors through privatisation of state enterprises, the introduction of Personal Equity Plans, the increasingly favourable treatment of company share schemes for employees), coupled with the underlying increase in income available for investment, led to a tripling of personal participation in shareholdings (from about seven per cent to 20 per cent of the adult population)².

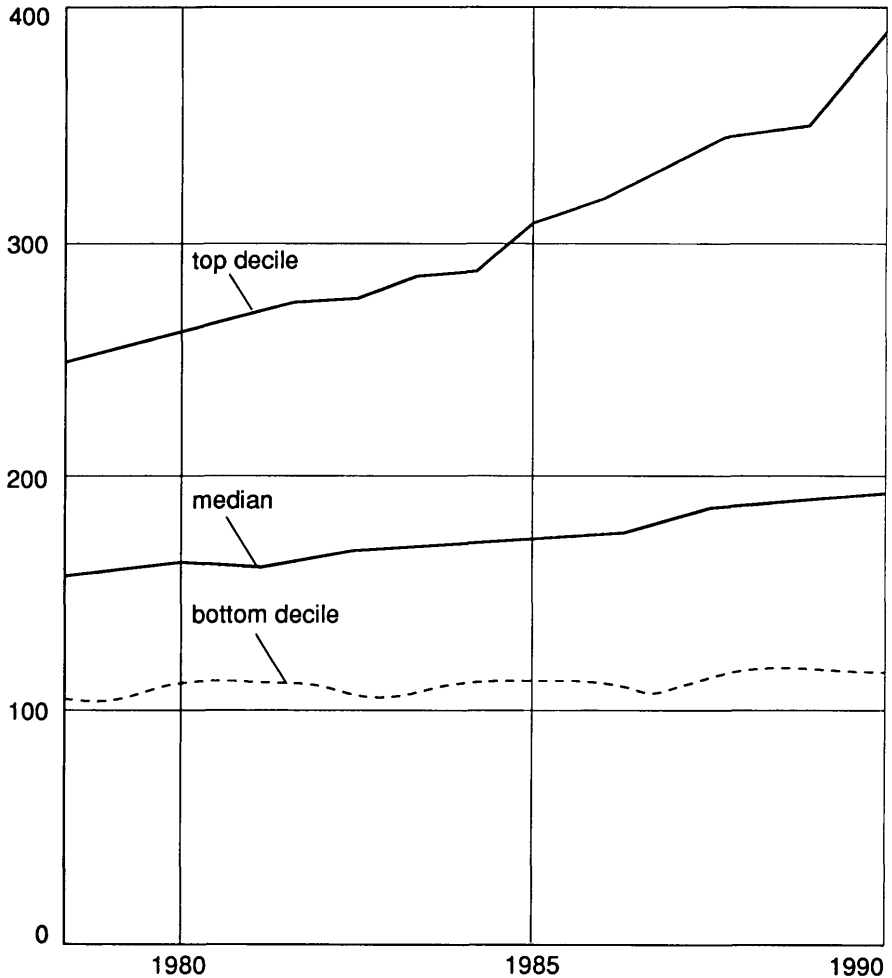
Yet nobody seemed inclined, at any stage of the 1980s, to claim that 'you've never had it so good'. The reason for this is not far to seek. Harold Macmillan made the original claim, in the late 1950s, after a decade of gentle but rather evenly distributed income growth, coupled with extraordinarily full employment. But in the 1980s, the rapid growth of average income has been accompanied by a widening of the gaps in income between the better-off, intermediate, and worse-off families. Different sections of society had greatly different percentage increases in income. For example, people in the top 10 per cent earnings band saw their earnings grow by 75 per cent, about twice the average earner's percentage rate of increase. But those at the bottom of the earnings distribution had only half the average earner's percentage rise over the same period. The startling consequence of these changes is shown in Figure 11.2.

Obviously, the least well-off people in terms of income were also excluded from the gains which took place in terms of real wealth. People depending upon housing benefit for their survival were not able to purchase houses. Those on benefits or low wages were unlikely to be among the beneficiaries of privatisation. As was shown earlier (see Chapter 2), those who had savings formed a minority of entrants to unemployment, and the effect of becoming unemployed was often to deplete those savings where they existed. Furthermore, the very notion of providing incentives to invest was not extended to those on benefits. On the contrary, possession of capital resources above a modest level continued to deprive individuals, in whole or in part, of their entitlement to many benefits.

These trends of rising average income and wealth, but increasing polarisation, are particularly relevant to a reconsideration of policy against unemployment. Among the lowest income section of society, those who are unemployed and drawing income support (broadly speaking, because they are long-term unemployed or recurrently unemployed) have the lowest income and resources of all. Government in the 1980s made a decision to link the annual adjustment of income support to the rate of inflation rather than the rate of earnings growth.

Figure 11.2 Weekly Earnings median, top decile, and bottom decile

£ per week at 1985 prices



Source: Department of Energy

The diagram is adapted from J. Northcott, Britain in 2010, PSI, 1991, page 283 (q.v. for further details)

This kept the living standards of this group static, while most of society was enjoying a rising standard of living.

These developments underline the need to consider employment policy, including benefits policy, in terms of equity. The quandary which was described in Chapter 1 remains to be resolved. If the economy does not generate full

employment, can it be equitable to shift the burden of that failure onto the most disadvantaged workers? If steps needed to make the economy function better from the viewpoint of employment are known, can it be justifiable not to take those steps, however difficult they may be? If economic restructuring is a long-term process, should there be short-term and medium-term steps to improve the living standards of those who become unemployed? Can we, eventually, devise a system in which unemployment ceases to create a significant division within society?

Three types of analysis

In order to address these questions, three types of analysis have been developed.

1. The first, presented in Chapters 2-4, was an analysis of the social problems of unemployment, based upon the findings of our own and others' studies. This analysis showed the nature and seriousness of these problems and provided a basis for assessing the urgency of policies against unemployment.
2. The second type of analysis, presented in Chapters 5-7, considered explanations of unemployment, and particularly of the persistence of unemployment in the face of economic shocks. The aim of this analysis was to show that the nature of unemployment was sufficiently well understood to make it possible to identify necessary policies of reform.
3. Finally, Chapters 8-10 presented a policy analysis, in two stages. The first (Chapters 8-9) considered the possibility of structural reforms in the light of the proposed explanations of unemployment. The second (Chapter 10) considered reforms of the services and social policies designed to minimise the problems of those who are without jobs, while at the same time being consistent with the proposed structural reforms.

The social problems of unemployment

If all sections of the community were equally at risk and the costs were evenly shared, then the need for policies against unemployment might seem less urgent. Even if unemployment was an unquestionable misfortune, but no worse than being in a badly paid job or having to live on a state pension, then perhaps it would have no special priority. If it was a severe setback from the viewpoint of living standards, but something in which most people found other compensations, such as leisure or alternative interests to work, then one might argue that people should be left to themselves. And even if unemployed people, on their own, found it hard to cope with unemployment, but found a reasonable accommodation to it with the support of family, friends and communities, then perhaps the state should leave it to those natural social networks, stepping in only when they were lacking or failing.

The evidence presented in Chapters 2-4, however, shows that unemployment is for most of those who experience it, a severe personal and family problem, and that none of the supposed compensatory processes does much to alleviate it.

- (i) Even people who are unemployed for only a few weeks generally describe the experience as one of the worst things that ever happened to them, or close to that.
- (ii) Typically, becoming unemployed cuts income immediately by more than half.
- (iii) Unemployment, even when initially brief, tends to disrupt working lives and leads to further unemployment.
- (iv) The worst affected, in financial terms, are young families with unemployed fathers. Benefits are least favourable to couples with children.
- (v) Loss of work may be particularly serious for those in a socially disadvantaged position, such as people with handicaps or members of ethnic minorities.
- (vi) Income support for unemployed people is more disadvantageous than for other groups and holds people down to a bare subsistence standard of living. People appear to 'hit rock bottom' in this system inside two years of unemployment, and very often within a few months.
- (vii) This means, for example, cutting down on food, ceasing to use public transport, and facing insoluble problems in replacing shoes and clothing.
- (viii) The great majority of people who become unemployed for a year or more either run down their savings, if they have any, or borrow money and get into debt. Debts are frequently incurred to meet regular bills.
- (ix) The loss of any financial margin of flexibility makes many unemployed people fearful of change and forces them into a state of dependence on benefits.
- (x) After lack of money, feelings of boredom are one of the chief problems experienced by people who become unemployed. Leisure time becomes a burden rather than a benefit.
- (xi) Barriers to leisure activities include lack of money, lack of other resources, lack of previous cultivation of leisure interests, and poor health.
- (xii) Lack of social life and social enjoyment is a widespread problem among people in long-term unemployment. For this reason, especially, a life on social security is experienced as a life without enjoyment.
- (xiii) For substantial proportions, also, unemployment is connected with loss of work-based contacts, a narrowing circle of friends, and a declining frequency of contacts with friends.

Against Unemployment

- (xiv) Psychological wellbeing on average markedly decreases, and indications of mild psychological distress markedly increase, when people lose jobs. Financial problems in unemployment, particularly debt, are also connected with psychological distress.
- (xv) Debt and other financial stresses, characteristic of long-term unemployment, are also linked to the increased incidence of new problems of ill-health.
- (xvi) Families with dependant children are the most likely to experience financial stress in long-term unemployment, and the associated psychological distress and new illness.
- (xvii) Young single people in long-term unemployment also commonly experience psychological distress and new illness, and this seems linked with getting into debt.
- (xviii) Tensions and arguments over money are common in families where there is long-term unemployment, and these too are linked to psychological distress and illness.
- (xix) About one-half of people in long-term unemployment appear to get no kind of help from their families.
- (xx) Those receiving family help have higher than average levels of psychological distress and new illness. Changes in family help – whether up or down – are linked to more psychological stress and more illness.

These 20 conclusions about the social impact of unemployment (all of which are based on detailed and extensive research), can also be summarised in seven simpler generalisations which, though not true of all people in unemployment, provide a fair representation of typical experience.

- A. Unemployment is a painful blow.
- B. Unemployed people are worse off financially than any other substantial group in society.
- C. Unemployment is dreary and joyless.
- D. Social life in unemployment is severely limited.
- E. Debt and other financial stresses in unemployment are endemic and linked with problems of health.
- F. The problems of unemployment fall most heavily on families with dependant children.
- G. Families cannot remedy the material and social problems of unemployment.

The experiences of unemployed people, and the conditions to which they are subjected, should (as Adam Smith would have put it) arouse our natural sentiments of moral sympathy. These sentiments should be strengthened by the

consideration of the rapidly rising standards of living, among the society at large, from which unemployed people are systematically excluded. Beveridge's conclusion that there was an obligation upon society to minimise unemployment (unless that could only be achieved through a greater evil) was also based on moral sentiments. There is no reason to weaken that conclusion. Indeed, our evidence shows that Beveridge was mistaken in supposing that only *long-term* unemployment was a social problem. Short-term and recurrent unemployment also have severely adverse effects on people, which labour market and social policy should be obliged to minimise.

The argument to give help to unemployed people has, in the past, been linked with basic needs for food, clothing and shelter. It is time to appreciate how narrow is this argument. A society which organises itself around materialistic and hedonistic values, and then restricts support for disadvantaged people by applying a puritanical principle of essential needs, declares its own hypocrisy. The lack of enjoyment of life, and the lack of sharing in social activities, which our research shows to be so typical of unemployment, should lead us to reject it as an economic institution or as an instrument of policy. We need, instead, the kinds of economic and social policies which will allow everyone to share in the material and social enjoyments of an advanced society. The wider availability of jobs remains the best single means of achieving that aim, since it directly spreads prosperity to job-holders, and indirectly makes possible a more generous provision for the remainder.

Explaining unemployment

Even if there is in principle an obligation for policies against unemployment, this obligation cannot come into effect unless we know what needs to be changed. This understanding is essential for judging where action must lie: whether in economic management, in the labour market and its institutions, or in social policy. It is equally necessary for judgements about the balance between working for radical, long-term changes and doing something in the short or medium-term. Explaining unemployment could even lead to the conclusion that there was nothing much that could be done.

The analysis developed in Chapters 5-7 takes as its implicit starting point the now orthodox view that macroeconomic demand management cannot be relied upon to minimize unemployment. Britain along with the majority of other industrialised nations is no longer able to control the level of unemployment by manipulating the level of spending in the economy. This does not mean that governments never resort to this as a short-term tactic, nor does it mean that injections of spending power no longer have any effect on unemployment. In 1987 and 1988, the government did in fact provide the economy with just such a 'fix', and it had a massive effect on unemployment. But the aftermath shows why this can now

only be an occasional, opportunistic action rather than a systematic policy. By 1990 all the familiar signs of inflationary pressures had erupted and by the start of 1991 the economy was deep into recession again.

There is another respect in which our analysis starts from a now orthodox economic position. This is to emphasise that blows and buffets to an economy are, from time to time, inevitable. Political as much as economic mishaps trigger them, such as oil shocks and Middle East conflicts. The crucial question is not whether these blows can be avoided - they cannot - but how well the economy rides them or how quickly it gets on its feet again. This metaphor is all to do with resilience or flexibility. Hence unemployment reflects lack of resilience, or rigidity. In the 1980s, Britain had an economic recession lasting two years, leading to high unemployment which lasted for seven years. So we need to explain, not just unemployment, but the persistence of unemployment, and the rigidity which underlies it.

Rigidity expresses itself in many ways, the most obvious of which is through the rate at which wages rise. Countries where wages hold back in adverse conditions find it easier to recover, and their governments have more room for manoeuvre. Countries where wages rise with little regard for economic conditions have little room for manoeuvre and tend to shift the impact of economic setbacks into unemployment.

But why are wages rigid in some countries and not in others? That is a question which it is hard to answer in any simple or summary fashion; most of Chapter 5 is devoted to it. We can, however, indicate how our answer differs from some of the others which have been offered in recent years. Most previous accounts have stressed the role of trade unions in maintaining wage pressures, or have proposed institutions for limiting the power of unions or for incorporating them into cooperative wage-fixing processes. Our analysis on the other hand chiefly focused upon the role played by employers in the 1980s, in developing policies which combined high rates of increase in real wages with the shedding of labour. We have stressed that there were good reasons for these policies. There is some risk that this presentation will be read as attributing wage rigidity entirely to employers, just as some previous analyses have focused exclusively upon trade unions. But there is no intention of denying the importance of trade unions, and especially of the fragmented and hence, inevitably self-interested trade unions which are characteristic of Britain. The practical point is that unions have become an integral part of employers' own policies. And the policies of both unions and employers respond to characteristics and institutions of society with deep historical roots. Unions cannot be 'dealt with' separately, as some economists or politicians of the right would desire. Wage rigidity is a problem which, in Britain, it is difficult to confront in any direct way, because it is so widely integrated into the institutions of the labour market and the values of society.

The second part of our explanation for unemployment focuses upon its concentration, not only in Britain but in most industrial nations, among manual workers. Unemployment among manual workers lies at the intersection of three problems, and these problems are inter-related. On one side there are the traditional differences in employment relations between manual workers and white-collar or professional workers, differences which mean that manual workers are less stably and securely employed and so more vulnerable to unemployment.

The second problem affecting manual workers in Britain is their lower educational level, by comparison with white-collar workers. Only quite recently has an attempt been made to provide any educational qualifications for those leaving school at the end of compulsory schooling, most of whom go into manual or routine service occupations. In effect, worthwhile educational qualifications, and the routes to them, have been designed exclusively as preparations for white-collar and professional careers. Conversely, the tendency for entry to white-collar employment to require a minimum level of qualification which was above that achieved by most manual workers has created an effective barrier to mobility. Indeed, qualification barriers, and the inadequacies of education which lie behind them, are as clear a form of rigidity as are wage-fixing practices in Britain.

The employment relations of manual workers and the limitations of their education and (consequently) of their occupational mobility, are long-standing problems. The third problem of manual workers, however, is one of historically recent change, although it might also be regarded as the latest of a series. Particularly from the mid-60s to the early 80s, there was a great reduction both in manufacturing employment and in manual employment, and a growth in service jobs and non-manual occupations, especially those at a higher level. The data reviewed in Chapter 6 showed that these shifts in employment applied internationally, nationally, and most striking of all, locality by locality.

If the three problems are combined, the implications for manual workers are not hard to see. Structural change in employment has particularly affected many of the jobs held by them. Under typical employment relations, many of these workers are propelled out of their jobs and onto the job market with little or no time or help to prepare themselves or to smooth the transition. Finally, their capacity to find new employment is restricted both by the general shrinkage of manual jobs initially everywhere, and by the barriers to mobility into white-collar jobs. Average periods of unemployment increase and aggregate unemployment rises. All this, of course, is multiplied and aggravated by macroeconomic shocks and by the wage rigidity which makes unemployment persist.

The fact that these inter-related problems have made manual work into unemployment's stage, does not imply that white-collar work need never be affected. People from routine white-collar jobs, especially if they are under-qualified, are also frequently found in unemployment, and some types of white-collar occupation

have been increasingly organised like factories, as a result of intensifying cost competition, with de-skilled work and poor career prospects. With good reason, such white-collar work may be classified as a working class annexe. It is particularly likely to be affected by future structural change resulting from the advances of information technology.

Rigidity via wage-fixing, and rigidity via educational barriers, are the two major explanations of the persistence of unemployment to which we subscribe. Chapter 7, however, points out some further disadvantages or difficulties which people face when they are unemployed, especially if unemployment has continued for some time. These problems, which are also a kind of rigidity, can be thought of as one-sidedness or bias in the way employers and official agencies treat them. For example, practical training and job-specific skills are disregarded by potential employers when job applicants have been unemployed, while problems of handicap or ill-health, which previously did not prevent people holding stable jobs, become serious obstacles to re-employment. Worst of all, the very fact of having a long period of unemployment (which may simply reflect a dearth of local opportunities, and luck) becomes a powerful job filter. Similarly, special government programmes designed to help with unemployment may in some cases tag their recipients as 'unemployed failures'. Finally, all these negative messages become programmed into unemployed people, especially those who have the poorest competitive chances in the job market, so that they become demoralised non-combatants.

In developing this analysis, we pointed to the mass of evidence showing that unemployed people are generally highly flexible in their willingness to take wage cuts or to change occupations and industries. Even this flexibility, however, seems to offer little advantage. Rigidity over wages, as already argued, is strongly rooted on the employers' side. More generally, the information systems of the job market seem deeply flawed, collating and amplifying negative signals while ignoring many positive ones. The functioning of the job market, though not a fundamental cause of unemployment, contributes to its persistence by making formerly competent workers into social casualties. Part of the explanation of unemployment is unemployment itself.

Policies against unemployment

Since various types of rigidity in the labour market and in society bring about the persistence of unemployment, the main thrust of policy against unemployment must be to develop more flexibility and adaptiveness. There is nothing new in saying that. It is the message of labour market analysts of all complexions. But the explanations of unemployment which we have adopted have led us to recommend a particular mix of policy measures, and in some respects a complex one.

Before summarising the recommended measures, it may be helpful to put them in the perspective of Chapter 1. There it was pointed out that, the quicker that purely economic or labour market measures could be expected to restore full employment, or something like it, the less was the need for innovative social policies. Conversely, the longer the time-scale required to redevelop an effective labour market, the greater the need for new social policy measures to meet obligations towards people in unemployment. The main measures proposed here to increase flexibility and adaptability are essentially long-term and would require many years to bear fruit. Some subsidiary measures could be implemented more rapidly, but they would not be sufficient to make a large impact on their own. Social policy actions are therefore needed in the short-term and the medium-term to improve living conditions in unemployment. Our policy review covers labour market aspects in Chapters 8 and 9, and social policy in Chapter 10. To some extent, though, the division between labour market policy and social policy is not as clear as it seems. Some of the measures proposed under the heading of labour market policy would contribute towards more equitable treatment, and so have a social aspect. Similarly, some of the actions considered under social policy would have implications for labour market efficiency, and we believe these would be positive. Maintaining consistency between the various policy proposals has been an important consideration.

Our explanations of unemployment began with the failure of wage fixing in Britain to respond to economic circumstances, and so we might have put policies to reform wage fixing at the head of our proposals. We did not do so. Before summarising our main proposals, it will be useful to restate our view regarding wage rigidity and the prospects of reform.

The account which we have offered of wage rigidity indicates that it is even more deeply rooted than generally recognised. During the Thatcher decade, there was a determined attempt to weaken trade unions and to expose hitherto protected or sheltered sections of the economy to market forces. Coupled with seven years of mass unemployment, these policies might have been expected to crack the problem of wage rigidity. Instead, the period 1990-91 gave a clear demonstration that wage rigidity continued. Almost a year after unemployment had begun to rise again, pay settlements continued to run at increases of 10 per cent, higher than the rate of inflation. Moreover, there were few signs either among trade union leaders or among business leaders of new thinking about the aims of wage bargaining in recession. Both unions and employers appear to have emerged unreformed, on this issue, from the Thatcher decade.

Having failed to reach the free-market pole, national labour market policy may now well begin to swing back in the opposite direction, irrespective of which political party is in power. Perhaps it will become easier to move towards the corporatist pole. The events of the past decade may have put the various actors

into a more cooperative frame of mind. The development of the Single European Market, and Britain's increasing commitment to Europe, may require that British industrial relations also take on more of a European character. We will see an increasing respect for law in protecting both employees and employers; new institutions for promoting worker involvement at the workplace; and a more orderly, and less fragmented, trade union structure. These changes would help any government which wished to foster a collaborative effort to achieve wage moderation.

But one should beware of too much optimism too soon. In the first place, even these changes will probably need some ten years to be put firmly in place. And a government wishing to achieve wage flexibility through national-level intervention would have to take two far more difficult steps. First, it would need to establish new arrangements for influencing pay settlements at national and industry-wide levels, with the full commitment of leading unions and leading employers. Second, the short-term perspective of previous attempts at incomes policies would have to be replaced by, or placed within, a long-term vision of the wider institutional and structural reforms needed in the labour market. For only those countries which are prepared to build strong institutions and structures will eventually achieve a lasting solution to the linked problems of wage rigidity and unemployment.

These considerations suggest why we have not placed our faith in a direct reform of wage fixing, desirable though that might be. The same considerations, though, suggest that our policy proposals are relevant to the issue of wage rigidity. By fostering more varied, balanced and flexible forms of economic participation, by increasing the capability of the workforce, by providing various forms of support for job mobility, these proposals aim to create increased room for change so that it can take place without running into labour market barriers. In addition, the proposals would create a climate of increased confidence in the labour market and in employment policy, which would be helpful in gaining a consensus for reform of wage fixing.

The first set of proposals (Chapter 8) covers the extension of flexible forms of employment. Three types are discussed in detail, although the same approach could be applied to other types as well.

- a. In the case of *part-time working*, the major obstacles to further development lie in the lack of training and personal advancement; in the segregation of part-time work within a limited range of (almost wholly 'female') occupations; in differences in employment conditions which inhibit movement between part-time and full-time jobs; and in the benefit system which prevents people from using part-time work as a transitional stage out of unemployment. Remedies include the provision of training incentives, and the

- prioritisation of training for this group within national and local planning; the removal of discriminatory provisions against part-time workers in employment law; and the development of greater flexibility in benefit systems, discussed in Chapter 10. The aim should be to raise the status of part-time employment and hence increase the supply of part-time workers.
- b. *Self-employment* and the growth of small businesses already enjoyed a spectacular increase in the 1980s, but could be further encouraged. Financial incentives, although not neglected by recent government policy, need further consideration, especially as Britain has a long history of fostering industrial concentration and the formation of large firms. Particular proposals to be considered could include loan capital on favourable terms; selective loan finance for innovative small firms; subsidisation of national insurance contributions; and extension of temporary income support to all those moving into self-employment (not just unemployed people, as is now the case). As small businesses are given more financial aid, however, they should progressively lose their exemptions from employment regulation and be required to provide decent terms and conditions of employment. This would raise the attractiveness of taking employment in small firms and help to swell employment in the small-business sector.
 - c. *Social employment* has been tried many times, often unsuccessfully, but the recent Community Programme indicates that there is scope for a well designed scheme of limited size. Solving the wage problem for such programmes is essential; so is having really valuable work to be done. We propose environmental improvement programmes, funded centrally but locally let by competitive tender, with quotas for employment of disadvantaged workers under temporary contracts. Wages would be set by market processes, so giving unemployed people a place in wage fixing. Basic employment conditions would need to be met by employers and there would be scope for training to be separately funded. The programmes would be medium-term in intention, but subject to annual review and adjustment.

A feature of these proposals is that flexible employment opportunities are extended within a context of even-handed employment regulation. In our view, regulation is an integral and essential feature of markets; those who think otherwise need to study history. Regulation, provided that it is well conceived, has beneficial effects in increasing supply and raising productivity.

In this spirit, we also propose within Chapter 8 that regulation should be applied to periods of notice by reason of redundancy or of incapacity and to some other aspects of the job termination process. The aim would be to increase the individual's opportunities of getting early advice from the employment services, and of making a smooth transition between jobs. Manual workers would be the

main beneficiaries. Financial sanctions would be applied to employers who failed to comply with these modest requirements.

Chapter 9 proposes the notion of flexibility through capability: the creation of a well-educated and well-trained population, capable of adapting to change and of growing into more demanding occupations. Such an ideal is, of course, now widely advocated. But our proposals differ from the others we are aware of, probably because they are influenced particularly by the needs of those in lower occupations, where unemployment is most common.

Our chief aim is the raising of basic standards of educational attainment at age 16, for those in the lowest 30-35 per cent attainment group. The means are to consist of a combination of measures concerning the youth labour market, vocational education and training post-16, curriculum design to age 16, and flexibility within the school system. The strategy is to create favourable motivational conditions for basic, compulsory level education. This involves linking between education and the job market.

The specific proposals are as follows:

- a. There would be a statutory requirement that all 16-18 year olds spend at least two days per week in education or off-the-job training. All training courses would include some general educational elements.
- b. Employers wishing to employ 16-18 year olds would have to show they conformed with education and training requirements.
- c. Courses of education and training for 16-18 year olds would have to be approved and conform to national standards.
- d. Course work would partly be determined by prior educational attainments, with either exemptions or additional remedial modules.
- e. At GCSE level, special recognition would be given to those passing a combination of several subjects, with the aim of establishing a certificate of broad educational attainment as the standard.
- f. GCSE content would include more vocational options.
- g. Pupils would be required to re-take a year of study if they fell behind, thereby introducing greater flexibility into the rate of progress.
- h. In the case of adult training, government funding would be switched away from unemployment-centred schemes to areas of skill need.
- j. Employer-led open learning centres, open to employed and unemployed alike, would become the central model of adult provision.
- k. Workers in lower-level jobs, who are particularly vulnerable to future unemployment, would be encouraged to train through vouchers and training leave entitlements.

While many of the proposals in Chapters 8 and 9 offer fairer treatment to people now at a disadvantage, their chief aim is to make the labour market work more efficiently. It is in the proposals at Chapter 10 that equity becomes the central concern.

The proposals begin with *labour market services*. Such services should be designed to minimise and to counteract bias and discrimination against unemployed people. But it is impossible to do so while government policy so firmly distinguishes 'the unemployed' (responsibility of the State) from the 'free market' (nothing to do with the State). This distinction, however well meant, merely underlines existing tendencies to segregate unemployed people and label them no-hopers. Despite this handicap, the employment services have shown themselves capable of achieving a great deal. Our proposals see an enhanced role for employment services, but in support of a different strategy. Rather than being remedial or patch-up services, they would serve a positive role in helping people to get an early grip on their job-related problems, to prevent these as far as possible from turning into unemployment. For example, the employment services would:

- Support employer-led schemes of pre-recruitment training
- Provide counselling and placement services for workers affected by ill-health
- Help employers and employees develop action plans to cope with the consequence of redundancies
- Develop the scope and technical methods of delivery of information services, to the benefit of both employers and job-seekers
- Stimulate and support new training provision for low-skilled workers, and the use of open learning centres (see above).

These roles for employment services assume that unemployed people are not treated as a distinct category. The benefit system remains the chief barrier to making this a reality. So there is a strong labour market reason for reforming benefits. The more profound reason is that the present benefit system prevents its recipients from enjoying the life of citizens.

Three aims or targets are set for the reform of benefits: to achieve substantial improvement in living standards, to strengthen incentive for self-improvement, and to blur or remove distinctions of treatment between jobless and job-holders. Numerous modifications or additions could be made to the existing system, each of which would achieve some progress in one or two of those directions. But none leads to improvements across the board, and in some instances, adverse consequences could set in if the changes were pushed too far.

There are, however, more radical alternatives. Of these, the notion of a *basic income guarantee* scheme has been widely discussed in recent years. Such a

scheme, providing income support for all, whether in or out of work, has powerful advantages in terms of incentives and flexibility. Any paid work, however small, would make the worker better off. Moreover, the separation of society into claimant and non-claimant groups, the various trespasses upon liberty to which claimants are subject, and the official labelling of people as unemployed, would all disappear. These are strong reasons for supporting the development of basic income schemes.

The problem with basic income proposals is simply that Britain is not yet rich enough to afford such a scheme. At present, it would involve much higher standard rates of taxation and a huge restructuring of the fiscal system; yet even this would not generate a basic income sufficient to raise living standards for unemployed people. Our proposal is, therefore, that basic income should be established as an objective for the next generation. However, to make it feasible at that time, progressive adjustment of tax and benefit systems are needed, starting now. It is outside our scope to discuss how the general system of taxation needs to be steered towards this long-term change, but recent specialist discussions are available and are referred to in Chapter 10. We propose only the modest step that there should be a progressive reduction in the rate of withdrawal of income support against earnings from casual and part-time employment while unemployed. This would be a useful step towards basic income principles, while giving unemployed people scope to improve their standard of living by their own efforts.

Not even a full basic income scheme will do much to soften the financial impact of job loss. Our research, in contrast to much of the received wisdom about unemployment, emphasises the profound blow which loss of a job represents *in the short term*, even when the person affected is back in work within a matter of weeks. Moreover, job loss (coming as it so often does as a bolt from the blue) frequently results in an unplanned and chaotic transition, via further short-term and dead-end jobs, towards recurrent or long-term unemployment.

Our final proposal, therefore, is to provide adults with a system of financial aid to support a wide range of job-changing and training requirements (or, more generally, for labour market transitions) throughout life. The aim of the system would be to assist and stimulate individual mobility and adaptability in the labour market under favourable and equitable conditions of support. It would not be necessary to become unemployed to get access to it. Although the majority of people likely to use it would be those who would otherwise have become unemployed, an important aim of the scheme would be to break down the divisions in the treatment of employed and of unemployed people.

The basis of the scheme would be a *lifetime allocation of 'credits'* for every adult. The value of the credits would be adjusted from time to time, and would generally provide an amount intermediate between current benefit levels, and median

earnings (or, possibly, a proportion of previous individual earnings), when drawn at the full rate. The cost of this higher level of daily outlay would be offset by making each person's entitlement a fixed quantity over a working life-time, and by limiting drawing rights over particular periods or for particular purposes. People would also be able to draw credits at less-than-full rates, hence saving them for later use. To obtain credits, a person would have to put forward a plan (for example, a plan to seek a new job, or to take a training course), and in general this would be prepared in conjunction with an approved employment counselling service. The scheme would replace insurance-based unemployment benefits, but would still need to be backed up by income support (until such time as a basic income scheme is in being).

The labour-market credit scheme would offer people better financial aid during job-changing or other training, provided that they went about it in a businesslike way. It would tie in very closely with our earlier proposals for strengthened, and more proactive, job market services.

Overview of proposals

Taken as a whole, our proposals cover:

- a. Increased flexibility in the structure of the labour market, especially by the encouragement of part-time work, self-employment and small business, and temporary social employment schemes.
- b. Increased protection for workers, and increased obligations upon employers, to limit the flow of workers entering unemployment without prior notice.
- c. Increased adaptability in the working population by the pursuit of higher basic educational standards, greater continuity between education and vocational training, the encouragement of adult open learning centres, and the provision of personal entitlements to training for less-skilled workers.
- d. Increase in job-market services, equally available to those with or without jobs, and with the special aim of avoiding unemployment by early action and support.
- e. A progressive liberalisation of income support, to pave the way in the long run for a universal basic income scheme.
- f. Introduction of a scheme of employment and training credits, to support individual mobility at a reasonably generous level and to encourage a planned, efficient approach to labour market transitions.

Like others who have looked seriously at unemployment, we have ended with rather a long list of proposals. An important requirement is that proposals should not conflict with one another, or better still, that they should be mutually

reinforcing. In our view, the degree of compatibility and mutual support among these proposals is good. A few illustrations will show what is meant.

- The provision of enhanced worker protections will (a) stimulate supply to part-time jobs and to small businesses, (b) be conducive to better advance planning of job transitions through the work of the employment and training services and through the credit system.
- Adult open learning facilities will be supported by information services and by the credit system, and will be a cost-effective form of training for part-time workers and self-employed people.
- All the proposed changes in the benefit and income support systems will encourage part-time working and self-employment.
- The notion of training entitlements for low-skilled workers fits naturally with the idea of employment and training credits.
- The provision of local schemes of social employment would assist the employment services and individuals in making planned transitions out of redundancies.
- The proposals concerning worker protections, increased educational standards, adult training provision and entitlement, widely acting employment market services, and liberalised benefit systems, all reflect a concern for equity and the removal of labour market barriers and discrimination.

The missing element?

Unemployment remains a personal disaster and a social evil. We should not be fatalistic about the level of unemployment or about its impact on the many people who become its victims. The main purpose of this review has been to show that many relevant policies are available, for the short, medium and long-term. We would not claim that the policies outlined here are either unique or the only ones worth considering. We have drawn upon a stock of ideas, which are in wide currency among labour market specialists, in order to put together a particular set which has coherence and an underlying vision. But many other sets of policies could be constructed. And that realisation is far more important than the particular set which we have advocated. The policies are there. What is needed, and missing, is the political resolve to make a concerted effort against unemployment.

Notes

Chapter 1

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2. Beveridge, W.H. *Full Employment in a Free Society*, Allen and Unwin, 1944.
3. Chester, D.N.(ed.) *Lessons of the British War Economy*, Cambridge University Press, 1951.
4. Beveridge, *op. cit.*, especially Part V.
5. For a history of the post-war economic order, see: van der Wee, H., *Prosperity and Upheaval: the World Economy 1945-1980*, Viking, 1986.
6. It is interesting to note that this take-off of expectations was clearly signalled in the Club of Rome report on limits to growth, at the start of the 1970s. See: Meadows, D.H. and Meadows, R.L. *The Limits to Growth*, Universe Books, 1972. The authors also saw that the take-off of expectations unfortunately coincided with entry into an era of increasing economic constraint.
7. See van der Wee, *op. cit.*
8. The ILO definition of unemployment is a conservative one, since it includes only those people who have recently been actively seeking work while not having a job. It therefore excludes those who have given up the search for work because the chances of finding it are too small.
9. '... The rapid expansion of output ... was caused entirely by the largest boom in personal consumption, by far, that has ever occurred ...' Godley, W., 'An old limousine', *New Statesman and Society*, 11 January 1991, page 19. See also *OECD Economic Surveys 1989/1990: United Kingdom*, OECD, 1990, pages 11-13.
10. For cycles of employment, in a long historic perspective, see: Maddison, A. *Phases of Capitalist Development*, Oxford University Press, 1982.
11. Wolf, M. 'Questions over the British miracle', *Financial Times*, 14 October 1989.
12. See, for example: *OECD Employment Outlook 1989*, OECD, 1989, Table A.1.
13. Clement, B. and Bevins, A. Labour drops pledge on full employment, *The Independent*, 7 August 1990. The Labour Party policy document, *Looking to the Future*, 1990, made no reference to policy against unemployment and specified no aims for reducing unemployment.
14. Walters, A.A. *Britain's Economic Renaissance: Margaret Thatcher's Reforms 1979-1984*, Oxford University Press, 1986.

15. *ibid.*, page 177.
16. *ibid.*, page 183.
17. Maddison, A., *op. cit.*
18. van der Wee, H., *op. cit.*
19. Brittan, S. *Second Thoughts on Full Employment Policy*, Centre for Policy Studies, 1975.
20. *ibid.*, page 21.
21. Keynes, J.M. *op. cit.*; especially Chapter 24.
22. Minford, P., with Davies, D., Peel, M. and Sprague, A., *Unemployment: Cause and Cure*, Martin Robertson, 1983.
23. For a time, a great deal of attention was focused by economists on the concept of the non-accelerating inflation rate of unemployment (NAIRU). This is the rate of unemployment which, under a particular set of conditions, is estimated to give rise to inflation which does not progressively increase. Many suggestions were put forward as to why the NAIRU should have increased. See, for example: Grubb, D., Layard, R. and Symons, J. *Wages, Unemployment and Incomes Policy*, Centre for Labour Economics, London School of Economics, Discussion Paper No. 168, 1983; Layard, R., and Nickell, S., *Unemployment in Britain*, Centre for Labour Economics, London School of Economics, Discussion Paper No. 240, 1986. More recently, interest in NAIRU appears to have decreased as it became evident that estimates of NAIRU converged with actual unemployment rates. Nonetheless, analysis based on these concepts led to many useful insights, and there is no question that at a practical level fears of inflation have been of great importance in regard to policy on unemployment.
24. Cornwall, J. *The Conditions for Economic Recovery: A Post-Keynesian Analysis*, Martin Robertson, 1983.
25. Crouch, C. *The Politics of Industrial Relations*, Fontana, 1979.
26. Myrdal, G. *Challenge to Affluence*, Gollancz, 1963.
27. European Trade Union Institute, *Reduction of Working Hours in Western Europe*, 1979.
—, *Practical Experiences with the Reduction of Working Time in Western Europe*, 1984.
- Leontief, W.W. The distribution of work and income, *Scientific American*, vol. 247, 1982.
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Future Work: Jobs, Self-Employment and Leisure after the Industrial Age, Gower, 1985.
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—, *Class, Citizenship and Social Development*, Greenwood, 1973 [1964].
33. Carlyle, T. *Past and Present*, Everyman's Library. See also the discussion in:

- Himmelfarb, G. *The Idea of Poverty: England in the Early Industrial Age*, Faber, 1984.
34. Harris, J. *Unemployment and Politics A Study in English Social Policy, 1886-1914*. Clarendon Press, 1972.
- Himmelfarb, G. *op. cit.*
- Williams, K. *From Pauperism to Poverty*, Routledge & Kegan Paul, 1981.

Chapter 2

1. Daniel, W.W. *The Unemployed Flow* PSI, 1990; Smith, D.J. *Unemployment and Racial Minorities*, PSI, 1981.
2. Daniel, W.W. *op. cit.*
3. *ibid.*; pages 138-40.
4. See also: Smith, D.J., How unemployment makes the poor poorer, *Policy Studies*, vol. 1, part 1, 1980.
5. Daniel, W.W. *op. cit.*, pages 104-111.
6. *ibid.*, pages 20-22; White, M., *Long-term Unemployment and Labour Markets*, PSI, 1983, pages 45-48; 88-91; White, M. and McRae, S. *Young Adults and Long Term Unemployment*, PSI, 1989, pages 85-87.
7. Jahoda, M. *Employment and Unemployment: A Social-Psychological Analysis*. Cambridge University Press, 1982.
8. White, M., *op. cit.*, pages 36-37. Of those in long-term unemployment as a consequence of redundancy, only two thirds apparently eligible for redundancy payments had received any.
9. Pahl, R. *Divisions of Labour*, Blackwell, 1984.
10. Berthoud, R. *The Reform of Supplementary Benefit*, PSI, 1984.
11. Daniel, W.W. *op. cit.*, pages 199-200.
12. White, M., *op. cit.*, pages 53-54; q.v. for earlier sources also.
13. Daniel, W.W. *op. cit.*, pages 148-149 and Table A8.10. Of those with registered disabilities, 53 per cent were still unemployed at the end of the longitudinal study.
14. Brown, C. *Black and White Britain*, Heinemann, 1984.
15. White, M. and McRae, S. *op. cit.*, pages 164-6.
16. For single or divorced people, see: White, M. *op. cit.*, pages 27-28. The effects upon employment chances of abnormalities of individual personality or appearance have been little studied in the UK. See, however, Colledge, M. and Bartholomew, R., *A Study of the Long-term Unemployed*, Manpower Services Commission, 1980, section 4.34.
17. Clark, M. The Unemployed on Supplementary Benefit: Living Standards and Making Ends Meet on a Low Income. *Journal of Social Policy*, vol. 7, 1978.
18. The 1978-79 survey, confined to male entrants to unemployment, was reported in: Moylan, S., Millar, J. and Davies, B. *For Richer, for Poorer? DHSS Cohort Study of Unemployed Men*, Department of Health and Social Security, Research Report 11, 1984. The 1983-84 survey, which covered male and female household heads entering unemployment, was reported in: Heady, P. and Smyth, M. *Living Standards During Unemployment*, HMSO, 1989. The more comprehensive 1986-87 survey has not yet received a full published analysis.
19. White, M. *op. cit.*
20. McRae, S. *Young and Jobless*, PSI, 1987.

21. Beveridge, W. *Full Employment in a Free Society*, George Allen and Unwin, 1944.
22. Macmillan, H. *The Middle Way*, EP Publishing 1978 [1938].
23. Rowntree, B. Seebohm, *The Human Needs of Labour*, Longmans Green and Co., 1937. It is noteworthy that Macmillan regarded Rowntree's proposed standards as inadequate. He based his view on another contemporary study which made greater use of nutritional science: Boyd-Orr, J. *Food, Health and Income*, Macmillan, 1936.
24. Atkinson, A. and Micklewright, J. 'Turning the Screw: Benefits for the Unemployed 1978-88', in: Dilnot, A. and Walker, J. (eds.) *The Economics of Social Security*, Oxford University Press, 1989.
25. *ibid.*
26. See Heady, P. and Smyth, M. *op. cit.* Table 3.8.
27. Bradshaw, J. and Morgan, J. *Budgeting on Benefit: The consumption of families on Social Security*, Family Policy Studies Centre, 1987.
28. Heady, P. and Smyth, M. *op. cit.* pp. 52-54, Table 8.5.
29. All the comments of long-term unemployed people quoted in this and the next two chapters were drawn from previously unpublished interview material from the 1980-81 DE/PSI Survey: see White, M. *op. cit.*
30. For example, of 1809 men continuously out of work in 1980 and 1981, 38 per cent borrowed money in 1980, and 35 per cent in 1981; 44 per cent reduced their level of savings in 1980 and 47 per cent in 1981; 32 per cent had difficulty in meeting regular payments in 1980, and 36 per cent in 1981. The same comparison for women also yielded no significant differences, although interpretation is complicated because of a greater degree of change in family circumstances. White, M., *op. cit.*, previously unpublished data.
31. White, M. *op. cit.* previously unpublished material.
32. Bradshaw, J. and Morgan, J. *op. cit.* pp. 29-35.
33. *ibid.*, page 35.
34. The current system of discretionary payments is called the Social Fund. In 1989/90, the lump-sum payments from the Fund (which cover all those on income support, not just unemployed people) cost one third of the payments under the former non-discretionary system of single payments, discontinued in 1985. A recent analysis, based on official data, indicated that in 1989/90 55 per cent of grant applications and 45 per cent of those seeking budgeting loans (repaid by instalments) were rejected. See: Berthoud, R. The Social Fund – is it working?, *Policy Studies*, vol. 12, 1991.
35. White, M. Life Stress in long term unemployment, *Policy Studies*, vol. 5, part 4, 1985.
36. Heady, P. and Smyth, M., *op. cit.*, page 18, Table 3.9.
37. These and the following data are previously unpublished findings from the 1980-81 DE/PSI survey, White, M. *op. cit.* (1983).
38. Occupational pensions remain highly concentrated among white-collar workers, while unemployment mainly occurs among manual workers. See: *General Household Survey 1987*, HMSO, 1989; Tables 7.10 and 7.11.
39. Heady, P. and Smyth, M. *op. cit.*, p. 18, Table 3.9.
40. Among men aged under 25 and living with parents, 30 per cent used some

- borrowed money for cigarettes, drinks or cosmetics/toiletries, while among women of the same age group, the corresponding proportion was 21 per cent.
41. The figure of 10 per cent is based on evidence from the Restart pilot schemes only. Keating, G. Will UK unemployment fall?, *Credit Suisse First Boston*, September 1986.
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 45. Harris, C. C., Lees, R. M. and Morris, L. D. 'Redundancy in steel: labour market behaviour, local social networks and domestic organisation', *ibid*.
 46. Turner, R., Bostyn, A. M., and Wight, D. 'The work ethnic in a Scottish town with declining employment', *ibid*.
 47. Thomas, J. J., The politics of the Black Economy, *Work, Employment and Society*, vol. 2, 1988.
 48. Layard, R. *Does the administration of Social Security affect the level of unemployment?* Centre for Labour Economics, London School of Economics, Working Paper No. 117.
 49. White, M. *op. cit* (1983), Table VIII.13, and unpublished data.
 50. See notes 5 and 8 above.
 51. White, M., *op. cit.*(1983), Table VIII.14.
 52. Postal delays would be randomly distributed, but delays of benefit payment were noticeably more common among younger benefit claimants. (*ibid*).
 53. McLaughlin, E., Miller, J. and Cooke, K. *Work and Welfare Benefits*, Avebury, 1989.
 54. Previously unpublished details from the PSI/DE 1980-81 survey of long- term unemployed people, White, M., *op. cit.* (1983).
 55. Daniel, W. W. *A National Survey of the Unemployed*, PEP Broadsheet No 546, 1974; see especially Chapters 4 and 5.
 56. Ashton, D. N. and Maguire, M. J. *Young Adults in the Labour Market*, Department of Employment, Research Paper No. 55, 1986: see pages 60- 61. McRae, S. *Young and Jobless*, PSI, 1987.
 58. Atkinson, J. and Micklewright, S., *op. cit.*
 59. Berthoud, R. *op. cit.* (1984).
 60. Daniel, W. W. Who didn't get a pay increase last year? *Policy Studies*, vol. 5, 1984; See also Daniel, W. W., *op. cit.* (1990), pages 88-89.

Chapter 3

1. White, M. *op. cit.* (1983), Table IX.12. The following details are drawn from hitherto unpublished material from the same study.
2. Heady, P. and Smyth, M., *op. cit.*, Table 9.5.
3. Daniel, W. W., *op. cit.* (1990), figure 5.2; White, M., (1983) *op. cit.*, Table IX.11.

4. Banks, M. H., and Ullah, P. *Youth unemployment: social and psychological prospectives*. Department of Employment, Research Paper No. 61, 1987.
Gallie, D. and Vogler, C. *Unemployment and Attitudes to Work*. The Social Change and Economic Life Initiative Working Paper 18, Economic and Social Research Council, 1990.
5. Pahl, R. *op. cit.*
6. Gay, P. and Hatch, S. *Voluntary Work and Unemployment*. Manpower Services Commission, Research and Development Series No. 15, 1983.
7. McRae, S. *op. cit.*
8. Parker, S. *The Future of Work and Leisure*, Paladin, 1972.
9. Narendranathan, W. and Nickell, S. 'Modelling the Process of Job Search', in: Nickell, S., Narendranathan, W. Stern, J. and Garcia, J. *The Nature of Unemployment in Britain*, Oxford University Press, 1989.
10. Galland, O., and Louis, M. -V., *Les Jeunes Chomeurs*, Centre de Recherches Travail et Société, 1978.
11. See: Hutson, S. and Jenkins, R. *Taking the Strain: Families, Unemployment and the Transition to Adulthood*, Oxford University Press, 1989.
12. See Daniel, W. W., *op. cit.* (1990), Table A 4.7. This showed that, the longer the period in unemployment, the greater the importance of personal contacts in obtaining jobs. Of those finding jobs in four weeks or less, 20 per cent obtained them through personal contacts, but of those obtaining jobs after more than one year of unemployment, 45 per cent found them through personal contacts.
13. Source: White, M., *op. cit.* (1983). At an initial interview, 51 per cent of men in long-term unemployment, but only 33 per cent of women, stated that they still met people who could tell them about jobs. At a follow-up interview, a little less than 18 months later, the proportions had fallen to 43 per cent and 32 per cent respectively. Of those aged up to 25, and not living independently, 44 per cent of the men and 42 per cent of the women gave a positive reply at the initial interview, so that at this stage young men were a little worse placed than the average while young women were a little better placed. By the time of the follow-up interview, however, the relative positions were reversed, with the young men marginally increasing their work-related contacts (to 46 per cent), while the young women's work-related contacts appeared to decrease steeply (to 28 per cent).
14. This can easily be demonstrated by tabulating economic status by enumeration districts or wards for any large city or metropolitan area.
15. For the male sample as a whole, at the initial interview, 23 per cent of those not meeting people who would tell them about work openings attributed this to having friends who were also unemployed. For young men not living independently, the proportion doubled, to 48 per cent. In the case of the female sample the overall proportion was 24 per cent and this increased to 30 per cent in the case of young women not living independently.
16. See White, M. *op. cit.* (1983), pages 40-42; 74-77.
17. In the survey as a whole (at the initial interview), 26 per cent of men and 30 per cent of women who did not meet people telling them about work openings explained this in terms of their general lack of sociability. These proportions rose to 33 per cent in the case of single men over 25, to 41 per cent in the case

of single women over 25, and to 37 per cent in the case of women who were divorced or separated.

18. The chief comparisons between the whole sample, and the young people not living independently, were as follows (at the initial interview):

	See friends more	See friends less
	(Percentages)	
Male: – all	10%	31%
– under 26, non-householders	18%	24%
Female: – all	12%	25%
– under 26, non-householders	15%	32%

19. In this group, 14 per cent saw their friends more often than one year previously, but no less than 40 per cent saw them less often.
20. McRae, S., *op. cit.*
21. Wallace, C. 'Between the Family and the State: Young People in Transition', in: White, M. (ed.) *The Social World of the Young Unemployed*, PSI, 1987.

Chapter 4

- For a general discussion, see: Gravelle, H. S. E., Hutchinson, G. and Stern, J. *Mortality and Unemployment: A Cautionary Note*, Discussion Paper No. 95, Centre for Labour Economics, London School of Economics, 1981. For a study making use of longitudinal census data, and nearly (but not quite) establishing a statistically sound link between unemployment and mortality, see Moser, K. A., Fox, A. J., and Jones, D. R., Unemployment and Mortality in the OPCS longitudinal study, *Lancet*, 8 December 1984, pages 1324-1329.
- White, M., *op. cit.* (1983), page 26.
- Casey, B., and Bruche, G. *Work or Retirement? Labour Market and Social Policy for Older Workers in France, Great Britain, the Netherlands, Sweden and the USA*, Gower, 1982.
Emanuel, H. Factors in the growth of the number of disability beneficiaries in the Netherlands, *International Social Security Review*, no. 32, 1980.
- It appears that the rate at which people enter registered sickness has not varied much, but that there has been an increasing tendency for people, once registered, to remain. (Source: Casey, B., *personal communication*, based on Labour Force Survey and tabulations supplied by the Department of Social Security.) From the viewpoint of a medical practitioner, it may be difficult to remove someone from the sickness register if it is known that the effect will be to shift the person into unemployment, at a substantially lower level of benefit.
- Kasl, S. V. and Cobb, S. Blood pressure changes in men undergoing job loss: a preliminary report, *Psychosomatic Medicine*, vol. 32, 1970. However, subsequent research has yielded conflicting results. For a wide-ranging review of evidence: Warr, P. *Work, Unemployment and Mental Health*, Clarendon Press, 1987.
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8. Heady, P., and Smyth, M. *op. cit.*, page 64, Table 9.9.
9. See: *General Household Survey 1977; General Household Survey 1978*, HMSO.
10. For further details see White, M., *op. cit.* (1985).
11. Berthoud, R., *op. cit.* (1984).
12. White, M., *op. cit.* (1985)
13. Lakhani, B. and Read, J. *National Welfare Benefits Handbook – 20th Edition (1990-91)* Child Poverty Action Group, 1990; page v.
14. Berthoud, R., *op. cit.* (1991).
15. For discussion, see Dilnot A. and Webb, S. 'The 1988 Social Security Reforms', in: Dilnot, A. and Walker, I. (eds.), *op. cit.*; pages 252-256.
16. See details in Chapter 2, note 40.
17. Heady, P. and Smyth, M. *op. cit.*, page 52.
18. Hutson, S. and Jenkins, R. *op. cit.*
McRae, S. *op. cit.*
19. Coffield, F., Borrill, C., and Marshall, S. *Growing Up at the Margins: Young People in the North East*, Open University Press, 1986.
20. About one in seven of the young (under 25) people in the survey reported family tensions in these terms, but similar remarks were rarely made by older unemployed people.
21. Fogelman, K. (ed.) *Growing Up in Great Britain: Papers from the National Child Development Study* National Children's Bureau, 1983; see especially chapter 5.
22. *ibid.*, pages 116-117.
23. Fagin, L. and Little, M. *The Forsaken Families: The effects of unemployment on family life*. Penguin, 1984.
24. White, M., *op. cit.* (1983), previously unpublished data.
25. *ibid.* The questions used in the survey did not establish the numbers of children in each family who had such problems, but only whether any child had them. Accordingly, the figure quoted (11 per cent) has been based on families with only one school-age child. In as much as larger families may have more illness per child, our figure may be an underestimate.
26. Roberts, K., Duggan, J., and Noble, M., *Unregistered Youth Unemployment and Outreach Careers Work (Part One)*, Department of Employment Research Paper No. 31, 1982.
27. White, M., *op. cit.* (1983). The following findings have not previously been published.
28. White, M., *op. cit.* (1983); previously unpublished data. It was found that if financial help had been given, the average score on the General Health Questionnaire (GHQ) was 4.1, while if help had been given in kind, the average score was 4.2. For those not receiving family help, the average score was 3.1, significantly lower than the two preceding figures.
29. After the first £15 of earnings, there are pound-for-pound reductions (or a 100 per cent withdrawal rate) of means-tested benefits against earnings, in the case of a couple on income support.
30. Our description here is not precise and ignores fine distinctions, made by psychologists of the operant behaviour school. For further details, see: Sidman, M.

'Avoidance Behavior', in: Honig, W. K. *Operant Behavior: Areas of Research and Application*, Appleton-Century-Crofts, 1966.

Chapter 5

1. The following outline is largely based upon Madison, A., *op. cit.*; and van der Wee, H., *op. cit.* See also: Berndt, E. R. and Wood, D. O., Energy Price Shocks and Productivity Growth in US and UK Manufacturing, *Oxford Review of Economic Policy*, vol. 2, 1986.
2. See, for example; Schmidt, M. G. 'The Welfare State and the Economy in Periods of Economic Crisis: A Comparative Analysis of Twenty-three OECD Nations', *European Journal of Political Research*, vol. 11, 1983.
—, 'The Politics of Labour Market Policy: structural and political determinants of full employment and mass unemployment in mixed economies', Conference paper, World Congress of International Political Science Association, Paris 1985; also in Castles, G., Lehner, F. and Schmidt, M. G. (eds.), *The Political Management of Mixed Economies*, Berlin 1987.
Crouch, C. 'Conditions for Trade Union Wage Restraint', in Lindberg, L. and Maier, C. (eds.) *The Politics of Inflation and Economic Stagnation*, Brookings Institution, 1985.
Garrett, P. and Lange, P. Performance in a Hostile World, *World Politics*, 1986.
3. Organisation for Economic Cooperation and Development, *Economies in Transition: Structural Adjustment in OECD Countries*, OECD, 1989.
4. *ibid.*; see also Garrett, R., and Lange, P., *op. cit.*
5. An intrinsic technical difficulty in making comparisons between national economies is that the number of observations is small relative to the potentially enormous range of relevant variables. For this reason, it may be better to regard the statistical analysis as an illustrative technique, helping to bind together or summarize case-study evidence (where each country is a case study), rather than as a form of rigorous estimation.
6. Schmidt, M., *op. cit.*
7. Therborn, G. *Why Some People are More Unemployed than Others: the Strange Paradox of Growth and Unemployment*, Verso, 1986.
8. See: van der Wee, H., *op. cit.*, pages 296-7; Macrae, M. 'Whatever happened to British planning?' in: Bell, D. and Kristol, I. (eds.), *Capitalism Today*, Basic Books, 1971. From this historical point of view, the marked hostility of the Thatcher governments towards central planning was merely an open expression of a long-established British outlook.
9. Macfarlane, A. *The Origins of English Individualism: the Family, Property and Social Transition*, Blackwell, 1978. In later writings, Macfarlane has acknowledged that historians of an earlier era, especially Maitland, held similar views that England was, from early times, different from the peasant societies of continental Europe. See: Macfarlane, A. *The Culture of Capitalism*, Blackwell, 1987.
10. Himmelfarb, G. *op. cit.*
11. Smith, A. *An Inquiry into the Nature and Causes of the Wealth of Nations*. In Book 1, Smith attacked restraints on the mobility of poor people; in Book 4, he espoused taxation which had a redistributive function.

12. *ibid.* See also: Skinner, A. S. *A System of Social Science: Papers relating to Adam Smith*, Clarendon Press, 1979.
13. Himmelfarb, G. *op. cit.*
14. Stedman Jones, G. *op. cit.*
15. Harris, J. *Unemployment and Politics. A study in English social policy, 1886-1914.* Clarendon Press, 1972.
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Rehn, G. *Swedish Active Labour Market Policy: Retrospect and Prospect*, Swedish Institute for Social Research, Reprint Series No. 140, [1985].
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20. For a recent confirmation of this, see: Casey, B., Lakey, J. and White, M. *Recent Trends in Payment Systems*, Department of Employment Research Paper Series, forthcoming.
21. These included Macmillan's initiative in setting up the National Economic Development Council with tripartite representation; the Labour Government's brief foray into national economic planning of the mid-1960s, and its unimplemented policy of planning agreements between State and leading corporations of the 1970s.
22. Millward, N., and Stevens, M. *British Workplace Industrial Relations, 1980-1984.* Gower, 1986.
23. Edwards, P. K. and Bain, G. S. Why are Trade Unions Becoming More Popular? Unions and Public Opinion in Britain. *British Journal of Industrial Relations*, vol. 26, 1988.
24. Gallie, D. and Rose, M., 'Employer Policies and Trade Union Influence', in: Gallie, D., Penn, R. and Rose, M. (eds.) *Social Change and Trade Unions in Britain*, Oxford University Press, forthcoming.
25. Department of Employment *Employment: the Challenge for the Nation*, Cmnd 9474, HMSO, 1985; *Training for Employment*, Cm 316, HMSO, 1988; *Employment for the 1990s*, Cm 540, HMSO, 1988.
26. Keynes, J. M. *op.cit.* See especially p. 264.
27. Lindbeck, A. and Snower, D. Explanations of unemployment. *Oxford Review of Economic Policy*, vol. 1, 1985.
28. Confederation of British Industry, *The structure and processes of pay determination in the private sector: 1979-1986*, CBI, 1988. See also: Ingram, P. N. Changes in Working Practices in British Manufacturing Industry in the 1980s: A Study of Employee Concessions Made During Wage Negotiations. *British Journal of Industrial Relations*, vol. 29, 1991. This paper provides substantial new evidence in confirmation of many of the contentions of the present chapter.
29. Casey, B. *Temporary Employment: Practice and Policy in Britain*: PSI, 1988.

30. Research conducted at the Department of Applied Economics, University of Cambridge, has had particular influence on our ideas, more through the data than the conceptual framework applied by the Cambridge group. See, for example: Craig, C and Rubery, J. *Payment Structures and Smaller Firms: Women's Employment in Segmented Labour Markets*, Department of Employment Research Paper No. 48, 1985; Craig, C., and Wilkinson, F. *Pay and Employment in Four Retail Trades*, Department of Employment Research Paper No. 51, 1985.
31. Daniel, W. W. *Workplace Industrial Relations and Technical Change*, Frances Pinter/PSI, 1987; see especially Chapter 7. See also: Northcott, J. and Walling, A. *The Impact of Microelectronics*, PSI, 1988; chapters 6 and 8.
32. In summarizing the benefits of new technology, Northcott and Walling (*ibid.*) distinguish between the reports of 'product users' and 'process users'. Product users referred to better product performance, new product functions, more consistent, better quality products, and more flexibility in new product development, more frequently (in each instance) than to lower production costs. Process users referred to more consistent, better quality products, better control of production processes, more flexibility in production, more efficient use of materials and energy, and improved working conditions, as well as to greater speed of output, lower production costs, and more efficient use of labour. See Tables 63-66.
33. White, M. and Ghobadian, A. *Payment Systems and Technology in Electrical Engineering*. *Omega*, vol. 12, 1984 (1984a); White, M. *Consolidated Report on Case Studies in the Chocolate Manufacturing Industry in France and the United Kingdom*, mimeo, European Foundation for the Improvement of Living and Working Conditions, 1983; Rigg, M., Christie, I., and White, M. *Advanced Polymers and Composites: Creating the Key Skills*, Training Agency, 1989.
34. Daniel, W. W. *op. cit.*
35. *ibid.*, Table X.2.
36. *ibid.*, Table VII.1.
37. *ibid.*, Table VII.14.
38. *ibid.*, Tables IX.22 and IX.23.
39. *ibid.*, Table X.8.
40. See: Dornbusch, R. and Layard, R. (eds.) *The Performance of the British Economy*, Oxford University Press, 1987; Metcalf, D. *Water Notes Dry Up: The Impact of the Donovan Reform Proposals and Thatcherism at Work on Labour Productivity in British Manufacturing Industry*, *British Journal of Industrial Relations*, vol. 27, 1989; Haskel, J. E. and Kay, J. A. *Productivity in British Industry under Mrs. Thatcher*, Working Paper No. 74, Centre for Business Strategy, London Business School, 1990.
41. White, M. *Shorter working time through national industry agreements*, Department of Employment Research Paper No. 38, 1982; White, M. and Ghobadian, A. *Shorter Working Time in Practice*, PSI, 1984. (1984b)
42. Wilkinson, F. and White, M. 'Product Market Pressures and Employers' Responses', forthcoming.
43. Atkinson, J. *Manpower Strategies for Flexible Organisations*, *Personnel Management*, August 1984.
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49. Daniel, W. W., *op. cit.*; see Tables II.4 and VII.14, and pages 166-181.
50. Freeman, R. and Medoff, D. *What Do Unions Do?* Basic Books, 1984.
51. Gallie, D., and Rose, M. *op. cit.*
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53. White, M. and Ghabadian, A., *op. cit.* (1984b)
54. Brown, W. A. *Piecework Bargaining*, Heinemann, 1973. Royal Commission on Trade Unions and Employers' Associations, *Report*, HMSO, 1968.
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56. White, M. and Ghabadian, A. The Responsiveness of an Incentive Payment Scheme, *Personnel Review*, vol. 14, 1985.
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58. Millward, N., and Stevens, M., *op. cit.*, Tables 9.17 and 9.18.
59. *ibid.*, page 249.
60. *ibid.*, Table 8.8 and page 221.
61. Gowler, D. and Legge, K. 'The Wage Payment System: a Primary Infrastructure'. In: Robinson, D. (ed.) *Local Labour Markets and Wage Structures*, Gower, 1970.

Chapter 6

1. Pigou, A. C. *Industrial Fluctuations*, Macmillan, 1927; *The Theory of Unemployment*, Macmillan, 1933.
2. In principle, any barrier could be overcome, but in practice, costs rule out many forms of mobility. Consider, for example, the cost of building a house in the South-East of England to accommodate an unemployed worker and family; or the cost of training a functionally illiterate worker to be capable of doing a clerical job.
3. Jackman, R., Layard, R., and Savouri, S. *Labour-market Mismatch: A Framework for Thought*, Centre for Economic Performance, Discussion Paper No. 1, 1990.
4. The source for this, and subsequent statistics on the total labour force, are the results of Labour Force Surveys which are published annually in the *Employment Gazette*.
5. Daniel, W. W. *op. cit.* (1990); Table A2.1.
6. *ibid.*
7. This is the practice, for example, in the application of the widely used Goldthorpe Social Class Schema.

8. For some evidence, see Jackman, R., Layard, R., and Savouri, S., *op. cit.*, Table 3. Note that these estimates (a) excluded those with more than three years of unemployment, (b) made no allowance for the tendency of married women to become non-claimant unemployed after one year, (c) did not model the possible underlying differential selectivity effects for the various occupational groups. Rigorous research on occupational differences in unemployment durations remains to be done.
9. Daniel, W. W. *op. cit.* (1990); Chapter 8.
10. White, M. *op. cit.* (1983); Chapter 5 and 6.
11. *ibid.*, Chapter 6.
12. *ibid.*, pages 71-72.
13. *ibid.*, Table 3.7.
14. White, M. and McRae, S. *op. cit.*; Table 3.3, and pages 59-69.
15. White, M. *op. cit.* (1983); pages 53-57.
16. *ibid.*
17. *ibid.*, pages 45-48; 88-91.
18. Daniel, W. W. *op. cit.* (1990), Table A2.6.
19. White, M. *op. cit.* (1983), Table 5.2. The findings were particularly striking for mining and quarrying, which provided 2.5 per cent of male employment in 1980, but 7.8 per cent of the sample of men in long-term unemployment.
20. *ibid.*, Table 3.8. Redundancies affecting 10 or more workers (the only category for which statistics are collected officially) rose from 186,800 in 1979 to 532,000 in 1981. See *Employment Gazette*, May 1982, page 219. It must be stressed, however, that redundancies and closures constitute only a minority of total unemployment.
21. Daniel, W. W., *op. cit.* (1990) Table A6.12.
22. *ibid.*, Table A2.6.
23. *ibid.*, Chapter 11.
24. Stedman Jones, G., *op. cit.*; Harris, J., *op. cit.*
25. The Royal Commission on Unemployment Insurance of 1932 stated that 60 per cent of insured workers – mostly manual workers – had experienced unemployment within the previous 11 years. Cited in Macmillan, H., *op. cit.*, page 62.
26. Jackman, R., Layard, R. and Savouri, S., *op. cit.*, Table 2.
27. Goldthorpe, J. H. Women and Class Analysis: In defence of the conventional view, *Sociology*, vol. 17, 1983.
28. Daniel, W. W. *op. cit.*, Table A3.5. To some extent this table could be used against our argument, because it shows that even white-collar male workers entering unemployment had in about one half of the cases received very little notice. However, (a) manual workers still fared relatively worse, (b) a true comparison would require data on the job termination conditions of people going straight into new jobs as well as those entering unemployment. Those entering unemployment are likely to be partially selected through short notice periods.
29. White, M. *op. cit.*, (1983), Table 6.8 and pages 84-88.
30. Ashton, D. N. and Maguire, M. J. *Young Adults in the Labour Market*, Department of Employment Research Paper No. 55; see especially Table 6.6 and Diagrams 1-4.
31. Gagliani, G. Long-term Changes in the Occupational Structure, *European Sociological Review*, vol. 1, 1985.

32. Rothwell, R. and Zegveld, W. *Technical Change and Employment*, Frances Pinter, 1979.
Freeman, C. and Soete, L. (eds.) *Technical Change and Full Employment*, Basil Blackwell, 1987.
33. Institute for Employment Research, *Review of the Economy and Employment: Occupational Assessment*, University of Warwick, 1989.
34. Much of the following material is drawn from: White, M., and McRae, S., *op. cit.*, Chapter 2.
35. Owen, D. W., Gillespie, A. E. and Coombes, M. G. 'Job Shortfalls' in British Local Labour Market Areas: A Classification of Labour Supply and Demand Trends, 1971-1981. *Regional Studies*, vol. 18, 1984.
36. One of the best demonstrations remains: Blau, P. M., and Duncan, O. D. *The American Occupational Structure*, Wiley, 1967; See especially Table 2.7, Figure 5.2; and associated discussions. The figures shown in Blau and Duncan's table, it should be noted, concern movement from an initial entry job to a current job level. Such movement will tend to over-state the degree of real mobility, and under-state the barriers to mobility, because first jobs are particularly untypical of the careers of those coming from higher socio-economic origins (See: Goldthorpe, J. H. and others, *Social Mobility and Class Structure*, Clarendon Press, 1980).
37. Heath, A. *Social Mobility*, Fontana, 1981.
38. White, M. and McRae, S., *op. cit.*, pages 38-43.
39. See, for example: *General Household Survey 1987*, HMSO, 1989; Table 10.11.
40. This argument has been variously developed in terms of 'Screening theory' and 'credentialism'. See: Bowles, S. and Gintis, H. *Schooling in Capitalist America*, Routledge and Kegan Paul, 1976. Spence, M. 'Signaling, Screening and Information', in: Rosen, S. (ed.) *Studies in Labour Markets*, National Bureau of Economic Research, 1981.
41. Ball, C. *Aim Higher: Widening Access to Higher Education*, Royal Society of Arts, 1989.
Hayes, C. and Fonda, N. *Competence and Competition*, National Economic Development Office/Manpower Services Commission, 1982.
White, M. Educational Policy and Economic Goals, *Oxford Review of Economic Policy*, vol. 4, 1988.
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45. White, M. and McRae, S. *op. cit.*, Table 3.3.
46. Goldthorpe, J. H. and others, *op. cit.*
47. Finegold, D. and Soskice, D. The Failure of Training in Britain: Analysis and Prescription, *Oxford Review of Economic Policy*, vol. 4, 1988.
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 50. Watanabe, S. Labour-saving versus work-amplifying efforts of micro-electronics, *International Labour Review*, vol. 125, 1986.
 51. Leontief, W. and Duchin, F. *The Future Impact of Automation on Workers*, Oxford University Press, 1986.
 52. Crompton, R. and Jones, G. *White Collar Proletariat: Re-Skilling and Gender in Clerical Work*. Macmillan, 1984.
 53. Martin, J. and Roberts, C. *Women in Employment: A Lifetime Perspective*, HMSO, 1984; see Tables 5.24 and 5.25.
 54. Gallie, D., and White, M., *op. cit.*
 55. See *General Household Survey 1987*, HMSO, 1989; Table 7.11.

Chapter 7

1. Mannheim, K. *Ideology and Utopia*, Routledge and Kegan Paul, 1972 [1936].
2. Daniel, W. W., *op. cit.* (1990); White, M. *op. cit.* (1983).
3. *ibid.*; see Table 3.2.
4. The most significant changes were introduced in the 1989 Social Security Act, which introduced a requirement that claimants should give positive evidence of job search each week, and also required them (after a short period seeking work in their own field) to take any job they were offered (subject to certain exceptions) or be penalised. See: Brown, J., *Victims or Villains? Social Security Benefits in Unemployment*, Joseph Rowntree Memorial Trust, 1990; pages 198-200.
5. Daniel, W. W., *op. cit.* (1990), pages 149-150.
6. Galland, O., and Louis, M-V., *op. cit.*
7. Moylan, S., Miller, J., and Davies, R., *op. cit.*; Smith, D. J., *op. cit.*; White, M., *op. cit.* (1983).
8. White, M., and McRae, S. *op. cit.*; chapter 9.
9. This interpretation is further developed in: White, M. Information et chômage des jeunes, *Sociologie du Travail*, vol. 32, 1990.
10. Daniel, W. W. *op. cit.* (1990), pages 104-108.
11. McLoughlin, E., Millar, J. and Cooke, K. *op. cit.*
12. Pigou, A. *op. cit.* (1927).
13. Moylan, S., Millar, J., and Davies, R. *op. cit.* ; Daniel, W. W., *op. cit.*, (1990), Table A6.13.
14. White, M. and McRae, S. *op. cit.*, pages 101-102.
15. Green, A. E. and others, 'What contribution can labour migration make to reducing unemployment?', in Hart, P. E. (ed.) *Unemployment and Labour Market Policies*, Gower, 1986.
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17. Daniel, W. W. *op. cit.* (1990), pages 100-104.
18. Dore, R. *op. cit.*
19. An indicator of closures is provided by the number of company insolvencies. For England and Wales, these rose from a total of 4,537 in 1979 to a peak of 14,898

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- in 1985, before falling again to 9,427 in 1988. Source: *Annual Abstract of Statistics 1990*, HMSO, 1990; Tables 17.28 and 17.30.
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 22. White, M. and McRae, S. *op. cit.*, pages 59-69.
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 24. See: White, M. and McRae, S., *op. cit.*, pages 178-179. But the analysis of the effects of duration is a statistically and conceptually complex task, which still awaits a rigorous and convincing solution. See, for example: Lancaster, A. and Nickell, S. The Analysis of Reemployment Probabilities for the Unemployed, *Journal of the Royal Statistical Society, Series A*, vol. 143, 1980.
 25. For example: Nickell, S. Estimating the probability of leaving unemployment, *Econometrica*, vol. 47, 1979; Narendranathan, W., Nickell, S., and Stern, J. 'Unemployment Benefits Revisited', in: Nickell, S. and others, *op. cit.* (1989).
 26. *ibid.*
 27. White, M. *op. cit.* (1983), Chapter 9.
 28. Daniel, W. W. *A National Survey of the Unemployed*, PEP Broadsheet No. 546, 1974.
 29. White, M. and McRae, S. *op. cit.* pages 184-191.
 30. For example: Daniel, W. W. *op. cit.* (1990), Table A8.12.
 31. White, M. and McRae, S. *op. cit.*, pages 170-174.
 32. Crowley-Bainton, T. Discriminating Employers, *New Society*, 27 November 1987.
 33. For example: White, M. *op. cit.*, (1983) page 121.
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 38. Dore, R. *op. cit.*
 39. White, M. *op. cit.* (1983) pages 123-127.
 40. White, M. and McRae, S. *op. cit.* pages 193-197.
 41. Crowley-Brainton, T. and White, M. *Employing Unemployed People: How Employers Gain*, Employment Service, 1990.
 42. Bem, D. J. Self-perception: on Alternative Interpretation of Cognitive Dissonance Phenomena. *Psychological Review*, vol. 74, 1967.

Chapter 8

1. Organization for Economic Co-operation and Development, *Employment Outlook: July 1989*, OECD, 1989.
2. Most recently by Worswick, G. D. N. *Unemployment: A Problem of Policy*, Cambridge University Press, 1991.
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4. Denison, E. F. and Poulhier, J.-P., *Why Growth Rates Differ*, Brookings Institute, 1967. Rostow, W. W. *Stages of Economic Growth* (2nd. ed.) Cambridge University Press, 1971.
5. For the position to the early 1980s, see: Trends in working hours, *Employment Gazette*, November 1982.
6. See: 1990 Labour Force Survey preliminary results, *Employment Gazette*, April 1991; Tables 1 and 5.
7. Robinson, O., and Wallace, J. Growth and utilisation of part-time labour in Great Britain, *Employment Gazette*, September 1984.
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10. Derived from Table 5.6 in the OECD's *Employment Outlook: July 1989*.
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12. Jallade, J. -P. (ed.) *L'Europe a Temps Partiel*, Economica, 1982.
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15. *ibid.* ; see also Martin, J. and Roberts, C., *op. cit.*
16. Byre, A. *Human Rights at the Workplace* PSI, 1988; see chapter 26.
17. McRae, S. *op. cit.* (1991).
18. See: Economic activity and qualifications, *Employment Gazette*, October 1988; Tables 2 and 9.
19. Daniel, W. W. *Maternity Rights: The experience of employers*, PSI, 1980.
20. McRae, S. *op. cit.* (1991).
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22. Crowley-Bainton, T. and White, M. *op. cit.*
23. See *Regional Trends*, HMSO, annual.
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28. Storey, D. J. *Entrepreneurship and the New Firm*, Croom Holm, 1982.
29. The actual importance of the desire for autonomy is confirmed in: Hakim, C. New recruits to self-employment in the 1990s, *Employment Gazette*, June 1989.
30. Storey, D. J. *op. cit.*
31. Rothwell, R. 'The role of small firms in technological innovation', in: Curran, J., Stanworth, J., and Watkins, D. (eds.) *The Survival of the Small Firm*, Gower, 1986.
32. Social and Community Planning Research, *Enterprise Allowance Scheme: 18 Month Interview Survey*, SCPR, 1990.
33. White, M. and others, *op. cit.*
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35. Department of Trade and Industry, *Interim Assessment of the Small Business Loan Guarantee Scheme*, 1982.
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3. Organisation for Economic Cooperation and Development, *Employment Outlook 1988*, OECD 1988; see Chart 2.1.
4. The source of this unlovely, but useful, word is not clear to the author; but it may possibly be due to the economist of education, Mark Blaug.
5. Hayes, C. and Fonda, N. *op. cit.*
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7. This proposition still stands in need of direct verification, but for some supporting indications, see for example: Roberts, K., and Parsell, G. *The Stratification of Youth Training*, ESRC 16-19 Initiative Occasional Paper No. 11, undated.
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9. Roberts, K. and Parsell, G. *op. cit.*
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10. Rose, R. and Wignanek, G. *Training without Trainers? How Germany avoids Britain's supply-side bottleneck*, Anglo-German Foundation, 1990; Table 3.3.
11. The YTS annual budget was typically of the order of £1 billion in the mid-80s.
12. Gray, J., Jesson, D., Pattie, C. and Sime, N. *Education and Training Opportunities in the Inner City: the Experiences of 16-19 Year Olds*, Educational Research Centre, University of Sheffield, March 1989. Furthermore, the July 1989 *Employment Gazette* (page 345) reported that 26 per cent of YTS trainees needed help with basic numeracy, and 17 per cent with literacy.
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14. Prais, S. J. *How Europe Would See the New British Initiative for Standardizing Vocational Qualifications*, National Institute Economic Review, No. 129, 1989.
15. The principle, often referred to as 'modified Robbins', is that all those wanting to have a higher education and capable of benefiting from it should be provided with a place. For government policy, see: *Higher Education: Meeting the Challenge*, Cm. 114, HMSO, 1987.
16. *ibid.*
17. The Baccalaureat was itself a narrowly academic course until reformed by the addition of technical and vocational variants. For discussion of A-levels, see: *Advancing A Levels* (Report of the Higginson Committee), HMSO, 1988; Ball, C. *op. cit.*
18. Cassels, J. *op. cit.*
19. Roberts, K. and Parsell, G. *op. cit.*
20. *Better Schools, op. cit.*
21. For discussion, see White, M. *op. cit.* (1988).
22. *ibid.*
23. At the time of writing, two years after the passing of the Educational Reform Act, the number still stands at less than 100.
24. This is because, in the first place, a sixth-form place attracts a higher grant allocation; but more importantly, because most schools have too-small class sizes in the sixth form, so that additional pupils could be absorbed at low marginal cost.
25. For indications of the great variation in school practice in this respect, and the impact on attainment, see: Smith, D. and Tomlinson, S. *The School Effect*, PSI, 1989.
26. Committee for Economic Development, *An America that Works: The Life-Cycle Approach to a Competitive Work-Force*, CED, 1990.
27. Northcott, J. *Britain in 2010*, PSI, 1991.
28. Ministry of Labour, Sweden *The Labour Market and Labour Market Policy in Sweden: A discussion paper for the 1990s* 1988.
29. White, M. *op. cit.* (1983), Table 5.1.
30. Roberts, K. and Parsell, G. *op. cit.*
31. White, M. and McRae, S. *op. cit.*
32. Payne, J. and Payne, C. W. Youth unemployment 1974-81: the changing importance of age and qualifications, *Quarterly Journal of Social Affairs*, vol. 1, 1985.
33. At the time of writing, there are numerous indications that the government has decided to retreat on the national curriculum in the face of opposition from the

education professions and allied interest groups. The result may turn out to be a relatively weak prescription permitting many of the discriminatory practices of the less effective schools and education authorities to continue.

34. Smith, D. and Tomlinson, S. *op. cit.*
35. *ibid.*; Hanushek, E. A. *The Economics of Schooling: Production and Efficiency in Public Schools*. Journal of Economic Literature, vol. 24, 1986.
36. Heath, A. *op. cit.*
37. Whitfield, K. and Bourlakis, C. *YTS and the Labour Queue*, Training Agency, Research and Development No. 54, Youth Cohort Series No. 8, 1990.
38. Rose, R. and Wignanek, G. *op. cit.*
39. Payne, J. *Adult Off-the-job Training: An Evaluation Study*, Training Agency, 1990.
40. Similar developments have taken place elsewhere in the British vehicles industry (Jaguar, Ford, Lucas), although perhaps not with the vision present at Rover Group of the social possibilities of the initiative.
41. The stimulus to this development came initially from the astonishingly successful Open University. Subsequently large amounts of development were funded by the (then) Manpower Services Commission under its 'Open Tech' programme. More recently, the Open College has come into being to offer a more basic level of education and training to people who need not have much prior educational attainment, and the Open College of the Arts has also been established to provide training in arts and crafts. These varied developments provide a highly favourable infrastructure for locally based open learning centres. For the growing importance of open learning in corporate training practice, see: Horton, C. *The Training and Development of Trainers*, Training Agency, 1990.
42. Daniel, W. W. *op. cit.* (1990).
43. Full Employment UK *The Next Rung Up: training, enterprise and unskilled workers*, May/June 1989.
44. Confederation of British Industry *op. cit.* (1990).
45. The evidence is largely based on changes in wages; it is assumed that employers would not, in general, pay higher wages unless there was a return in the form of higher productivity. For recent research which elaborates some of the linkages, see: Bartel, A. P. and Lichtenberg, F. R. *The Age of Technology and Its Impact on Employee Wages*, *Economics of Innovation and New Technology*, Specimen Issue, 1990.

Chapter 10

1. The emphasis upon efficiency and operational cost savings was embodied in the Rayner Inquiry. See: Department of Employment and Department of Social Security, *Payment of Benefits to Unemployed People*, 1981.
2. White, M. *op. cit.* (1983), pages 122-127.
3. White, M. and McRae, S. *op. cit.*, pages 194-197.
4. Crowley-Bainton, T. and White, M. *op. cit.*
5. White, M. *op. cit.* (1983), Table 6.8.
6. White, M. and McRae, S. *op. cit.*, pages 200-201.
7. Magaziner, I. and Hout, T. *op. cit.*
Strath, B. *op. cit.*

8. An example is British Steel (formerly British Steel Corporation), which set up a special organization to ease the community problems following upon site closures. The activities carried out ranged from counselling and placement services for redundant workers to the encouragement of small business and the assistance of inward investment to the affected areas.
9. Jackman, R., Layard, R. and Savouri, S. *op. cit.*
10. Dilnot, A. and Stark, G. 'The Poverty Trap, Tax Cuts, and the Reform of Social Security', in: Dilnot, A. and Walker, I. *op. cit.*
11. Ashby, P. *Back in Credit: Employment Credit Schemes for Long-term Unemployed People*, Action, 1987.
12. Harris, J. *op. cit.*
13. Jackman, R. and others, *A Job Guarantee for Long-term Unemployed People*, Employment Institute, undated.
14. *ibid.*
15. Turner, P. After the Community Programme - results of the first follow-up survey, *Employment Gazette*, 1985. This showed that of CP leavers, 25 per cent went into jobs immediately, rising to 32 per cent after eight months.
16. Rhys-Williams, J. *Something to Look Forward To*, Macdonald, 1942.
17. Brittan, S. and Webb, S. *Beyond the Welfare State: An Examination of Basic Incomes in a Market Economy*, Aberdeen University Press, 1990.
Dore, R. *op. cit.*
Meade, J. *Agathotopia: The Economics of Partnership*, Aberdeen University Press, 1989.
Parker, H. *Instead of the Dole*, Routledge, 1989.
18. *ibid.*
19. Brittan, S. and Webb, S. *op. cit.*
Dilnot, A. and Stark, G. *op. cit.*
20. Adam Smith (in *The Wealth of Nations*) argued that taxing workers on low incomes was both inequitable and demoralizing. The high marginal rates of tax levied on low-paid workers in the UK represents a particularly profound failure of national fiscal policy to meet the most basic requirements of equity and incentive.
21. It has to be appreciated that the main beneficiaries of these programmes, and of welfare aid generally, in the USA have been lone parent families. See: Haveman, R. *Poverty Policy and Poverty Research: the Great Society and the Social Sciences*, University of Wisconsin Press, 1987.
22. Jackman, R. and others, *op. cit.*
Layard, R. *Understanding Unemployment*, Centre for Economic Performance, Discussion Paper No. 4, 1990; see Part 2.
23. Brittan, S. and Webb, S. *op. cit.*, Chapter 4. Webb's figure of 40 per cent basic tax rate (to which a further nine per cent for National Insurance contributions presumably should be added) compares favourably with figures of 70-80 per cent offered by Hermione Parker (*op. cit.*). Webb's scheme provides basic incomes for family units rather than individuals, and this constitutes the main saving.
24. For individuals, see: Brown, C.V. *Taxation and the Incentive to Work*, Oxford University Press, 1983. For countries, consider Sweden, with higher average personal taxation than most other European countries, but also with particularly high rates of economic participation and employment.

25. Cited in Brittan, S. and Webb, S. *op. cit.*
26. *ibid.*
27. Rehn, G. *Towards a Society of Free Choice*, Reprint Series No. 35a, Swedish Institute for Social Research, 1978. Rehn presents his ideas in terms of 'drawing rights' in which it is possible for individuals to be in debit (overdrawn) on the basis of actuarial expectations of their eventual lifetime contributions. He also saw it more in terms of lifelong educational opportunities, combined with a work-sharing potential, rather than in terms of facilitating mobility (which is at a high level in Sweden). Our proposals, therefore, are substantially different in detail to Rehn's, but owe much to the broader philosophical exposition in his paper.
28. Heady, P. and Smyth, M. *op. cit.*, Tables 3.8 and 3.9. It should be noted, however, that this survey excluded unemployed people who were not heads of households, who form a large proportion of the total inflow to unemployment and are much less likely (being on average younger) to have sources of income other than wages.
29. White, M. *op. cit.* (1987).

Chapter 11

1. *Social Trends 20*, HMSO, 1990.
2. *ibid.*

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