

Unemployment is seen as the most serious problem facing Britain. But the labour movement's solutions are not seen by the people as credible. If they were, the implications could be enormous. Now is the time to look again at our priorities and policies.

# Full Employment: Slogan or Strategy?

John Grahl

UNEMPLOYMENT IN BRITAIN is still rising. Late last year the totals seemed to have stabilised: in 1984 they have been creeping upwards again, in spite of various statistical manipulations by the Government.

One particularly alarming factor is that the rise in unemployment no longer results in a direct way from falling production. Output has, in fact, been rising quite fast in Britain for some months — at the historically high annual rate of 3%. Yet, because of continuing labour-saving measures in industry, this growth is, so far, not even holding unemployment steady.

In the medium term future there is another disturbing problem. Unemployment has been rising fast throughout West Europe, but it has been falling in the United States where a boom which began in late 1982 has drawn millions back into work. What is alarming is the quality of the new jobs that are emerging in the US — there is a proliferation of low-paid, insecure employment in newer service activities, together with major defeats for organised labour in older sectors and a continuing fall in trade union membership.'

Thus, besides the present increase in unemployment during a recovery in *output*, there is a worrying precedent in the US of what a recovery of *employment* under free market auspices could involve. There have been several signs that the Tory government in Britain sees the growth of badly paid, unskilled, service sector jobs as a desirable 'solution' to the unemployment problem.

This long run persistence of mass unemployment, and the effects of unemployment on those still at work, are the most serious economic problems facing the country. And they are clearly perceived as such by the majority of the population. In spite of attempts by the Right to focus resentment on taxation or other issues, the evidence consistently points to unemployment as the source of deepest concern

for most people. Everyday experience reinforces these anxieties — there can be few families in Britain by now which have escaped completely unemployment and the insecurity it spreads.

## Fatalism

Yet this widespread and deep concern has not been reflected in support for the economic analysis or the proposals of the labour movement. The general election showed that Labour's economic policies were often seen as unconvincing or irrelevant. Although a few years ago it was assumed that unemployment at today's levels would be disastrous for any government, cynicism about Labour's alternative allowed the Conservatives to survive in office. And there are continuing problems in formulating Labour's economic policy — as witness the poor showing of the opposition during the budget debates.

For some people, cynicism about alternative policy is reinforced by a kind of fatalism, itself related to the recession and

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the resulting preoccupation with individual survival, deepening political apathy.

Breaking through that fatalism and establishing labour movement policies as an effective response to the central issue of unemployment are the most important political tasks of the next few years. To exploit the biggest potential weakness of the Right and to rebuild a majority for progressive policies, full employment has to be the overriding priority in both economic and political terms.

This article argues that the issue of unemployment has not yet been given the necessary priority by the labour movement

because the extent and duration of the problem have not hitherto been realised. Sometimes the measures proposed to deal with it have been inadequate in economic terms. Sometimes counter-measures have become entangled with and obscured by other very ambitious political objectives: this was particularly the case with the Left's alternative economic strategy (AES) where the restoration of full employment came to be linked with, and in practice subordinated to, long run aims of a decisive shift of the system towards socialism.

An important aspect of this failure to prioritise full employment sufficiently has been the tendency to discuss the issue in technical terms with employment as an economic variable to be correctly manipulated. The *ethical* side of the question has not been fully developed.

## Direct job creation

In terms of *economic policy*, the labour movement's usual answer to unemployment has been to go for very *high rates of economic growth*. To stimulate this growth the key policy instrument was to be the expansion of *aggregate demand*, that is injecting extra purchasing power into the economy in order to raise spending. The increased spending would then lead to a growth of output and therefore a growth of employment. Thus a return to full employment was seen as coming through, and as a result of, a successful high-growth strategy.

It will be argued here, however, that high-growth strategies, however desirable, now face such serious obstacles that they are no longer plausible as solutions to unemployment except in the very long run. To keep demand-led growth as the central theme of economic policy would, in effect, mean postponing full employment until a complete and general solution to the economic crisis had been found.

Therefore, if employment is to be given



the priority which it requires, the main emphasis should be put, instead, on *direct job creation*. By this is meant the use of public money to fund directly the wages and other costs of an increased number of jobs.

It may prove impossible to finance a large number of such additional jobs through a general rise in incomes and more rapid economic growth. It follows, therefore that in the first instance job creation will have to be financed by redistributing existing income. Thus direct job creation programmes need to be linked to effective measures to redistribute income towards those at present unemployed as well as other low income groups.

Although the change in strategy suggested here would not be without problems, a commitment to full employment via direct job creation has major political advantages. During the life of the Tory government, which uses unemployment as an instrument of economic control, a much more direct opposition to present policy could be mounted — demanding a different use of existing resources, and not having to base higher employment on an increasingly implausible promise to engineer a massive extension of output within a short period of time. Policy would be stronger in that effective reductions in unemployment under a Labour government could be *guaranteed* — preparing the way for the introduction of a *statutory right to work*.<sup>2</sup> The new policy would also express in a much more direct way the moral values of the movement — its commitment to

greater equality and social solidarity, defending low income groups and the unemployed.

The argument here, it should be stressed, is not about the kind of jobs to be created but about the way in which they should be financed, if rapid economic growth is not feasible. Although the term 'job creation' is used in different ways (and has been used to cover some pretty unsavoury practices by this government and others) the reference here is to *trade union organised jobs at negotiated rates of pay*.

#### Labour and high-growth solutions

Throughout the 70s and into the 80s, as the trend of unemployment continued to rise, the labour movement tended, almost automatically, to call for an expansion of aggregate demand — an injection of spending power into the economy by tax reductions or general increases in public expenditure. The use of this kind of demand stimulus to increase output and hence employment was the standard 'Keynesian' weapon to deal with unemployment. The movement's reliance on this approach reflected its positive experience of economic and social advance in the Keynesian political economy of the 50s and 60s, the era when aggregate 'demand management' seemed to offer effective economic control.

In the increasingly unbalanced economies of the 70s and 80s, demand-led growth was increasingly difficult to obtain — but this was the tried and tested policy instrument and the movement still depended on it.

What exactly are the critical obstacles to demand-led growth? Surely there are abundant resources lying idle and kept out of production by the lack of spending power in the economy? A superficial answer is just to point out that such strategies have not worked well in recent years: each attempt to stimulate Western economies in this way has run into serious problems of inflation and the balance of payments. The last rigorous attempt to get growth going in this way in Britain was the 'Barber boom' of 1972 under Mr Heath's government. It fed a frenzy of speculation and price increases, without generating many jobs.

It is clear that one fundamental difficulty with demand stimulation in a single country is the international nature of the recession and the consequent intense pressures of competition on world markets. As opposed to the 60s, when high-growth strategies tried to raise British performance to the buoyant levels of Western Europe, today the same strategies run counter to widespread recession, with the

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countries of Western Europe in the same boat: potential export markets are stagnant; and there is intense price competition even for home markets.

But these adverse international conditions may not be the only obstacle to demand-led growth. Even in a closed economy (a single country or a group of countries insulated from outside pressures) high-growth policies can be blocked by structural problems — by a mismatch between the structure of production and the pattern of demand — which hold back growth even when there are a lot of unused resources. Indeed, *besides* external constraints, there are today also serious imbalances within the Western economies which would affect, for instance, even attempts to expand demand in the European economy as a whole.

#### The weakness of the AES

Within the labour movement the Left too has placed great emphasis on aggregate demand: the Left's alternative economic strategy (AES) gradually developed since

<sup>1</sup> See Mike Davis 'The Political Economy of Late-Imperial America' *New Left Review* 143 Feb 84.

<sup>2</sup> See Mike Rustin 'A Statutory Right to Work' *New Left Review* 137 Jan/Feb 83.

the mid-70s, sees high growth as the primary answer to unemployment. In this respect the AES has been continuous both with the policies of the previous period — the 50s and 60s — and with the thinking of the movement as a whole.

As the difficulties of this approach became increasingly apparent, the AES was specified more carefully in ways that tried to anticipate and counter the constraints on a massive expansion of demand. To achieve this, the Left argued for *controls* on a very wide scale. For instance, import controls would permit the British economy to grow without a rapid deterioration of the trade balance; foreign exchange controls would stop nervous wealth owners shifting their property abroad; controls over the credit system would be used to stop expansion feeding into speculation; price controls would prevent high levels of demand from unleashing inflation; while compulsory planning agreements in big companies together with nationalisations would prevent a decline in investment.

Now although the case for each of these controls was very logical, the somewhat paradoxical result of putting them all together was that the Left ended up by proposing a very radical increase in state economic power in order to sustain a rather traditional policy of growth via the stimulation of demand. This line of policy development — high-growth plus controls — became increasingly problematic.

The political problem was that the AES in this form could only be legitimated by a popular acceptance of state economic power not much less than in a centrally planned economy. But no actual political developments seemed to be moving in this direction, even though large-scale and effective direct interventions to tackle unemployment might be regarded as completely legitimate by a big majority of the people. Interventions in the labour market are one thing — the drastic expansion of state power called for in radical versions of the AES was much more problematic, and in fact never commanded widespread support.

Economically, the difficulties with high-growth strategies are well illustrated in the discouraging precedent of Mitterrand's France, where an attempt at demand-led growth rapidly went wrong. At home investment slumped, while increasing difficulties with the balance of payments led to three devaluations of the franc. Nor was unemployment much reduced. The expansion launched after the Left's electoral victories in May and June 1981 was, as a result of these problems, first

halted and then reversed, by the beginning of last year, while unemployment was still around 2 million.

The French experience must be taken seriously as a sign of the economic difficulties facing demand-led growth. Of course it is always possible to argue that greater political determination and a readiness to use much more state control could have made the experiment work. But such arguments simply bolster economic wishful thinking with similarly voluntarist politics. The French government under Mitterrand nationalised all the private French financial institutions and six major manufacturing groups. If this did

ways existing Labour policies are too passive and gradualist. The essence of the switch being proposed here concerns the way in which job generation should be financed. Finance on the necessary scale cannot come from high growth and rising incomes in a way which is painless to everyone. Thus *redistribution* is central to direct job creation. New jobs for the unemployed can be financed by redirecting public expenditure and by taxes on higher incomes.

The first implication of this view is the need to challenge and reverse existing policies which have led to a dramatic concentration of income and wealth. The



not give the government sufficient leverage to expand the economy, then what measures would be required? And how could one sell them politically?

The same dilemma arises in the British case. In origin the AES was a limited strategy, based on the use of a stronger public sector and a number of new controls to solve certain economic problems. But as the difficulties with high-growth strategies became more obvious, the AES could only retain economic credibility if it was backed up by maximalist politics and a readiness to deploy very extensive state controls. If the primary economic method was to be demand-led growth, then there seemed to be no version of the AES tough enough to work and at the same time mild enough to command political support.

### Redistribution

It is not suggested at all that the labour movement should respond to the problems by lowering its sights on employment policy, by aiming for fewer jobs, or for jobs of lower quality. On the contrary, in many

Government claimed that redistribution towards the rich would generate employment. There is no evidence for this claim, except that increases in very high incomes might encourage low-grade service activities as a modern equivalent of the domestic servants of Victorian times. The tax cuts for the rich have squandered resources which could finance thousands of jobs in the public services.

A very ambivalent advantage of high-growth paths to full employment is that they *suspend* redistributive issues: out of a bigger cake there can be bigger slices all round. If this kind of policy is no longer plausible then sidestepping distribution is a dangerous luxury. A serious attack on high incomes is a precondition for rapid reductions in unemployment.

The scale of the unemployment problem, however, means that redistributive issues cannot be confined to 'the rich' versus 'the rest'. Starting from unemployment at present levels, some four million jobs would have to be found. This is a conservative estimate since the general

availability of decent employment is likely to bring forward many more job-seekers. Even with highly cost-effective methods of job creation, sums approaching £20 billion per year would be needed.

It would not be feasible to raise these amounts of money without widespread levies on existing employment incomes. In effect, there would have to be transfers of income *among* the working people — from the middle strata and the higher ranges of working class incomes to those at present unemployed and other low-income groups. It is a premise of the present argument that effective measures to eliminate unemployment could make a significant increase in the general burden of taxation politically legitimate. If such levies were accompanied by a serious assault on economic privilege and the defence of low-income groups they could prove very widely acceptable.

The retreat from redistribution by Mr Callaghan's government — especially the humiliating failure of the proposed wealth tax — weakened the moral position of the labour movement and encouraged an aggressive right wing approach which favours the rich. Yet this toleration of wealth and poverty could be a major political weakness of the Right, since few will accept the assertions of right wing philosophy that 'social justice' is a meaningless expression. Demand-oriented economic strategies have been escapist on these issues and failed to exploit the weakness.

#### What kind of programme?

In what sectors and by what means should large scale job generation be attempted? The answer clearly depends on the political context — moving from the present where initiatives are only possible in the very limited framework of local government, towards a full national Labour programme. The aim below is simply to illustrate some of the most important considerations.

The first need is to maximise political support for a serious attack on unemployment. This requires that the social benefits of the new employment be as high as possible, that the working of the new programmes be seen to be fair, and that they contribute to structural adaptation in the economy rather than delay necessary changes. Programmes should support new jobs in both private and public sectors.

The most cost-effective and manageable strategy would involve a range of different programmes: some permanent, some temporary and therefore able to release labour in the long run if necessary; some programmes aimed at specific groups such

as school-leavers or the long term unemployed, some recruiting from the workforce at large. The range of programmes would make it possible to adapt the pattern of job creation to the needs of the workforce and in accordance with the value of each type of intervention.

A highly cost-effective measure would be a simple, permanent expansion of public services — the NHS and local social services. Improvements in the quality and availability of widely used and appreciated services would make the whole strategy more acceptable.

Public investments — particularly construction and reconstruction of roads, other infrastructure and homes — is already a longstanding demand of the trade union movement. Similar proposals come from a very wide range of political positions. This kind of job creation is substantially more expensive than in the public services; on the other hand it can absorb a lot of labour very quickly and the non-labour input — building materials — is produced in Britain.

Measures which work in the opposite way to reduce the supply of labour rather than increase the number of jobs are justified if they genuinely widen the range of choice which people have. An obvious example is the removal of barriers which stop unemployed people from studying full-time.

The existing 'special employment programmes' often disguise unemployment rather than provide real employment opportunities. Therefore to upgrade them to an acceptable level would amount to an increase in employment. By far the most important case is the Youth Training Scheme; with a rigorous assertion of the rights of the young people involved and substantial additional funding, this could become an effective and socially progressive

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job programme for school-leavers rather than the squalid and dishonest expedient which it often is today.

In the private sector, measures are only efficient if subsidies are precisely targeted on additional jobs, not those which would exist anyway. Rescue operations for failing enterprises are a very dubious use of money except as a temporary emergency measure. The Greater London Enterprise Board and other local government agencies are acquiring valuable experience of intervention to promote private sector jobs. (More

generally the dogged but pragmatic defence of employment by Labour controlled local authorities all over the country is the major precedent for the policies being put forward here.)

There should be no bias against jobs in small business, although it is difficult to monitor success in the small business sector. Nor should there be a commitment to manufacturing as against the private service sector. It is increasingly clear that large scale public investment in new industries may be needed to accelerate structural adaptation of the British economy, but the private sector also must make a maximum contribution.

In every case, rates of pay and conditions of work should be *negotiated* with trade unions. Although, clearly, pay in the new jobs would be generally below that of the best paid workers today, it should at least match the TUC's claim for a national minimum wage and would represent a very important improvement from the present plight of low-paid, weakly organised sections of the workforce.

#### Conclusion

It must be admitted that an emphasis on direct job creation rather than demand-led growth would, in some ways, mark a retreat for the Left. Many of the most ambitious proposals for rapid change in the socio-economic system which have been put forward in the Left's AES would no longer be applicable to immediate policy. (It is by no means suggested that the AES demands for more economic controls and greater public ownership be abandoned; but it is argued that these demands can no longer be the starting point for the development of left economic policy.)

The retreat, however, is more apparent than real because the Labour Party, in spite of pressure from the Left, was never within miles of actually campaigning on the core demands of the AES. In June 1983 only the most diluted form of traditional demand stimulation was put before the voters. In the interests of 'realism' the Labour manifesto aimed only to reduce unemployment to one million within the lifetime of a parliament (presumably this target depended on the Labour government not being 'blown off course' in the habitual way). The Left's AES was always in the background — it was the only coherent position available to the movement — but, in practice, its radical demands were never won.

In some ways, the job creation approach only makes the present situation explicit. The movement does not have a complete

answer to the crisis — the policies proposed are therefore necessarily an expedient, although not an unprincipled one. They amount to defending low-paid groups and sustaining employment in the face of the crisis, even if the crisis is not rapidly resolved. At the same time the dangerous potential development of a 'recovery' based on extreme inequality would be decisively blocked.

It is not argued at all that demand-led growth be abandoned as a policy theme — we need every atom of such growth which is available — but it is argued that demand expansion can no longer logically, or

morally, be the centrepiece of our economic policies. Since practical presentations of Labour policy already acknowledge that demand strategies are a part solution at best, the proposals here tend more to fill a policy vacuum than to displace a coherent existing strategy.

In more important ways the policy changes proposed would represent an advance by the Left towards a more effective engagement in British political life. The changes would mean that, for the first time in many years, values and objectives would be given more prominence than instruments. The aim — full employment

and decent working conditions — would take precedence over the techniques of demand management. Certainly, major concessions could and should be made to win broad agreement on the methods and design of specific programmes — but these concessions would be linked to the most forceful insistence on full employment, not as a long run possibility, but as an immediate necessity. The objective of a statutory *right to work* would signal this commitment to everyone threatened by unemployment or economic insecurity and could only reinforce the relevance of the Left's position. •



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