

Labour Flexibility in Western European Labour Markets

Guy STANDING*

The following will attempt to present a consistent set of stylised facts about the European labour market. As such, it will do injustice to some subsidiary developments, but the intention is to depict the recent past, present and likely future patterns of labour force activity in a way that highlights the need for new strategies for socio-economic revival.

It is argued that we are in the midst of an era of profound social and economic transition, when the old verities of "welfare capitalism" have been rejected by many and doubted by most, but when new verities have not been put securely in their place. Some will doubt that the old verities are lost, others will contend that new verities have indeed taken the place of the old. That must be settled empirically.

Welfare Capitalism : The Post-1945 Social Consensus

In essence, the post-war European economy developed on the basis of a broad social consensus, which institutionalised five "labour rights" in the context of an essentially corporatist model involving State regulation of social and economic affairs. The labour rights were :

- i) Labour market security – State-guaranteed full employment.

* *Coordinator of Labour Market Research, Employment Department, International Labour Organisation, Geneva. Views should not be attributed to the ILO.*

ii) Income security – earnings protected by minimum wage machinery, wage indexation, independent unions, as well as employer organisations, incorporated politically and economically into the State, insurance-based social security, and taxes to reduce (or check the growth of) income inequality.

iii) Employment security – with regulations on hiring and firing, pre-notification of redundancy, the imposition of costs on employers for "unfair dismissal", etc.

iv) Work security – through health and safety regulations, limits on working times, unsociable hours, and so on.

v) Job security – through the tolerance of demarcation practices and barriers to skill dilution, craft boundaries and job qualifications, etc.

This last right was less accepted than the other four, but was entrenched in "middle-class" professions and among technically skilled workers. It preserved socio-economic status, and institutionalised a labour hierarchy that was functional for what some call "system stability".¹

These rights always represented potential costs to enterprises. Their acceptable continuation depended not only on fairly stable economic growth, but on what was, in effect, a "closed international economy", whereby the bulk of trade in goods and services was between countries with similar labour rights. They also depended on *quid pro quos* between employers, unions and workers, including the employers' right to manage and to profit. For social stability, there had to be something close to a consensus on income

1. Some observers classify the post-war consensus as "Fordism", whereby the benefits of growing productivity were shared by wage earners and capital, based on the spread of mass consumption, and a method of market regulation by wage adjustment rather than competitive adjustments (redundancies, bankruptcies, price cuts, etc.).

(and wealth) distribution and limited exercise of group-specific, or class, power. The countries that flourished most were those in which the social consensus on labour rights and distribution was institutionalised over a prolonged period, as in the Scandinavian countries, Austria and, for a time, Germany.²

While labour rights characterised the production process, the redistributive and reproductive functions were left to fiscal policy and the web of social services provided by the welfare state. In that, as even its fiercest critics acknowledge, it had impressive achievements.³ In the 1950s, 1960s and 1970s, poverty was reduced in most of Europe, as was income and wealth inequality, and the marginalisation of disadvantaged groups was ameliorated. Women, in particular, were enabled to enter the economic mainstream, albeit partially and inequitably. Social and economic insecurities were reduced, and lifetime consumption was evened out, reducing the incidence of life-cycle poverty. Finally, the welfare state surely contributed to productivity growth, primarily through the provision of education, training and health services.

2. Recently, comparisons of economic performance of corporatist and "non-corporatist" countries have moved in the direction of a "hump-shaped" relationship, based on the hypothesis that the most corporatist and the least corporatist performed better than the intermediate cases. See, L. CALMFORS and J. DRIFFILL, "Bargaining Structure, Corporatism and Macroeconomic Performance", *Economic Policy* (Cambridge University Press), No. 6, April 1988, pp. 13-61. As economists working on those relationships are aware, there are enormous problems of identification, spurious correlations and dubiously crude and mixed indices of corporatism, consensus, centralisation, etc. Simple pop charts ranking countries in order of corporatism and used in time series analysis ignore the fact that various countries changed quite dramatically during the thirty years or so covered by such studies.
3. See, A. LINDBECK, "Consequences of the Advanced Welfare State", *The World Economy* (a Quarterly Journal on International Economic Affairs) (Oxford), Vol. 11, No. 1, March 1988, pp. 19-38.

The twin hallmarks of that post-war era were a sense of social solidarity, based on growing socio-economic security, and a full-employment rate of unemployment that Keynes himself had thought too optimistic to expect – 1-2 % in most European countries. How long ago that seems.

Post-Consensus Stylised Facts : The Crumbling of Welfare Capitalism ?

Since the early 1970s, the labour market has been radically transformed in ways that suggest that we will not see the return of the era of full employment – in the old sense of the term – or the social consensus associated with it. As we know, the major factors behind its demise have been :

- i) A rapidly changing international division of labour, with the NICs (newly industrialised Countries) following Japan in gaining a growing share of world exports. Those countries have not had the same labour rights (and therefore costs) as had been accepted in much of Europe. " Deindustrialisation " in Europe accelerated, whether defined in terms of shares of manufacturing trade or in terms of national production or employment associated with manufacturing;⁴ the international changes turned the perception of many labour rights into costs and also undermined the old industrial, unionised proletariat.
- ii) Something akin to a technological revolution has been occurring, a new upswing phase of a long wave, with new technologies more internationally mobile and

4. In the preceding period, among European countries the degree of openness to international trade was not correlated with economic growth or other indices of macroeconomic performance ; this changed in the 1970s. R. BOYER and P. RALLE, " Croissances nationales et contrainte extérieure, avant et après 1973 ", *Cahiers de l'ISMEA, Économie et Sociétés*, séries p. 29, no. 1.

conducive to new forms of business and managerial organisation, facilitating decentralisation of employment and changes in the nature of jobs, to which we will return.

iii) The crumbling of a distributional consensus, with pressures for a reversal of the modest trend towards income equality ; this stemmed in part from the economic slowdown, and the rise in the gross and net delivery costs of welfare and social security transfers, which for many no longer seemed to represent a socially just system or one from which their own benefits matched the social and personal costs.

iv) Inflationary pressures, due in part to prolonged Keynesian demand expansion and the oil price hikes, associated with the "fiscal crisis of the State", and pressures for cuts in the public sector and in public expenditure generally.

These developments undermined the post-war consensus and led to the orthodoxy of the 1980s that has shaped policy almost everywhere – supply-side economics. Alternative proposals must be based on a critique of that approach, with its underlying ideology revealed by such terms as "deregulation", "privatisation", "structural adjustment" (as used by the IMF and World Bank, for instance) and "enterprise culture". Its adoption was fueled by the belief that slow growth, unemployment and other adverse labour market developments were due to structural rigidities, excessive public expenditure and restrictive regulations.

What have been the major labour market developments of the era of "supply-sidism"? It may be useful to recall fairly widespread trends :

i) Income distribution has worsened, with widening wage differentials and growing household income inequality, as in the UK ; this has been associated with mass unemployment, the erosion of union bargaining power,

a weakening of social security provision, and a shift away from taxation as a redistributive device. In many countries, such as France, the share of wages in GDP, which had risen slowly in the preceding era, shrank in the 1980s.

ii) Poverty has grown considerably ; in Italy, between 1978 and 1983 the number of poor families increased by about 10 % ; in the Netherlands, the percentage of households falling below the official poverty line rose from 8.4 % in 1977 to 10.6 % in 1982 ; in the UK, the number of low-income families increased by over one-third between 1979 and 1983 ; meanwhile, in most EC countries the number of people dependent on social assistance has risen rapidly since the early 1970s;⁵ there is also strong evidence of a growing risk of poverty across society.

iii) Unemployment in Europe has more than quadrupled since 1970, almost doubling between 1980 and 1985 (Table I). In the EEC the overall rate of open unemployment was projected to stabilise at 11.8 % in 1988, the same level as in 1987.⁶ Even taking official figures at face value, by the mid-1980s, about 20 million people were openly unemployed in Western Europe, compared with about 8.6 million in 1979.⁷ Worse still, unemployment has become chronically high, sometimes rising in

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5. G. ROOM, " New Poverty " in the European Community " (Bath, University of Bath, A Summary of Twelve National Reports prepared for the European Commission, Dec. 1987), pp. 9-11.
 6. Commission of the European Communities, *Social Europe* (Luxembourg, Office for Official Publications of the EEC, 1988), Vol. 1 / 88, p. 10.
 7. ILO, *Employment, labour relations, productivity and quality of working life. The challenge of the 1990s* (Fourth European Regional Conference, Geneva, Sept. 1987), pp. 5-7.

economic upturns.⁸ For the first time since the 1930s several Governments have renounced the commitment to full employment and have claimed that they cannot determine the level of employment or unemployment.

iv) The nature of employment has changed in ways that have made open unemployment a more misleading index of surplus labour and probably more of an underestimate. Figure 1 shows "labour slack" rates for EC countries compared with their unemployment rates, where labour slack is a full-time equivalent rate of unemployment that takes account of "involuntary" and "voluntary" part-time employment, discouraged workers, short-term visible underemployment and those "with jobs without work" (for economic reasons) as well as active unemployment. That refers to one year, but in recent years the relative extent of concealed unemployment (*i.e.*, not measured by official statistics) may have increased. For instance, in Germany, employment peaked in 1979-80, never returning to that level, while concealed unemployment as a share of total unemployment remained well above what it had been in the 1960s or early 1970s (Table II).

v) Long-term unemployment has multiplied. By the mid-1980s, in various European countries, there were as many people recorded as having been out of work for over a year as the total number of unemployed in the late 1970s. Many long-term unemployed are cut off from the labour force, with little chance of reintegration into regular employment.

8. Without apparent irony, the OECD in 1985 wrote of the UK: "The unemployment rate has risen by 2.5 percentage points during the current recovery." During the post-war era, such a contradiction in terms would have been unimaginable.

TABLE I
Unemployment rates, European countries,
1970-1987
 (percentage of total labour force)

Country	1970	1975	1980	1985	1987	1987 / 1975 ratio
Austria	1.8	1.7	1.6	4.2	4.9	2.88
Belgium	1.9	4.3	8.6	12.8	11.6	2.69
Denmark	0.7	4.9	6.7	8.7	7.6	1.55
Finland	2.0	2.6	4.6	5.0	5.0	1.92
France	2.4	4.1	6.3	10.2	10.9	2.66
Germany, Fed. Rep.	0.6	4.0	3.3	8.3	7.9	1.97
Ireland	5.8	7.4	8.1	17.7	19.0	2.57
Italy	5.3	5.8	6.7	11.5	12.5	2.16
Netherlands	1.1	4.5	6.0	12.9	11.5	2.56
Norway	1.6	2.3	1.7	2.4	2.0	0.87
Sweden	1.5	1.6	2.0	2.8	2.3	1.44
Switzerland	—	0.3	0.2	0.8	0.7	2.33
United Kingdom	2.2	3.2	6.2	11.8	10.6	3.31
Total Western Europe	2.0	4.0	5.3	9.8	9.7	2.42
Greece	4.2	2.3	2.8	7.8	7.4	3.22
Portugal ¹	2.5	4.4	7.8	10.4	9.0	2.05
Spain ²	2.5	4.3	12.3	21.9	20.5	4.77
Turkey	11.9	12.9	15.0	16.3	15.0	1.16
Yugoslavia	7.7	10.2	11.9	13.8	13.6	1.33
Total Southern Europe	7.1	8.4	12.0	16.2	15.2	1.81
Total Europe	3.2	5.1	7.0	11.5	11.2	2.20

Notes: 1. Break in series in 1982 / 83.

2. Break in series in 1975 / 76 and in 1980 / 81.

Source: Economic Commission for Europe: *Economic Survey of Europe in 1987-88* (New York, Secretariat of the Economic Commission for Europe, Geneva, 1988), pp. 53, 335.

TABLE II
Unemployment in Federal Republic of Germany,
1960-1988

Average per year	Percentage rates		
	Registered unemployment rate	(Registered and concealed unemployed) / Labour force	Concealed / (Registered and concealed)
1960	1.0	1.2	14.8
1970	0.6	0.6	0.0
1971	0.7	0.8	13.1
1972	0.9	1.2	23.6
1973	1.0	1.3	24.8
1974	2.1	2.9	26.0
1975	4.0	5.5	28.4
1976	4.0	5.9	34.1
1977	3.9	6.0	37.1
1978	3.7	6.0	39.2
1979	3.3	5.5	42.0
1980	3.3	5.4	41.2
1981	4.6	7.2	37.0
1982	6.7	9.8	34.1
1983	8.2	11.8	33.2
1984	8.2	12.4	36.5
1985	8.3	12.1	34.5
1986*	8.0	11.7	34.8
1987*	8.0	11.7	34.6
1988**	8.1	11.9	34.8

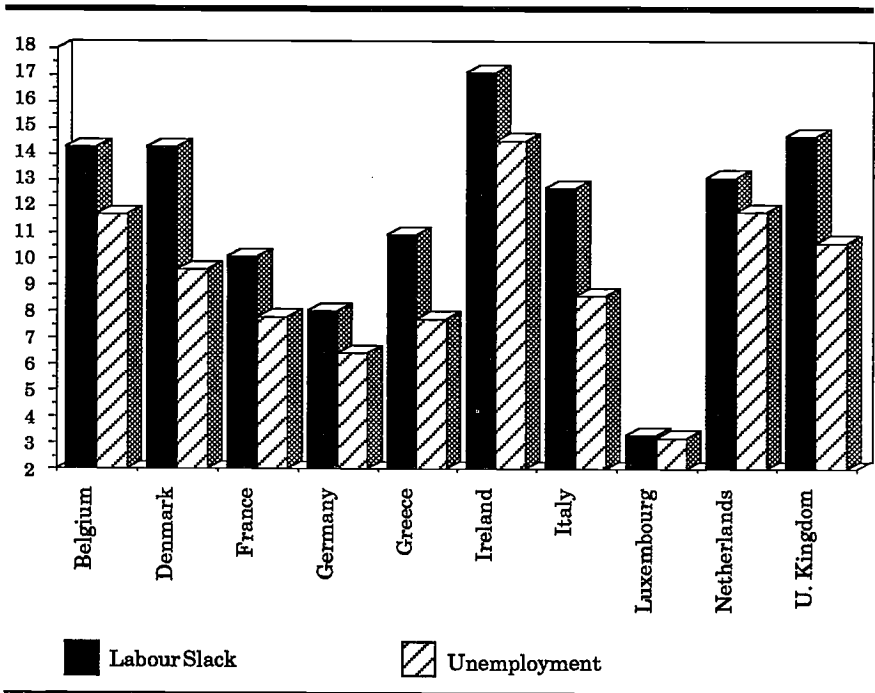
* Provisional figures.

** Estimate.

Notes : Concealed : number of discouraged workers available and wanting work. Labour force : labour force including concealed unemployed.

Source : Autorengemeinschaft Zur Arbeitsmarktentwicklung 1987/88, Entwicklungstendenzen und Strukturen, in Mitteilungen aus der Arbeitsmarktund Berufsforschung 3/87, p. 283.

FIGURE 1
Unemployment and labour slack
Rates, EEC, 1983



vi) Manufacturing employment has shrunk, accelerating the shift to services. In various countries, the number of manufacturing jobs that disappeared in the late 1970s and early 1980s far outweighed the number of jobs created in services. In the UK, employment in manufacturing shrank by 3.4 % per annum between 1973 and 1983 whereas employment in private sector services only grew by 0.2 % per annum. In other countries, such as Belgium and Germany, the disparity was similar.

vii) Precarious, irregular and part-time forms of employment have spread. Between 1979 and 1985 part-time employment in Western Europe grew by 3.1 % a year while full-time employment fell by 0.1 % a year.⁹ In Germany, by 1984 about 16 % of all employees were in part-time jobs, and between 1976 and 1984 the number of part-time employees increased by 16.4 %, whereas full-time employment stagnated. There and elsewhere, temporary jobs have grown, apparently at the expense of regular employment. Their spread has been promoted by a loosening of regulations, subsidies and "emergency" employment schemes. "Homeworking" has re-emerged as a major phenomenon, much of it undeclared, with low and variable earnings. Globally, the "informal economy" has become a major phenomenon.¹⁰

viii) These trends have influenced, and been influenced by, the long-term rise in female labour force participation and employment. In some countries, such as Austria and the UK, the male unemployment rate has risen to equal or exceed the female.¹¹ The female employment rate has risen while male employment has slumped. The latter trend partly reflects the erosion of manufacturing jobs and the shift to part-time "service" jobs.¹²

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9. C. BÜCHTEMANN and J. SCHUPP, *Socio-economic Aspects of Part-Time Employment in the Federal Republic of Germany* (Berlin, Wissenschaftszentrum Berlin für Sozialforschung, 1987, mimeo).
 10. A. PORTES, M. CASTELLS and L. BENTON (eds.), *The Informal Economy* (Baltimore, John Hopkins Press, 1988).
 11. E. WALTERSKIRCHEN, *Unemployment and Labour Market Flexibility: Austria* (Geneva, ILO, forthcoming).
 12. What has happened to women's relative wages is less clear. The earnings of employed men may have improved relatively in some countries, such as the UK, but women's "opportunity income" may have risen, insofar as women's job opportunities have improved *relatively*, while the lost "male" jobs have been concentrated among the low-income strata of male employment.

ix) Because the nature of employment has been changing, the so-called Verdoorn effects of growth have to be interpreted with caution. Some estimates suggest that the employment effect of a change in the rate of economic growth has increased compared with the 1960s and 1970s.¹³ However, this may be explained by two factors, that Governments have resorted far more to "emergency" employment schemes and that the full-time equivalent employment is much less because more of the new jobs are part-time, casual, etc. For instance, in Germany "marginal" part-time employment has increased faster than other forms of employment in the past fifteen years.¹⁴ A third possible factor is that the relatively rapid growth in the potential labour force in the 1980s in itself had a positive effect on employment. A fourth factor may be that, at very high levels of unemployment, the impact of an increase in aggregate demand may be greater because the effect on wages will be less, so that the extra demand for labour would translate more into quantity changes in employment rather than wage rises. At lower unemployment, the relative effects could be reversed. Finally, in comparison with earlier years, economic growth rates may have been underestimated in the 1980s, because of the shift to services, where productivity growth may be underestimated. In sum, there is little reason to be sanguine about the sustained employment impact of higher growth rates, should those materialise.

x) Associated with worsening income inequality, high unemployment and the restructuring of employment, "core" groups of workers have been gaining in terms of income, employment security, fringe benefits, skill and so on, while the industrial proletariat has not only been

13. See, Commission of the European Communities, *European Economy, Annual Economic Report 1987-88* (Brussels, EC, Nov. 1987), pp. 68-72.

14. BÜCHTEMANN and SCHUPP, 1987, *op. cit.*

shrinking, but losing in most of those respects. Meanwhile, a heterogeneous "peripheral" category has multiplied, consisting of a growing number in low-status, low-paid, insecure and mainly "service" jobs alongside a large "detached" stratum, rarely in jobs and often consigned to long-term unemployment and discouragement from legitimate labour force activity.

xi) There has been a proliferation of schemes to remove the unemployed from the labour market to conceal part of the unemployment. The original idea of active labour market policy as a counter-cyclical device (as in the so-called Swedish model), and as a means of accelerating structural adjustment, has tended to give way to policies that have had little effect other than that of taking people out of recorded unemployment, as with the "travaux d'utilité collective" (TUC) scheme in France, designed to provide temporary community labour for the young unemployed. In some countries, the number in labour market measures is almost as large as the number recorded as unemployed. And in some countries, statistical changes have artificially lowered unemployment: In the UK, there have been about 19 such changes since 1979. In July 1988 it was announced that henceforth those without jobs but in Government training schemes would be counted as employed, thereby lowering the unemployment rate by increasing the employment count by about 334,000; at the same time, jobless school leavers under the age of 18 would no longer be counted as unemployed because they would no longer qualify for unemployment benefits under new regulations, so cutting unemployment by over 100,000.

xii) Flexible employment within enterprises has grown. With workers expected to change jobs more often, and a growing emphasis on "functional flexibility", the nature of "skilled" work may be changing. Some observers claim there has been an upgrading of skills, others

that "deskilling" has accompanied technological change, and others that a polarisation is taking place, with a small "core" of highly skilled people coexisting with a growing mass with partial "static" skills that preclude their becoming technically proficient. There is more evidence to support the polarisation thesis than the other two views.¹⁵ There may also have been a growth in the proportion of jobs exposed to the external labour market, jobs for which workers are interchangeable and for which employers have less need to preserve low turnover. Indeed, with non-wage and wage labour costs being a positive function of employment tenure, incentives to substitute temporary or casual for "permanent" workers have grown.

xiii) Older workers have been marginalised in many European labour markets.¹⁶ These will be the major disadvantaged group in the next decade. Their marginalisation has been understated by unemployment rates, concealed by "early retirement" schemes, enforced low activity rates and low-paid partial employment. For instance, by the mid-1980s, two-thirds of all men in France aged 60 to 65 had officially "retired", even though the official retirement age was still 65.

xiv) There has been a shift from large-scale establishment employment to small businesses. Some have interpreted this as a new wave of entrepreneurial enterprise. Others have seen it as largely a reflection of the shrinkage of large-scale concerns, the growth of new

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15. See, M. WIEDEMAYER, "New technology in West Germany: The Employment Debate", (University of Köln, 1988, mimeo.), pp. 35-50. On the USA, see R.W. RUMBERGER, "The potential impact of technology on the skill requirements of future jobs", in G. BURKE and R.W. RUMBERGER (eds.), *The Future Impact of Technology on Work and Education* (London, Falmer Press, 1987).
 16. G. STANDING, "Labour Flexibility and Older Worker Marginalisation: The Need for a New Strategy", *International Labour Review*, Vol. 125, No. 3, May-June 1986, pp. 329-348.

forms of work organisation, sectoral shifts and, not least, survival reactions of laid-off workers resorting to "self-employment", often on a part-time or irregular basis. No doubt it is a mixture of both. However, incomes and employment security tend to be lower in small-scale firms, while job turnover is much higher. Thus, the trend points to a growth in labour market insecurity.

xv) A stagnation has occurred in the hitherto rapid growth of public sector employment, which had absorbed labour displaced in the shrinking industrial sectors; the slowdown was particularly marked in France, the Netherlands and the UK. Public sector jobs have been relatively well-paid, full-time and regulated, so the combination of privatisation and cut-backs in public service employment has probably lowered average conditions of employment.

xvi) Earnings have become more "flexible", or variable, partly because work opportunities have become more irregular for some groups, partly because of an expansion of piece-rate payment systems, as with "homeworking", "networking" and some forms of temporary job, and partly because of the growth of profit-related payment systems, which mean that those in flourishing enterprises in secure high-status jobs have done very well whereas others have found their relative incomes worsening and have experienced growing earnings insecurity.

"Euroclerosis" and Labour Flexibility

According to supply-side economists, mass unemployment has arisen and persisted because European labour markets are "sclerotic". Their prescription is familiar – decentralise wage bargaining, weaken "union power", dis-

mantle minimum wage machinery, remove employment protection and other labour regulations, widen wage differentials, cut non-wage labour costs and cut income taxes.

For many critics, it is enough to note the fact, usually uncontested, that the package is inequitable. For instance, essentially it says that the poor should receive lower incomes (in benefits or wages) to make them work harder while the rich should receive higher incomes (via lower taxes) to encourage them to work harder. Its proponents prefer to put it in another way, that if the strategy works the " economic pie " will grow faster, so allowing all to have more.

It is essential to make a careful assessment of the Eurosclerosis school of thought, and in that regard the ILO is engaged in a research programme devoted to the relationships between unemployment and labour flexibility.¹⁷ Rather than discuss the issues here, the following merely puts out a few markers of current tendencies :

- i) On any reasonable definition, labour market flexibility has grown enormously in Europe in the past decade. So has unemployment. It therefore becomes a trifle hard (not impossible, no doubt) to blame labour market rigidities for rising unemployment.
- ii) Employment protection regulations have not been a major deterrent to employment per se, or at least there is little evidence that they have been and some evidence, from business surveys, that they have not been a deterrent. They may, however, have influenced the composition of employment, encouraging the use of temporary labour, part-timers and sub-contracting rather than regular, full-time workers, as for example in the Neth-

17. *Inter alia*, country studies have been or are being done on Austria, Finland, Italy, the Netherlands, Spain, Sweden, the UK and the USA.

erlands.¹⁸ Moreover, the bypassing of labour regulations – "implicit deregulation" – has been growing, as in France, where in the wake of the Auroux laws of 1982 firms resorted far more to indefinite lay-offs rather than redundancies, thereby weakening employment security.

iii) The alleged decline in labour mobility in Europe may be partly illusory, since some types of mobility may substitute for others in the context of organisational and industrial change, and is partly a reflection of high unemployment, not a cause of it.

iv) Nominal and real wage flexibility are not positively correlated with decentralised, market-oriented wage determination systems.

v) There is no compelling evidence to support the view that a widening of wage differentials is a necessary condition for an efficient labour market; interestingly, the country with the narrowest wage differentials has also had one of the lowest unemployment rates, namely Sweden.

vi) The claims made for more and more "training" and "retraining", and that a lack of training is a major cause of "structural" unemployment, are just that. Everybody can agree that vocational training for technical and professional competence is wholly desirable. But as a "solution" to unemployment, one should be sceptical. Many labour market policies have been promoted as training schemes when they have been mainly mechanisms for easing the unemployed off the registers or onto work "orientation" courses; labour market

18. Several recent official surveys have documented their increase and the expectation that "flexi-contracts" will continue to spread. By 1986, perhaps 12% of all workers were in temporary employment. Ministry of Social Affairs and Employment, *Rapportage Arbeidsmarkt (Labour Market Report) 1986* (The Hague, Government Publishing Office, 1986).

training may improve the employment prospects of the unemployed vis-à-vis others, leading to substitution effects, but if training "pays" them, employers would surely find ways of paying for it; that many enterprises have cut down on training in the 1980s, when they have been capable of affording more if needed, is *prima facie* evidence that the emphasis on formal training may be exaggerated.¹⁹

vii) The view that unions' "restrictive practices" and atavistic behaviour have contributed to rising unemployment is often dressed up in respectable economic language. Some unions may have been very defensive in the wake of rising unemployment, but so-called union "power" has been on the wane in many parts of Europe for a long time. "Deunionisation" has proceeded very far, particularly in Italy and the UK, reflecting industrial changes and a trend towards small-scale, unstable forms of establishment; management strategies; and the effect of the higher unemployment.²⁰ In any case, those countries in which unionisation has been highest have maintained higher levels of employment and achieved more rapid "structural adjustment" than elsewhere.

viii) Finally, as noted earlier, flexible forms of employment have been growing, involving insecure employment and incomes. This means, *inter alia*, that many – an estimated 50% of all British workers, for example – have no rights to enterprise-level social security, such as unfair-dismissal compensation, redundancy pay and

19. The argument in this paragraph is elaborated in an article in the *Oxford Review of Economic Policy*, Autumn 1988.

20. Effective unionisation has probably fallen much more than membership figures suggest. For instance, between 1977 and 1986 unionisation fell in Italy by nine percentage points to 39.7%, but a growing proportion of remaining members have been pensioners. E. SANTI, *Un decennio di sindacalizzazione (1977-86)* (Rome, CISL / CESOS, Oct. 1987).

maternity leave or pay. This means that not only are such workers more dependent on State assistance in times of need but that firms have more " power " in that they can determine which workers have access to both enterprise-level and State social security support, since in many countries those not in regular employment risk losing entitlement to State benefits.

Flexibility With Security : Citizenship Income in the Post-Welfare State

Across Western Europe, the assumptions on which the Welfare State was created no longer apply, leaving the social security system in conflict with the labour market, with growing numbers of people in poverty or facing the risk of poverty, and with increasing income inequality. Labour market and economic developments in the 1980s have reversed the long trend towards closer social cohesion, whereby disadvantaged social groups had been slowly absorbed into the economic mainstream. Now, vulnerable groups – ethnic minorities, older workers, women, the disabled, and so on – have been made more vulnerable by what has been happening in the labour market and by developments in the tax and social security systems and in the provision of social services.

The key problem is that the State's commitment to basic income security for every citizen, enshrined in the UN Declaration of Human Rights, can no longer be met on the basis of a national insurance social security system. The primary reason in most parts of Europe is the more flexible labour process that has been emerging in the past decade, partly in response to international cost-cutting competition. For the existing social security system to work efficiently and reasonably equitably, there had to be full employment in which contributions roughly balanced benefits and in which benefits were needed only to cover " temporary interruptions in

earning power ". Equally critically, the system was based on the premise that the insured population consisted of families in which a man was in regular full-time, unionised, well-paid employment while the " wife " was outside the labour market caring for child dependants. The real world never was quite like that, and has become even less like that in the 1980s

In the 1950s and 1960s modifications were made to the social security system that covered anomalies and extended benefits of one kind or another to numerous groups whose circumstances were " abnormal ". Means tests, income tests, saving tests and work-availability tests spread in what became a patchwork of selective schemes. In the UK, for example, by the early 1980s there were over sixty distinct State transfer schemes.

With growing unemployment and demands for benefits, among the consequences of growing selectivity has been that the policing of social security payments has grown, with worsening stigma associated with benefit application. That has discouraged many people in genuine hardship from applying for assistance. Similarly, tighter conditionality has meant that many unemployed and other low-income groups have not been entitled to benefit, often because of rather arbitrary rules and regulations.

To make matters even worse, labour market efficiency has been eroded by selective, means-tested social security. Many hundreds of thousands of people across Europe have been caught in either " poverty traps " (whereby if they work harder for more income they end up worse off because they lose benefits) or " unemployment traps " (whereby by taking a job they would lose benefits that, however meagre in themselves, are more or only a little less than the wage income they would earn). Consequently, they remain outside the labour force or in unemployment because of welfare regulations, with a social cost that is never taken into

account by those pushing for more conditions for the right to benefit as a means of cutting public expenditure.

How could social policy recreate the sense of social solidarity or cohesion and provide basic income security that all civilised affluent societies should presumably want? There is ample evidence that the existing system has reached its limit and is failing. The reason for that and the clue to reform is the predominant development from regulated to flexible labour markets, gathering momentum almost everywhere. In that context, if the labour market cannot provide income security, is there not a social and economic argument for decoupling income provision from the labour market?

The fear must be that developments in the labour market and in the Welfare State, turning as it is from an "institutional redistributive model" to a form that rewards merit and favours efficiency over equity, will accentuate social fragmentation. After all, unregulated labour markets are likely to intensify the marginalisation of those perceived to be least "productive", which probably means vulnerable groups such as the disabled, older workers, youth, mothers of young children, ethnic minorities, migrants and so on. As long as trade unions were strong collective institutions, they could be a source of social and economic integration. But unions have been weakened – less so in Germany than in other parts of Europe, such as Italy – and increasingly society may consist of special groups, defined by specific abnormalities, each effectively competing for special treatment and benefits from the State, each implicitly claiming to be more abnormal than the others, more deserving of income support. This is a nasty prospect. But unless unions can shift from representing specific crafts or industries to organise and represent whole communities of workers, the new "flexible" or insecure labour market will accentuate that social fragmentation. Vulnerable groups will be politically

disenfranchised as well as socially and economically marginalised.

Another aspect of the post-war era was that the tax system was expected to be redistributive, gradually reducing income inequality. Few people have much faith in that route now, while many politicians and economists claim that high direct taxation impedes efficient economic growth without achieving any substantial redistribution. Probably the latter is true. Yet are we to tolerate growing inequality, of income, wealth and power? If high profits are needed to boost growth and investment, it is not necessary for a relatively small elite to benefit, through control over capital or possession of high-tech, high-productivity jobs. If reduction of inequality is to be an objective of any new social structure, then the surplus must be shared collectively in some fashion, perhaps along the lines tentatively developing in economically flourishing Sweden. If income tax does not work, and if the labour market throws up growing inequalities between those in work and those out of employment, then what is the alternative to more collective profit-sharing?

Finally, and most crucially, we need to sort out the mechanisms for providing income security, a basic social right that must be re-established. At present, all Western European States have schemes to provide income support. But they have severe drawbacks. In most countries, the minimum income is too low for anything approaching decency, largely because the level has been tied to the wage level in low-income jobs, supposedly so that it does not act as a disincentive to work. Second, means-tested and work-availability tested schemes have low take-up and are complex and costly to administer. A cruel irony is that the most needy and vulnerable are the ones most hurt by selective, means-tested schemes supposedly targeted on the poor. They simply do not receive them. Moreover, conditional income support is increasingly arbitrary in labour markets

characterised by intermittent employment, chronic unemployment and insecurity, when people often do not obtain entitlement to benefit. In the Federal Republic, the proportion of the unemployed entitled to unemployment compensation or unemployment assistance has fallen by 20 per cent in the past fifteen years, and the number affected has risen enormously.

If society wants to avoid poverty, then what is needed is a basic income guaranteed as a citizenship right. Now that the Luxembourg and French Governments have been converted to this route, as have the Dutch to a certain extent, provision of a minimum income guarantee will become a crucial aspect of social welfare reform. In effect, a citizenship income should be provided to every individual, replacing most existing State benefits and paid regardless of work status, age, sex or marital status, with a lower level for those aged below 16. It could be paid as a tax credit to income earners and as a simple cash payment for everybody else.

The criticisms and the potential advantages of a citizenship income right are discussed elsewhere. Such a scheme could become a critical pillar of a post-industrial, post-Welfare State society characterised by flexible lifestyles of intermittent full-time and part-time employment, training and labour force withdrawal. It could provide the basis for a new social consensus that those on the political right and on the left could fit into their particular visions of society. The crucial fact is that for the first time in European history, providing everybody with a basic income as a right of citizenship is economically feasible and socially vital.