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Fair Is Efficient

– a socialist agenda
for fairness



by Gordon Brown

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Fair Is Efficient—

a socialist agenda for fairness

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The case studies cited in this pamphlet are all genuine examples but the names have been changed to protect the individuals concerned.

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Introduction

After fifteen years of Tory rule, Britain is a grossly unfair society. The extremes of poverty and injustice are there for all to see. The homeless beg in the streets alongside news-stands proclaiming the latest six-figure salary increase of a corporate executive. Local schools decay for lack of money for books and even repairs while tax avoiders rejoice in the exploitation of Tory tax loopholes. Hundreds of thousands of pensioners face increased fuel bills because of the VAT tax rise while many millionaires avoid paying tax at all.

And the figures tell the same story: 11.3 million people are today living in poverty, 3.6m more than in 1979, while the percentage of children living in poverty has doubled. Unemployment has trebled, while wages are now more unequal than at any time since the 1880s. Meanwhile, everyone earning less than £64,000 is paying more tax than they did in 1979 to fund huge tax cuts for the very rich.

But rising poverty and unfairness has brought economic inefficiency rather than the high growth that the Tories promised. The much advertised New Right trade off between equality and efficiency no longer has any resonance. For the facts are now clear: the 15 year period which has seen the lowest average growth rate since the second world war has also seen the greatest growth in poverty and unfairness in twentieth century history. The New Right illusion was to believe that more inequality was essential to economic growth. But the reality is that economic inefficiency and poverty have gone hand in hand. Trickle down economics has failed and has been seen to fail.

This pamphlet will put the case for a new economics by demonstrating that attacking poverty and lack of opportunity at their source is the route to both a fairer society and a more prosperous economy. For in the modern global economy where capital, raw materials and technology are internationally mobile and tradeable worldwide it is people - their education and skills - that are increasingly the most important determinant of economic growth. It is lack

of skills and opportunity that are the driving forces behind persistent unemployment and low pay, and also low economic growth.

To eradicate poverty among the old, the young and the infirm requires that progressive taxation, the welfare state and good public services be at the centre of our fairness agenda. But the changes we are witnessing in the global economy require a new addition to the fairness agenda. Our new policies to arrest and reverse the new sources of deprivation and restricted opportunity must be centred on the workplace. It is lack of opportunity in the workplace that burdens our people with low wages and unemployment but it is also the same lack of opportunity that deprives them of the ability to make sufficient provision for retirement, and renders them unable to cope if they are hit by sickness, disability or periods of unemployment.

Without action now, Britain will continue to drift towards a low-wage, low investment, low skills economy, following the example of America in the 1980s, with all the economic and social ills that brings. The result will be more slow growth, poverty, unemployment and low pay, while the social consequences – rising crime and social deprivation – will continue to threaten our communities. Already, a generation used to hearing that the next generation will always do better than the last fears that its children will do worse.

Socialism

As socialists, our objective has always been that every individual should have the opportunity to realise his or her potential to the full, to enable people to bridge the gap between what they are now and what they have it in themselves to become. In today's labour market, when the role of government should be to open doors for all and break down barriers, increasingly more and more citizens feel they, and their children, are being denied the best life-chances. Women, now nearly half the workforce, are the greatest victims. Promised equality through legislation, they have been denied real opportunities for work, education and even child care.

For Britain's exposure to the global economy has happened in the context of dramatic changes in the world of work and the family. The old idea of a 40 hour week, a 48 week year and a 50 year working life has faded, while no-one can assume a lifetime in the same job or the same company – soon 1 in 10 people will change jobs every year. Today only a third of people work 9 to 5, a fifth work Sundays, 35 per cent of Europeans say they want to be self-employed and, while many work part-time by necessity, many others work part-time by choice.

This revolution should have opened up new opportunities for everyone but the manner in which the Tory government has managed it has instead delivered misery, poverty and insecurity:

- unemployment has soared in all regions of Britain and at least another 2m men of working age are no longer included in the unemployment count;

- wage inequality has increased dramatically as executive salaries have leaped, wages for unskilled workers have stagnated and minimum wage protection for the poorest paid workers has been removed;
- many women have entered the labour force but many more are trapped in the home because of inadequate child-care, while working women are still paid lower wages than equivalent men;
- more people work on short-term contracts, part-time workers have seen their employment rights cut and many self-employed workers have been crushed in the recession by rising bank charges and powerful vested interests;
- even as the Tories promulgated their theory of competition and deregulation, the power of a vast range of economic interests, from the City to the newly privatised utilities, was growing and continues to grow - a new establishment based on old wealth and new privilege.

The Tory combination of unemployment, wage inequality and the casualisation of employment means that for millions - not just the unemployed and manual workers, but professionals too - Britain has become a society in which options are narrowed, opportunities denied and potential frustrated.

Potential

Labour's vision - to build a fair society in which all people, regardless of class, race or gender, have available to them the widest choice of options and opportunities to enhance their earning power and fulfil their true potential - has always meant more than an aspiration to provide opportunities for all. It also embodies an analysis of society which shows how we can achieve this. The unique contribution of socialism is that we know that the strength of society - the community working together - is essential not only to tackle the entrenched interests and accumulations of power that hold ordinary people back, but also positively to intervene to promote the realisation of potential. In other words, the power of all of us is essential to promote the potential of each of us.

R H Tawney, in his classic work, *Equality*, recognised the importance of both spreading individual opportunities to all and of the community in making personal freedom meaningful. "A society is free," he wrote, "in so far, and only in so far, as within the limits set by nature, knowledge and resources, its institutions and policies are such as to enable all its members to grow to their full stature, to do their duty as they see it and - since liberty should not be too austere - to have their fling when they feel like it..."

The world has changed since Tawney's day. For, as the words of Aneurin Bevan remind us, "democratic socialism is a child of modern society", a set of values which must be applied according to the realities and challenges of the world in which we live. Today, the primary social interventions can no longer

simply be social policies for children and the elderly to deal with the consequences of unequal opportunities and incomes, though these remain critically important. The helping hand of government must be available at critical points in people's lives – for example, as they change jobs and seek new qualifications – truly from the cradle to the grave.

Building on Beveridge

Today, to do justice to the social vision of the 1945 Labour government, the original founders of the welfare state, we have to take forward their values - their conviction that the British people wanted to combat for ever the evils of want, disease, ignorance, squalor and idleness - and adapt and extend them to apply them to the radically new employment circumstances of the 1990s.

After fifteen years of Tory failure, we must again make fairness the central principle and guiding light of social security and tax policy, as I have suggested in my recent *Tribune* pamphlet on reforms in the tax system. Our commitment to progressive taxation, an end to pensioner poverty, good and effective public services and a large-scale attack on unaccountable vested interests is unquestioned.

What this pamphlet suggests, however, is that we must extend this traditional agenda by recognising that inequality generated from the workplace must be addressed in the workplace. The four new economic evils of the 1990s that need systematically to be attacked are persistent unemployment, inadequate investment in skills, entrenched in-work poverty and discrimination in work. Fairness and efficiency can be simultaneously achieved if, and only if, we attack these evils at their source by giving people the analytic and vocational skills - underpinned by a platform of employment rights and employer responsibilities - to enhance their own value.

In the new global economy, our socialist analysis is more relevant than ever. One hundred years ago, the Marxist analysts said that the question for capital in Britain was how best to exploit labour to enhance the value of capital to the benefit of a few. But today, when capital is mobile and can be sought and brought from anywhere at a price, the issue, to use their language, is not how capital can exploit labour but how labour, equipped in hand and mind with the best skills and education, can best use - even exploit - modern capital to enhance the value of labour to the benefit of all.

Attacking inequality at its source demands a new economic egalitarianism which is also the source of productivity and prosperity.

- A new opportunity-based economics which starts from the recognition that it is people's potential that must become the driving force of the modern economy and that the competitiveness of nations now depends on the skills and adaptability of its workforce.

- An enabling state offering new pathways out of poverty for people trapped in welfare by using the welfare state to foster personal responsibility and not to substitute for it - our guiding theme is not what the government can do for you but what the government can enable you to do for yourself.
- A fundamental commitment to tackling all entrenched interests and unjust accumulations of power, removing all forms of privilege and discrimination, based on sex, race or class, which hold people back and affront their sense of fairness and dignity.

These economic changes must be part of an overarching New Settlement: a new constitutional understanding between individual, community and state that offers guaranteed safeguards to individuals - both rights and responsibilities - and devolves power wherever possible. For to reinvent government we must first reinvigorate the idea of community. Fifteen years of Tory government, and the growth of unemployment and inequality which this pamphlet highlights, has done terrible damage to this idea of community upon which the solution to our economic and social problems depends.

The following chapters explain our policies to:

- promote full and fulfilling employment opportunities;
- boost earning power through the skills revolution;
- reform the welfare state to provide pathways out of poverty and for financial independence.

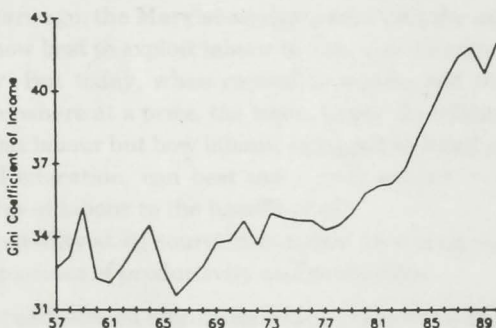
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Taxes, wages and inequality

The Tories like to boast that the 1980s saw an economic miracle in Britain. But the truth is that we now have far more poverty and deprivation than we did in 1979. The real gainers were at the very top, while those at the bottom were hardest hit – the incomes of the poorest 10 per cent of the population saw their incomes fall by 1 per cent.

Regressive Tory tax changes explain part of this rising inequality. The simplest indictment of the Tory tax changes of the past fifteen years is that post-tax income distribution is now more unequal than that of pre-tax income. As the IFS showed recently, in an independent analysis of the distributional effects of actual and prospective changes in personal taxes and benefits over the period 1985 to 1995, the poorest 10 per cent of households end up £156 a year worse off as a result of the tax changes while the top 10 per cent are £1,627.60 a year better off.

The biggest gains went to the top 1 per cent (with average incomes above £120,000 a year) who have gained £75 billion in cumulative tax cuts since 1979 while others are now paying more, thereby substantially reducing the progressivity of the tax system.



Source: Gregg and Machin in Barrel (ed.), *The UK Labour Market*, CUP 1994

What tends to go unnoticed is that the rise in pre-tax inequality has thus been even more dramatic than the rise in post-tax inequality, as the chart above

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shows. Pre tax inequality is here measured by an index called the Gini coefficient. The higher the figure, the more the distribution of income is skewed to a smaller number of high income earners. Zero indicates a completely equal distribution, 1 means that one person has the lot.

Growing benefit dependency is one reason for this growth in pre-tax inequality. Far from reducing dependency on benefits as they promised, the Conservatives have increased it. More than 11 million live on or below the poverty line, while the value of income support has fallen (as a proportion of full time male earnings) from 26 per cent to 19 per cent for a married couple. Child benefit has been cut in real terms, while a third of all pensioners now need to have their incomes topped up with means-tested benefits.

These reduced benefits buy even less today because powerful monopolies have overcharged for basic essentials while making £35billion in profit during the recession. Since water privatisation in 1989, the water companies have driven up prices by around 90%. Not surprisingly, water disconnections have risen (from 7,676 households in 1990-91 to 18,636 in 1992-93) and arrears are mounting on electricity and gas bills too. The unaccountable power and decisions of the banking establishment have damaged family finances for millions of people and are holding British business back. Bank charges have risen by 50 per cent during the recession from £4 billion to more than £6 billion, with the effect that millions of self-employed people have been crushed under the burden of high interest rates and rising commissions.

Yet the bulk of this steep rise in pre-tax inequality and poverty is explained by changes in the labour market: long-term unemployment and the growing dispersion in wages between high and low income earners. Paul Johnson and Steven Webb of the IFS found that, over the period 1979 to 1988, changes in taxes explained only half the rise in post-tax inequality. Another study by Stephen Jenkins of University College, Swansea finds a much greater role for wages and employment and thus an even smaller role for tax changes.

What is clear, however, is that unemployment and the growing dispersion between high and low wages are now the most important sources of poverty and lack of opportunity in the 1990s. It is to these issues that I now turn.

CASE STUDY: PHIL

Phil runs a pub near Southampton. He was forced to the verge of bankruptcy due to a high street bank overcharging him on mortgage repayments for the commercial property necessary for his business.

Two years ago, Phil took out a mortgage in order to buy the pub, with a view to expanding and diversifying the business. He had plans to set up a brewery on the next door premise and to buy two more pubs. These plans disintegrated as the bank loaded administrative charges for an endowment mortgage rather than a repayment mortgage, on to his business, amounting to £2,000 per quarter for four quarters. In all, the bank took £8,500 more than they were entitled to. As a result, the business was pushed to the top of its overdraft facility and beyond by Spring 1993. The bank bounced their cheques, which lost the business a great deal of credibility. In the small community in which Phil lives, this becomes a public humiliation and has long-term devastating consequences. In effect, this overcharging caused Phil to be working for the bank, although the error was entirely attributable to the bank..

Since then, Phil's bank have admitted their error, but have failed to reimburse his business. "The bottom line," he says, "is that I will bear the consequences of the bank's mistakes not only in financial terms, but also in terms of the credibility which I have lost in this small, tight-knit business community, not to mention the public humiliation and plummeting self-esteem that I have suffered."

Unemployment and inequality

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Full and fulfilling employment opportunities for all who want them are pre-conditions for a just society; and tackling the problem of persistent unemployment is a necessary condition for reversing the growing injustice which plagues British society. For unemployment has been much higher in Britain in the 1980s and 1990s than in any previous decade since the 1930s, particularly among men, the unskilled, the young and the old. Unemployment has, as a result, over-taken old-age as a cause of poverty.

Moreover, as the recent Social Justice Commission paper by Edward Balls and Paul Gregg reveals, official unemployment rates massively understate the number of British men who no longer work. Male employment fell by 2 million between 1977 and 1991 but only half of this fall in employment showed up as a rise in unemployment. By 1991, 1.3m jobless men were actively seeking work and thus included in the unemployment statistics. But another 1.8m were out of the labour force and thus excluded from the unemployment count.

It is the unskilled who have suffered most from this rise in unemployment, particularly the old and the young. Long-term unemployment, both in the UK and across Europe and the US, is primarily concentrated among the unskilled. While the UK unskilled unemployment rate rose by 8 percentage points over this fourteen year period, the activity rate fell by 16 percentage points.

The concentration of long-term unemployment among the badly educated suggests that inadequate skills must be an important part of the reason for persistent unemployment. The fact that demand and growth are currently so depressed explains why unemployment is so high. The macroeconomic mistakes of the early 1980s had a permanent effect on long-term unemployment. We badly need policies to revive growth, both in the UK and at the European and

international level, if we are to stop the recent rise in unemployment becoming permanent, as happened in the early 1980s.

But the ups and down of the economic cycle cannot explain the secular rise in unemployment – why in the late 1980s, at the peak of the most extreme Keynesian-style expansion in post-war British history, unemployment remained above 1.5m, twice the highest level of the 1974-75 recession.

Nor does the answer lie solely in the activities of wage bargainers, pushing up real wages so that, as some argue, a finite amount of work is unfairly shared. For in a world of mobile trade and capital there is no strict limit on the amount of work the economy can create if people have the skills to do the job. By the late 1980s skilled vacancies had more than recovered to their levels of a decade before as businesses complained of growing skills shortages.

The underlying explanation for the rise in unemployment is that the demand for relatively unskilled labour in manufacturing has been reduced by two factors: competition from the developing world and, much more importantly, a shift within manufacturing industry away from unskilled workers towards higher skilled, white collar employment as the result of technological change.

The diminished capacity of the British economy and the government's failure to upgrade the skills of the workforce, compounded by the macroeconomic policy errors of the past fifteen years – the overvaluation of sterling in the early 1980s and the inflationary errors of the Lawson chancellorship – explain why unemployment in Britain has been persistently higher across the past fifteen years than the US, Germany, France or Italy.

Who's working?

The problems of unemployed families are aggravated by the inadequacies and barriers to mobility intensified by the welfare state. One welcome development has been the substantial increase in the number of women in work. But not only have the jobs have been concentrated in the low-paid section of the service sector, the poverty-inducing effects of the rise in male joblessness have not been offset by a rise in women with unemployed partners going out to work. Instead, it is women with employed partners who have been going out to work, increasingly dividing Britain into two-earner and non-earner families. In 1992, almost 60 per cent of women with an employed husband were in work compared to just 24 per cent with a non-employed husband.

The welfare state has failed to provide opportunities and support for those who want jobs. It is not right that unemployed people are prevented from training or studying more than 21 hours because they will lose their benefits. It makes no sense that Britain's unemployment benefits system effectively prevents women with unemployed partners from going out to work because of the harsh benefit claw-back. It is neither fair nor efficient that so many British women now do jobs which substantially under-utilise their skills. It is neither right nor efficient that the UK has such inadequate child care support that less

than 50% of single parents go out to work compared to nearer 90% in northern Europe and that we have allowed service sector jobs to gain the reputation of unskilled, dead-end jobs by not providing opportunities for in-work training.

If we are to get people back to work we must tackle the obstacles in the welfare system which prevent people from working or training, combined with macroeconomic policies to stimulate growth and the skills revolution. There need be no shortage of good jobs in Britain, and tax revenues to fund public services, so long as British workers have the skills to perform the tasks that companies require and upon which growth depends. The danger of the current work-sharing debate is that it encourages governments merely to share around modest opportunities for poorly skilled work. The real challenge for government is to encourage people to aspire to, and give them the skills to apply for, more of the kind of high-wage, high-skill jobs that we need.

CASE STUDY: TERRY

Terry, aged 35, graduated with a degree in electronic engineering in the mid-1980s. He is now unemployed and has been since 1990, despite attempts to get both skilled and unskilled work. Terry worked in a micro-processing design company near Brighton until the late 1980s, earning about £500 a week. However, the recession hit early in the engineering industry and in 1988 Terry was made redundant.

He and his wife then set up their own business -- a wholefood delivery service. But they had to wind this up when the effects of the recession bit too hard. At this point Terry attempted to re-enter the engineering industry but in 1990 the recession was in full swing and there were no jobs. He soon found himself unable to pay the bills and so, out of sheer desperation, he took a job as a night-watchman on the Palace Pier in Brighton. Nine months later he was laid off and has been unable to find a job ever since.

He has again tried to go back to engineering but his skills are not sufficiently up to date. Consequently, he has applied to do a masters degree in engineering so as to improve his prospects.

Even this effort to re-train himself is proving near impossible -- no grants are available, even for the course fees, which come to over £2,500 a year. In addition, he has somehow to find a way to support himself and his wife through the course. The only solution seems to be to take out a loan, incurring yet more debt.

"It is the feeling of powerlessness which is most frustrating," Terry says. "Signing on to claim benefits is depressing but the government makes it so difficult for people to help themselves."

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Wages, skills and inequality

Unemployment is only part of the explanation for the rise in inequality and poverty throughout the 1980s. Poverty continued to increase not only when unemployment was rising but also when it was falling in the late 1980s. The missing ingredient is the substantial worsening in wage inequality that has occurred in Britain in the 1980s and early 1990s – so fast, indeed, that wage inequality is now greater than it was 100 years ago when records began.

Wage inequality has risen fastest amongst men. In 1886, the top 10 per cent of male, full-time manual workers earned 1.4 times the average. Today they earn 1.6 times the average. Meanwhile, the wages of the lowest paid 10 per cent have fallen from 0.69 to 0.64 of the average.

But this growth in wage inequality has occurred across almost every dimension – gender, occupation and skills. And it has not been peculiar to Britain. Wage inequality has grown in every developed country over the last twenty years. But wage inequality has grown faster in Britain than in almost any other developed country, catching up with France and overtaking Japan, though still lagging behind the US.

Wage justice

The Tories have actively encouraged this growth in wage inequality in the 1980s and early 1990s by tolerating the Anglo-American habit of paying vast salaries and bonuses to top executives, spuriously linked to 'what the market will pay' but rarely linked to the actual performance of their companies. The result is the obscene spectacle of vast pay rises received by top executives over the past recession while millions of employees were forced to accept nominal pay freezes, many found their wages cut as wage protection was lost and millions more lost their jobs altogether. The truth is that wage differentials between business executives and teachers, doctors or other public sector workers bear little or no relation to 'market forces' and have everything to do with the misplaced

priorities and toleration of unfairness that have characterised the past fifteen years.

Thatcherite greed is one part of the story. But academic studies reveal that rising wage inequality and persistent unemployment have another important cause in the UK and the US: the decline in the demand for unskilled, uneducated workers alongside the increased wages that highly educated and skilled workers can demand. Lawrence Katz and Richard Freeman find that, during the 1980s, the US and UK find that the major reason for this growth was a marked reduction in the demand for less well-educated workers relative to more educated workers. Skilled work is the key to higher productivity and increased prosperity. And workers without skill increasingly face either unemployment or a job at a low wage.

In Britain, Paul Gregg and Steve Machin find a shift in demand from unskilled to skilled workers both in the economy as a whole and within manufacturing, predominantly because of skill-biased technological change. While lower-paid service sector jobs have been replacing manufacturing jobs, both wage differentials and employment shares within manufacturing have shifted to pay higher wages to non-manual, better educated workers. The share of workers with no educational qualifications in total manufacturing employment has been falling by a massive 2.8 percentage points a year since 1979, a cumulative fall of nearly a third of unskilled manual workers since 1979.

Relative wages

Changes in labour market institutions – the decline in trade union membership and the fall in the real value of minimum wages – have also contributed to this growth in wage inequality on both sides of the Atlantic; 21 per cent of the growth in US wage inequality between 1979 and 1988 can be attributed to the decline in US trade union membership. For the UK, wage inequality has also increased faster in non-unionised sectors: the decline in British unionisation also appears to have driven about one fifth of the coincident rise in semi-skilled wage inequality.

The decline in the real value of the US minimum wage in the 1980s was an important factor in explaining the decline in the relative wages of unskilled workers. For the UK, the decline in minimum pay rates set by Works Councils relative to average wages was a significant factor in explaining the growth in wage inequality among low paid workers. Of course, now that the government, having devalued the Wages Council rates, has decided to abolish them altogether, this trend towards increased inequality will inevitably increase, especially if contracting out of public services remains a way of forcing millions of public sector workers to accept wage cuts or lose their jobs.

CASE STUDY: JOANNE

Joanne was fed up with being on the dole so she joined a training agency trust managed by a major British holding company. While she struggles to keep her head above water on a paltry allowance, the chairman of the company was awarded a £35,000 pay rise last year.

At the time she joined the scheme, she was living in a small town in Scotland where there was no hope of employment and so she accepted a training placement in a ceramics company. On this training scheme she receives £42 a week and a training allowance of £10. This, for working a 40 hour week, works out at 25 pence per hour of very hard work. The trust, on the other hand, receives £50 a week from the government for training Joanne, plus another £35 a week from the ceramics company. So, they benefit by £85 a week as a result of her training placement.

"I have made the effort to become a productive member of the workforce but I feel that everything is working against me," she says. "There is not much incentive to come off benefits especially since the rewards of doing so are minimal."

Gender and race inequality

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A further source of inequality and unfairness in the labour market is discrimination which, by definition, has no link to the education or skills of the employees.

Wages and employment opportunities remain highly unequal for members of ethnic minorities – unemployment rates for ethnic minorities are twice the rate of the white population, while wages of some minorities are persistently lower.

Wages also remain very unequal between men and women, particularly in the UK. The Equal Opportunities Commission (EOC) reports that women in full-time work still earn, on average, only three quarters of the wages of full-time men, although the gap has narrowed in recent years. But women in part-time jobs earn lower hourly rates than men, while the gap between part-time and full-time rates has grown. Francine Blau of the University of Illinois has looked at the international pattern of gender pay differentials and finds that women in the US and UK tend to earn 50-60 per cent of the hourly wage of men, compared to 70-80 per cent in continental Europe and 80-90 per cent in Scandinavia.

Of course, these gender earnings gaps are affected by the overall level of wage inequality as women tend to work in lower paid occupations. But, adjusting for this, Blau still shows that British women face larger wage gaps than in the rest of Europe and the US.

One reason is clear: the grossly inadequate level of childcare provision in the UK, especially for single mothers. For Blau finds this gender gap exists predominantly for married women with children, rather than single women who tend to earn rates of pay much closer to single men. The reason is, of course, that women with children often take forced breaks from work because of the unavailability of adequate child-care. The EOC estimates that a woman with two children, who typically has a career break of eight years in total followed by the possibility of 14 years in lower paid work, tends to have lifetime earnings of only 57 per cent of those she might have expected without the break.

Yet the UK still has too many women not working who want to because of inadequate child care. The UK currently has the second lowest number of childcare places amongst the EC countries, while only 35 per cent of children over the age of 3 are offered any form of childcare compared to 95 per cent in

Belgium and France. The result is that only 46 per cent of single mothers are in work in Britain compared to 80 per cent in America and 90 per cent in some Scandinavian countries.

Lack of adequate childcare, and deeper discriminatory forces, also help explain why a glass ceiling remains for women in Britain. Even at the end of the 1980s, women accounted for only 8 per cent of the 29,000 senior executive posts in British companies. On average, women executives are paid 20 per cent less than their male counterparts. Even allowing for the fact that women executives tend to be in lower positions, they are still paid 10 per cent less than equivalent men, while women are less likely to be promoted and have almost no chance of reaching top board positions.

CASE STUDY: CLAIRE

Claire, 30, a single parent, lives in central London with her four year old twins. Before her sons were born she worked as a receptionist and administrator. After the twins were born she returned to work for six months but was forced to give this up due to a lack of affordable childcare.

Claire expected that by the time they reached the age of three, the twins would be able to go to a nursery and she would be able to go back to work. But, although she put their names down on the waiting lists at five different nurseries, one and a half years on there were still no places available.

Claire did finally find a playgroup which would take the boys but only for two hours a day. This enabled her to take on some voluntary work at the local community centre. She was offered a paid position for seventeen and a half hours a week, but was unable to take this up, solely because affordable childcare was not available.

Claire is worried that her sons are missing out on a valuable part of their education. She feels that they are eager to learn but that she has taught them all she can and there are no nursery places available for them yet.

"It's not fair to the children to deprive them of the chance to learn, when they obviously are ready to," she says. "It's also unfair that I am forced to pass up the opportunity of employment and the chance to support my own family. The whole question of childcare for the under fives urgently needs to be addressed and some action must be taken."

Fairness and prosperity

Persistent unemployment and falling relative wages for poorly skilled and educated workers are the twin sources of rising poverty and lack of opportunity in Britain, reinforced by discrimination in the workforce and the welfare system against women and ethnic minorities. But these sources of poverty in Tory Britain in the 1990s – high unemployment and rising in-work poverty due to falling relative wages for unskilled workers – are also the reason why economic growth has been so sluggish by historical standards.

Only investment in the technologies of tomorrow can boost the real wages of workers. But only by providing labour with the education and skills with which to learn to use these technologies can the potential productivity gains be realised. For, as I argued in my pamphlet, *How to Conquer Unemployment*, there is a close link between increased investment in people and in capital equipment. Only by investing in the expansion of our physical and human capacity can demand expand and spread opportunities without running into inflationary difficulties.

We need skills

Businesses increasingly understand that in a modern, global economy the policies necessary to tackle growing inequality and social dislocation are the very same ones which are necessary to produce a dynamic and competitive economy. They know that the real indictment of the Tory government is that it has consistently neglected the development of our skills base. In a recent speech to the Manchester business school, CBI Director General Howard Davies stressed the importance of the skills revolution while pointing out that, after fifteen years of Conservative rule, "we start from a long way back, with a workforce which is endowed, on average, with significantly lower skills than our competitors."

Yet self-interest requires the Tories to cling to the old Thatcherite dogma

that rising inequality is a necessary pre-condition for creating the incentives which deliver growth. Instead, they continue to peddle the 1980s belief that Britain can compete through deregulation alone – that cutting wages and removing social protection will enable the UK to compete on cost with low-wage countries such as China and India.

The Clinton administration understands that the reasons for both sluggish growth and rising poverty lie in the failures of the US labour market in the 1980s, and is now trying to correct them for the 1990s by implementing the skills revolution. Ironically, the British government remains firmly wedded to the view that a deregulated 1980s-style US labour market remains the solution to Britain's economic problems.

Low skills, low wages, low results

Crude deregulation works neither in theory nor in practice. It cannot deliver a high-wage, high skill economy. In theory, developed countries which pursue a low-wage, low-skill economy through simply deregulating the labour market and forcing down wages and standards – a pile 'em high and sell 'em cheap approach to the unemployed – may believe they gain some short-term advantage. They have got the theory wrong. By simply trying to under-cut the competition on cost, they grossly undersell the quality and potential of the product. Slashing prices by cutting wages, training and investment may appear to deliver some short-term advantage at the cost of long-term economic and social decline – a closing-sale in a bargain basement.

And, as the record above shows, the UK has the worst of both worlds: the worst of high European unemployment and US-style low-wage employment and rising in-work poverty. Overall employment has risen slower, not faster, than the rest of Europe. When Britain's two recessions are included, employment in Britain's deregulated and 'flexible' labour market has grown by a mere 0.4 per cent over the period 1979-92, compared to 3 per cent in France.

Not surprisingly, Britain is increasingly suffering from many of the American-style social problems that accompanied the rise in wage inequality and fall in male employment in the US in the 1980s – rising lawlessness in our inner-cities, rising drug-related crime, higher infant mortality rates than comparable countries and more spending on ill-health and crime prevention. The reality is that by failing to deliver social justice, the Tories leave us with a society which is decaying around us, at great cost not only to the disadvantaged but to everyone. The polarisation of British society is not only a tragedy for the disadvantaged but a real economic and social cost for the entire population.

The new agenda for fairness

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The message is now clear: the 1980s trade-off between efficiency and equality is discredited. Workplace generated inequalities in Britain are a drain on the economy and must be attacked at source in the workplace. The very same policies which are needed to produce a fairer society are also needed to produce growth and prosperity.

The Tories have presided over an enormous increase in poverty and unfairness. They have also presided over the two deepest recessions since the second world war and a lower growth rate than in any similar period since 1945. What they do not realise, and could not act upon if they did, is that the two are intricately linked. Trickle-down economics does not and cannot work and should be replaced by a new economics.

Britain can become a dynamic and a fair society again. Elsewhere – including in my Tribune pamphlet – I have outlined my views of the need for a fairer tax system and I have also launched an attack on unaccountable vested interests that over-price, under-perform and restrict choice and opportunity. Here, I outline how we can tackle the four new economic evils of the 1990s: persistent unemployment, inadequate investment in skills, entrenched in-work poverty and workplace discrimination through a new upstream economic agenda which attacks inequality at its source. This is the new workplace agenda through which Labour must work to create a fairer and more prosperous society.

Full and fulfilling employment

Almost three million people unemployed means that we are failing to allow everyone to exploit their economic potential to the full. The solution lies in a combination of short-term measures and long-term action, combining the expansion of demand and capacity. The longer the currently stumbling recovery remains sluggish, the greater the chance that permanent damage to the economy will be inflicted, including an increase in the long-term trend of rising unemployment. A persisting recession leads to investment projects being abandoned and existing capacity scrapped while the skills of workers trapped in long-term unemployment wither, and the ability to re-enter the labour market fades.

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We must not let our need to concentrate on long-term policies to address the challenges of the future and achieve our long-term goal of full and fulfilling employment to obscure the need for action now – not only to boost economic growth but to get people back to work. Action is needed now to reduce the damage caused by the current depressed state of the British economy. The balanced expansion of demand, led by growing private and public investment, separately or working in partnership, is the necessary counterpart to the growth of capacity.

Regrettably, monetary policy in Europe remains far too tight. But the days of small countries such as the UK or France going it wholly alone with monetary or fiscal stimuli are over. That is why I have consistently called, both before and since the ERM crisis, for a co-ordinated cut in European interest rates and a fiscal boost at the European level to speed recovery, including a new European recovery fund.

I have also proposed a number of immediate measures to get people back to work:

- We need to offer the young unemployed a new deal – a better alternative to the crime and drugs which plague inner-cities. All young people must be offered access to the highest quality of education and training, including remedial education for those who need it.
- We should establish a new environmental task force for young people which could combine training with environmentally-based community projects. This could offer opportunities abroad as well as at home.
- We must end the scourge of long-term unemployment. It makes no sense for the government to pay the long-term unemployed to do nothing while their motivation drops and their skills atrophy. For some, better training in the skills that industry needs is the answer. But others will need more help to re-enter the labour market which is why we have proposed the phased release of capital receipts to allow new building, a job creating energy efficiency programme, a small business investment scheme and the offer of a temporary national insurance relief for any employer who takes on a long-term unemployed person.
- Redundant workers need help and support with retraining and relocation from the moment they lose their jobs, not after a number months of unemployment. We need a reshaped Employment Service which can help displaced workers find job vacancies in the same occupation using a new national vacancy database, offer grants and loans to help displaced workers relocate geographically and provide opportunities for workers in declining industries to re-train in new skill areas. We pioneered the labour exchange in Britain. Now it is time for us to pioneer a jobs information highway by constructing a national vacancy databank.

A skills revolution

Any serious analysis of our problems shows that we cannot afford to treat education and training as peripheral to the task of economic management, an add-on extra or mantra for the empty-headed to recite. For in a world in which capital, raw materials and ideas are increasingly mobile, it is the skills and ability of the workforce which define the ability of a national economy to compete and deliver rising living standards for its citizens. Education is the foundation, the well-spring, of a successful modern economy.

A skills revolution is required, based on a radical reappraisal of government involvement in the way in which our schools, universities and companies train the workforce of today and tomorrow.

- Instead of a tax system which does nothing for and, in some cases, discriminates against, those who upgrade their own skills, the system of personal taxation should assist those who undertake training.
- Instead of a fiscal system that provides tax relief for research on the basis of buildings and equipment, rather than people, it should be geared to research and development activity which will enhance our national skills base in industrial know-how.
- Instead of a regional aid system with investment incentives almost exclusively for buildings and machinery, modern regional policies right across Europe, as well as in Britain, should consider grants and tax incentives far more oriented towards support for upgrading skills.
- Rather than discriminating against people who want to spend more time training, as it does at present with the 21 hour rule, the benefits system must be re-oriented towards helping people re-skill themselves.
- Instead of offering no special incentive for upgrading skills, the system of family support should help mothers construct pathways out of poverty.
- Instead of Government implicitly rewarding companies who do not train but poach from other companies, employers sufficiently irresponsible to fail to provide training should face the disincentive of a training levy set at a higher level than previously.

University for Industry

We are pursuing an even more ambitious and exciting proposal – the establishment of a University for Industry, exploiting the communications revolution and using Britain's media strengths (including the external service of the BBC) to sell work-based media training to the developed and developing world. We already have some of the most up to date telecommunications technology and broadcasting expertise, as well as educational establishments which still compete with the best in America, including the ground-breaking Open University

created by the Labour government in 1964 to give ordinary people the chance of further academic study from their own homes. Now it is time to move forward. We propose to bring together educators, broadcasters, telecommunications companies, both sides of industry and government in this new project which can bring the latest innovations in learning and technology to employees and employers and so do for millions through workplace education what the Open University did for thousands through education from home in the 1960s.

We also need a fundamental re-think of the entire British training and education system to ensure that learning is available to all, from early childhood to late adulthood, and that their learning contains an appropriate combination of life-skills and work-skills. This essential element of a new and ambitious strategy must include education for 16-19 year olds which provides parity of esteem for academic and vocational study and offers the highest quality training to 16 and 18 year old school leavers. And we must not flinch from facing difficult questions about the priorities for spending within the current education budget, about potential new sources of finance for educational investment and about the way in which the growing private education system affects educational opportunities.

Pathways out of poverty

The welfare state is creaking under the burden of economic failure. But the Tories' simple mantra – that the welfare state is too expensive to be afforded any longer and must be pared back – is totally at odds both with the facts and with the needs of Britain today. A welfare state shaped to the needs of a changing labour market and changing family patterns is more necessary than ever before.

We must look hard at our welfare system to ensure that it provides pathways out of unemployment and poverty rather than trapping people in persistent dependency. For the risks and insecurities that the welfare state was set up to combat have changed dramatically over fifty years and the welfare state has to keep up with the times. The welfare state must be about supporting people as they respond to these new challenges – extending their choices and opportunities; acting as a trampoline rather than as a safety net.

Rather than assuming a uniform and predictable life-cycle of education followed by work and retirement, the welfare state must be shaped to the increasingly flexible nature of people's lives. The atypical worker – part-time with flexible hours and breaks for education, training and family responsibilities – has become increasingly typical and the welfare state has to recognise this. The challenge is to reclaim flexibility in the progressive cause, not as a codeword for employer exploitation but as the basis for employee choice and opportunity.

Revamping National Insurance

One change which is worthy of consideration is a revamping of our National Insurance system, so that taxes paid are more closely linked to the benefits people receive and need. National Insurance was originally intended to link payments for insurance against unemployment, old age and ill health to the benefits people receive. I have already suggested how, by a closer integration of tax and benefits for pensioners, we might be able to abolish means tests and provide better help for the poor.

But there is also a case for revamping employment benefits for the new world of permanent lifelong and recurrent education and training. National Insurance benefits need not just be insurance against periods of unemployment but also offer help for training and retraining and for the provision of personal development plans with people offered the best careers advice not just on leaving school but throughout their working lives.

The Social Justice Commission is currently preparing its report and it would be wrong to pre-empt its findings. But it is essential that we balance policies to encourage flexibility and change with safeguards to prevent exploitation in the workplace, either through the payment of below-market wages to the low paid or by cutting terms and conditions for part-time workers. That is why we must continue to fight for Britain to adopt the Social Chapter of the Maastricht Treaty, with guaranteed rights to training and representation. And we must introduce a minimum wage to prevent labour market exploitation.

Attacking race and gender discrimination

Action to end overt racial and gender discrimination in the work-place will be a priority for an incoming Labour government. Racial discrimination must be sought out and countered case by case to ensure that growth and the skills revolution truly offer opportunities to all. For women, we must all recognise that, in the new world of work, flexible employment opportunities must be a weapon for all employees, both men and women, who want working time to suit their domestic responsibilities and not a weapon for employers who want to escape legislative and financial responsibilities.

Childcare is a prime example where active help is needed in order to enhance the individual opportunities of lone parents and others, currently trapped on benefits, in order to allow them to enter the labour market. We must look at new ways of encouraging investment in childcare facilities that bring high quality childcare, using both public and private finance. We should learn from those councils which have attracted money from employers who have sponsored places in nurseries as in North Tyneside, or from Leeds, where local employers have hired the services of the council to manage their workplace nursery, or in Strathclyde, where councils have provided resources for the voluntary sector.

There must be a plurality of provision, building partnerships between public

and private sectors and allowing childcare opportunities near their homes rather than exclusively at work. But reaching school age does not bring an end to the problems of child care arrangements – after school and in the holidays. A new grant has been introduced to be paid through the Training and Enterprise Councils to boost provision of out-of-school care. But government needs to go further and actively encourage employers in a national and coordinated strategy to develop schemes in partnership with local authorities, other employers, trade unions and to sponsor schemes run by voluntary groups in order to ensure that this un-met need is addressed. The childcare deficit must be addressed as a matter of urgency so that women do not need to choose between the children they love and the work they need.

Conclusion

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At the heart of our analysis is the enduring socialist message that it is only by using the power of the community to spread opportunities to all that can we ensure that all our citizens are not only free from the threat of poverty, unemployment, disease and discrimination, but have the education, the skills and the opportunities to fulfil their potential to the full.

We cannot simply leave the unrestrained free market to create poverty and deprivation and confine the role of socialism to providing the emergency services through the welfare state after all the accidents have happened and the casualties created.

Instead, we must attack poverty and lack of opportunity at their source. The vicious cycle of unemployment, de-skilling, low productivity and decline, must be replaced by the virtuous cycle of education, job opportunities, high productivity and prosperity. In the modern world, where low investment and inadequate skills spell slow growth, high unemployment, higher taxes and rising poverty, a commitment to growth and fairness go hand in hand.

In the words of R H Tawney, a socialist society is, at its core, "a community of responsible men and women working without fear in comradeship for common ends, all of whom can grow to their full stature, develop to their utmost limit the varying capacities with which nature has endowed them." We must use the power of the community to enable people to take control over their own lives; to empower everyone with the best services that can be provided; and, finally, to enrich the lives of millions by enhancing the value of their labour.

Sadly, in today's Britain, those opportunities and chances are being denied to millions. Yet, without government action to bring about a skills revolution and attack poverty at its source, the numbers of victims will continue to grow. That is why, when people say that socialism is out of date, we need only look around for a moment to know for certain that it is not.

The failure of free-market conservatism and the new challenges of the future together mean only one thing: Labour's fundamental socialist message – that only within a community can individuals fulfil their potential – is more relevant today than ever before.

At the heart of our analysis is the enduring social message that it is only by using the power of the community to spread opportunities to all that we can ensure that all our citizens are not only free from the threat of poverty, unemployment, disease and discrimination, but have the education, the skills and the opportunities to fulfil their potential to the full.

We cannot simply leave the international free market to create poverty and deprivation and define the role of socialism to be filling the gaps left by the market through the welfare state. All the socialist have proposed and the results treated. Instead, we must attack poverty and lack of opportunity at their source. The various crises of unemployment, de-skilling, low productivity and declining productivity by the young, crisis of education, job opportunities, high productivity and property. In the modern world, where low investment and rising costs will show growth, high unemployment, higher taxes and rising poverty, a commitment to growth and fairness is hard to find.

In the words of R. H. Tawney, a socialist society is, at its core, "a community of responsible men and women working without fear in co-operation for one another. All of whom can grow to their full stature, develop to their utmost limit the varying capacities which nature has bestowed them." We want the power of the community to enable people to fulfil their potential and live to improve everyone with the best system it can be devised and finally to reach the level of civilisation by removing the values of their labour.

Skills in labour's hands, those opportunities and resources are being handed to millions. Yet without government action to bring about a skills revolution and attack poverty at its source, those millions of workers will continue to grow. That is why when people say that socialism is outdated, we need only look around for a moment to know for certain that it is not.

The failure of the market revolution and the new challenges of the future together mean only one thing: labour's industrial revolution - that only within a community can we fulfil our potential - a new era that today than ever before.

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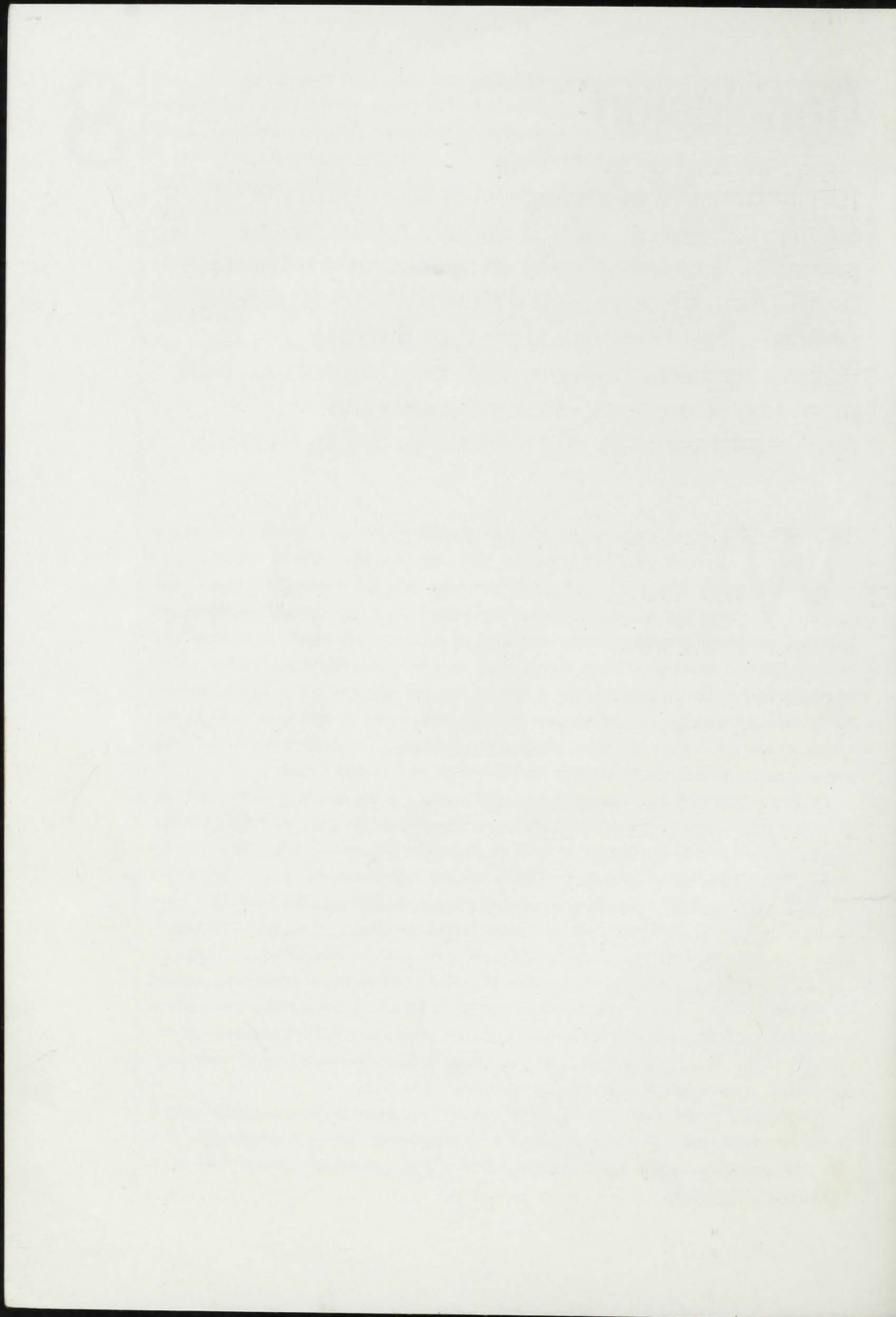
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