Robert Schuman Centre

A New Social Contract?

Unemployment in Europe

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1. Introduction

A large range of problems within the EU can be thought of as arising from the separation of the relevant population into two groups: the included and the excluded. There are obvious examples, such as the employed and the unemployed, poor regions and rich regions, poor and rich areas of the same city, single parents without access to child care and two-income households. Of course, in practice the two blend into each other at the margins, but it is helpful to keep them conceptually distinct.

More generally, the distinction between the excluded and included groups can operate in one or more of three dimensions. The social dimension, embracing questions of class, gender and race; the spatial dimension, covering the geographic aspect of prosperity; and the structural dimension of the distinction between the macro, meso and micro levels.

The concept of social exclusion embraces a wide range of apparently unrelated examples. The spatial exclusion, for example, of the poorer areas of a city at first sight has little in common with, say, the social exclusion of ethnic minority groups.

But there are three stylised facts which emerge from many of these seemingly disparate areas, including that of unemployment:

i) there is a marked tendency for exclusion, once it arises, to persist for long periods of time. At the extreme, for example, the areas of Manchester noted by Engels [1] in the 1840s as suffering the most acute deprivation have scarcely changed in their relative status over a period of 150 years, with many of them remaining the poorest parts of the city today. Of course, not every example of social exclusion persists for such a long period of time, but, once established, patterns of behaviour are difficult to change.

ii) as a corollary of point (i), self-equilibrating mechanisms beloved of conventional economics appear to be weak in the context of social exclusion.

In economic theory, for example, imbalances between supply and demand are corrected by movements in the price of the product in question. The system contains negative feedback, in that the system operates to dampen rather than to amplify any disturbances which might occur. Yet in the labour market, following the sharp upward rise in unemployment in the early 1980s, in countries of the EU unemployment has persisted above 7 per cent for fifteen years , the sole exception being (West) Germany, where even here unemployment has persisted at historically high levels for the same length of time.

Over very long periods of time, non-trivial unemployment rates have persisted in the Western economies. For example, over the last 140 years - the longest period for which data of any remote degree of reliability exist - the unemployment rate in Britain has averaged 5 per cent. In the peace time years this century, unemployment has averaged 6 per cent in the United States. Even in Germany, the peace time years since 1920 have seen an average unemployment rate of over 4 per cent, whilst in Belgium the figure is almost 6 per cent. These may seem small percentages, but they represent many millions of individuals - in today's terms, for example, the US unemployment rate mentioned above amounts to 8 million people.

Kenneth Arrow [2], who placed free market economic theory onto a modern mathematical basis in the early 1950s, has recently stated that he now regards general equilibrium theory in economics as being empirically falsified, with the single most important fact being the failure of labour markets to clear over long periods of time.

iii) there is a widespread failure of conventional policies of targeting public resources on specific exclusion problems to bring about a permanent improvement in the relative position of the excluded group. This is not, of course, to say that such policies never have beneficial results. But there are many examples of conventional policy failure.

The purpose of this chapter is to discuss European unemployment from this general perspective, and to propose ways in which the problem might be tackled in the context of a new social contract.

2. Unemployment in Europe: the evidence

The long-run persistence of European unemployment, and the implied failure of conventional policies to solve the problem, can be seen very clearly using graphs. The conventional way of doing this in economics is to plot the series over time. Chart 1 does this, showing the unemployment rate in Belgium (using OECD data throughout) from 1960 to 1994. Unemployment was very low from 1960 to 1973, rose sharply to the early 1980s, and since then has fluctuated around a high average level.

An alternative way is to use a connected scatter plot, which is widely used in non-linear systems analysis. Chart 2 constructs a scatter plot of unemployment in Belgium in any particular year against unemployment in the previous year. The resulting points are then connected together in sequence. Such charts can provide three technical pieces of information. First, whether the data tends to exhibit cycles over time. If so, the data in a connected scatter plot will appear in the shape of an ellipse. Second, the average value around which the series fluctuates. This is the point in the centre of any ellipse which, applying technical jargon, we can call the attractor point of the data. The data in the series is attracted around this point. Third, the chart shows the magnitude of the cycles around the attractor point. An ellipse which was very tightly drawn, for example, would imply that the data showed only small fluctuations over time.

The sequence of points in the bottom left of the chart show the economic cycles in the 1960s and early 1970s. Unemployment showed only small fluctuations around a low average. There was then a large, continuous rise until the peak of 1982, but since then a new pattern has been established, of large fluctuations around a high average level.

The connected scatter plot of unemployment in Belgium reveals a pattern which is qualitatively similar in a majority of the countries of the EU. For interest, Charts 3 and 4 show (West) German and British unemployment, but the pattern is typical of countries such as the Netherlands, Italy, Denmark and Austria. France and Spain exhibit different behaviour in that unemployment rose more or less continuously from the mid-1960s to the mid-1980s, but since then the same pattern of large fluctuations around a high level attractor point has become established in both these countries. Chart 5 plots the connected scatter plot of unemployment in France.

In general, the behaviour of unemployment in Europe over time is characterised by two features. First, the existence of reasonably regular cycles of similar amplitude which can persist for considerable periods of time. Second, abrupt shifts away from any given attractor point of the cycles, followed by a short period of time before a new attractor point emerges, which itself then persists with no self-regulating factors moving it back to its initial position. In other words, the average rate of unemployment is moved sharply up or down by major shocks to the economy, but once the shift has occurred, the new average level itself persists for long periods of time.

3. A theoretical approach to social exclusion

A theoretical model must be able to account for the key stylised facts of persistence of exclusion and of the widespread failure of conventional policies to solve such problems. Such an analytical framework is in fact available, which generalises the principles of the amplification of disturbances through positive feedback and 'lock-in' which have been developed in recent years in the areas of the choice of technology and of the regional location of industry.

The sources of persistence, and the consequent difficulty of altering the relative position of the excluded by targeted expenditure, are increasing returns through positive feedback. This latter term is used here not in a normative sense, but in its technical sense of meaning that the dynamic processes at work re-inforce each other, and lock the system strongly into whatever direction it is moving. The original insights into increasing returns and the choice of technology were provided by Brian Arthur [3, 4], using non-linear probability theory.

In essence, the model is as follows. Two new technologies have been developed which are about to compete with each other. For example, the market for video recorders in the 1980s or the nuclear reactor market in the 1950s. The population of potential adopters is assumed to be divided equally in its preferences between the two. One group is more likely to choose one technology, and the other group its competitor.

The key assumption now is that each of the technologies enjoys increasing returns with adoption. The choice of technology by any agent alters the probability that all subsequent agents will choose this rather than its rival. It is easy to think of reasons why this is the case. For example, with video recorders the lead in market share which VHS obtained encouraged retailers to stock tapes for these machines rather than for its rival Betamax, which in turn gave an incentive for new purchasers to choose a VHS machine.

The final assumption in the technology model is that adopters come forward to buy the technologies in a random sequence. As a theorem, in such a model, no matter how small the change in the probabilities following each individual adoption, one technology will eventually gain 100 per cent market share and its rival will be eliminated. It is not possible to predict in advance which technology will succeed, for by construction the outcome is a matter of the random process of initial adoption. A technology which in an objective sense was inferior to its rival could therefore achieve 'lock-in' under these processes.

The assumption of increasing returns - positive feedback - means that the market does not automatically 'know best'. Indeed, Betamax was technically superior to its VHS rival; the QWERTY keyboard was deliberately developed 120 years ago to be inefficient, because the transmission of words by telegraph at that time could not cope with a faster input. Yet, because people are trained on this keyboard, it has not proved possible for more efficient keyboards to break the lock over the market of this inefficient design, despite numerous attempts to do so.

The above is a particular example of the more general analytical problem, which involves the question of how to exit from a local minimum/maximum in a non-linear system when searching for a superior local or even the global minimum/maximum. There are many such examples in the social sciences. Dasgupta [5] , for example, has recently set out a system of positive feedback with lock-in solutions in a model of poverty, population and environmental degradation in the Third World.

In such systems, it is known that 'nearest neighbour' strategies, involving a series of small movements in the immediate neighbourhood or locality often work poorly. These strategies can be thought of in the context of social exclusion as a programme of targeted expenditure designed to improve the position of the excluded group gradually.

Perhaps the best way to think of the problem is geometrically, visualising it in three dimensions. A surface exists with many peaks and troughs. The map of the surface which we have is incomplete, for in contrast to the assumptions of orthodox economics, either we have incomplete information or we lack the ability to process efficiently all the information which we have. The task is to move out of a local minimum to a local maximum. In other words, from a trough to a peak.

Intuitively, if the topology is in some sense well-behaved - rolling hills rather than sharp peaks and deep valleys - a 'nearest neighbour' strategy might work quite well. Even with imperfect knowledge of the terrain, a series of small moves may well succeed in taking us towards the top of a hill. But in a terrain with sharp peaks and valleys, such a strategy has only a low chance of success.

The two topographies can be thought of as representing the two types of model discussed above, namely a model in which increasing returns/positive feedback is essentially unbounded, and a model in which their impact is bounded.

If the terrain is rugged, the conventional response of spending money or subsidising the excluded in some way may well not work very well at all. The trough which they are in is fairly steep and deep, so even a large effort to get them out may simply result in them rolling back down again. Or, even worse, our imperfect knowledge of the terrain may lead them to fall into an even deeper, unexpected trough.

The prevalence of increasing returns in capitalist economies can be seen by asking the question: when a shock to the system takes place and unemployment rises, why do not the newly unemployed simply set up production on their own account at the prevailing wage rate? If they were able to this, Say's law would operate, with supply creating its own demand, and an underemployed equilibrium could not persist.

At the micro-level, the existence of increasing returns to production is an important reason why such behaviour is not widely observed. (Weitzman [6]). Whilst it may well be possible for a skilled professional such as a lawyer or accountant to set up on his or her own account with a minimum of capital outlay, it is not open to a steel worker or miner, say, to operate in the same way because of increasing returns to production. Even where small scale production might be technically feasible, imperfect capital markets often prevent individuals from borrowing the amount needed to set up production, which is simply another manifestation of increasing returns.

The existence of increasing returns to production is a necessary condition for the persistence of high unemployment. An implication of this is that policies which address explicitly the inability of the unemployed to produce on their own account - for example, assistance to SMEs - may help. But in general, a permanent and substantial reduction in unemployment will require an increase in employment in existing organisations.

4. Growth and unemployment

The idea that higher rates of economic growth are a solution to unemployment permeates policy thinking within the European Union, both at a national and EU level. A higher rate of growth, it is argued, will increase employment, mainly in existing companies, and hence reduce unemployment. There are disagreements as to whether this is best achieved by policies of demand management or by the newly-fashionable supply side polices, and there are doubts about how successful such policies can be. But despite reservations, higher growth is seen as an important contributor to the problem of European unemployment.

Prima facie there is apparently a strong relationship between growth and employment/unemployment. During the course of any particular economic cycle, there is usually a strong correlation between changes in output and changes in employment and unemployment.

But the connection between movements in output and employment over the course of the economic cycle misleads people into believing that this relationship necessarily persists over the course of several cycles. In most European countries, the proceeds of economic growth in the past twenty years have not been used to generate new jobs (in net terms), but have been appropriated by those who have remained in employment. More precisely, a system of social relationships has arisen which has allowed the appropriation to take place.

Spain provides the most striking example of this. Since 1970, in real terms the Spanish economy has essentially doubled in size. Yet employment is actually lower now than it was over twenty years ago. More generally, the output of most Western European economies has increased by around three-quarters over the past twenty years, yet the percentage increase in net employment can be measured in single figures.

The lack of connection between output growth and the labour market extends to unemployment as well. The growth rate in many Western economies from the late 1970s, once the initial impact of the oil price shock had been absorbed, has been very similar, at around 2 per cent a year on average. Yet against the background of similar growth rates over a period of some fifteen years, unemployment rates vary substantially across countries.

France, (West) Germany, Italy, Austria and Spain have all grown at an average annual rate of around two and a quarter per cent in the past fifteen years. Yet unemployment has averaged 9 per cent in France, 6 per cent in Germany, 9 per cent in Italy, only 3 per cent in Austria and 16 per cent in Spain. Britain, Sweden and Switzerland - countries with governments of quite diverse attitudes to economic policy - all grew at just under two per cent over the same period. Unemployment averaged 9 per cent in Britain, almost 3 per cent in Sweden and less than 1 per cent in Switzerland.

The experience of the twenty-odd years following the Second World War misled people into believing that a rapid rate of growth was necessary to bring about low unemployment. During this period, growth was higher and unemployment lower than the two decades following the 1973/74 oil shock. But even in the earlier period, low unemployment was preserved with markedly different growth rates. In both Germany and Britain unemployment averaged around 2 per cent, but growth in Germany averaged over 5 per cent compared to just under 3 per cent in Britain. Whilst, despite an average growth rate of 3.5 per cent, American unemployment averaged almost 5 per cent.

The share of wages in national income (broadly defined to include, for example, employers' contributions to public and private pension schemes) in the main European economies is very similar in the first half of the 1990s to its value in the early 1970s. In Britain and the Netherlands it has fallen slightly, but in France, Italy, Germany and Belgium the wage share is almost identical in the two periods. Employment has risen very little in percentage terms, and unemployment has increased sharply. In other words, the average real wage of those in employment has gone up broadly in line with the growth in real GDP. Those in work have appropriated the benefits of growth, whilst the unemployed have been excluded.

5. Unemployment: a distributional phenomenon

In terms of our model of social exclusion, we can think of the European experience as follows. A system of social and economic relationships has been built up which strongly reinforces the micro-economic basis of exclusion through increasing returns discussed above. A potential way of overcoming this and of changing the topography of the system is discussed below.

The main point addressed in this section, however, is the proposition that unemployment is essentially a distributional phenomenon. In other words, the average rate of unemployment which prevails over the course of the business cycle is a result of the particular form of social contract, whether explicit or implicit, which exists. Europe in the past twenty years offers but one particular outcome, one particular type of social contract, from a wide variety of possibilities. The aggregate model of Goodwin [7] offers a wide range of possibilities as to why the unemployed may remain locked out. Goodwin's original formulation of a system linking profits and unemployment has been extended mathematically in a number of ways. But an extension of the economics of the model illustrates the point.

The long-term rate of growth depends upon the share of investment in total output, in its broadest sense to embrace human as well as physical capital. In turn, investment depends upon the state of long-term expectations and the share of profits in national income. Over the course of the cycle, the profit share and unemployment interact in the system. But the average rate of unemployment around which the limit cycle moves in profit/unemployment space is indeterminate.

In other words, in order to sustain a given rate of growth in any given state of long-term expectations, a particular share of profits in national income is implied. The share of labour is then implied as the residual (in practice, there are of course some minor elements in national income in addition to the main ones of wages and profits). But the division of labour's share of national income between the employed and the unemployed is indeterminate. This indeterminacy removes any automatic link between output growth and employment, and is entirely consistent with the empirical evidence discussed above.

The North American experience during the past twenty years has been different from that of Europe. Unemployment in the United States has averaged just under 7 per cent over this period. This is slightly higher than the German average, and distinctly higher than in a number of the smaller European countries which remained outside the EU. At the present time, unemployment in America is markedly lower than it is in major European countries such as France, but in terms of unemployment in the past twenty years, the American labour market has not performed that much more effectively than have such markets in Europe.

But there has been a dramatic difference in the rate of job creation in the United States. And it is this which raises issues in Europe about the desirability or otherwise of deregulating labour markets and reducing the level of involvement by the state. Much of the conventional wisdom of economics ascribes the apparently poor European performance to a lack of 'flexibility' in the labour market.

The American economy has indeed created many more jobs than the EU economies. But it has needed to do so, for the supply of labour has expanded more rapidly in the United States. The two points are linked analytically. Essentially, the US operates a policy of open borders for the migration of labour. From time to time political pressures arise which lead to efforts of varying degrees to keep immigrants out. But for all practical purposes, anyone who wishes to enter the US and work there can do so.

Almost all of this inflow of labour is from Third World economies - the US has a major border with Mexico. Such people are willing to work for what are, by Western standards, very low wages, and it is low wage employment which makes up much of the increase in employment in America. The willingness to work for low wages drives down the wages elsewhere in the economy of the relatively unskilled.

The supply of millions of workers from Third World countries has an impact on the 'flexibility' of the labour market in the US which makes arguments about the Social Chapter in Europe very much a second order issue. By far the most effective way to bring about flexibility in the American sense in European labour markets would be to open the borders to migration from Eastern Europe and North Africa. But such a policy hardly commends itself, least of all, ironically, to those politicians who speak most fervently in support of flexibility and free markets.

American labour markets of the past fifteen to twenty years offer one particular solution to the distribution of labour's share of national income. By driving down the wage rates of substantial sections of the labour force, employment opportunities are created. But this approach necessitates a dramatic widening of the distribution of income. Unemployment is kept relatively low, and the distributional consequences are carried by those whose real wage rates are forced down. As in Europe, the share of wages in national income is now very similar to the levels of the early 1970s. But in America, employment has increased substantially.

The topography of the economic system, with its inherent tendency to lock out the unemployed, has been altered in the United States by the application of powerful market forces. The change has not taken place with the consent of the included, but they have been compelled to alter their behaviour.

The Scandinavian economies have, until very recently, offered yet another answer to the distributional question. Public expenditure and taxation have been used, not in a Keynesian short-term sense, but structurally to allow the public sector to operate as an employer of last resort. Adverse shocks to the system are met by job creation in the public sector. The distributional costs here are met, in an open and explicit social contract, by those in employment who pay higher taxes than they would otherwise have done. Growing resistance to higher tax rates coupled with shocks particular to these economies (in Finland, the collapse of the Soviet Union and in Sweden the collapse of the banking system following the abolition of exchange controls) have caused problems for this approach. But the opposition to paying tax is not a matter of technical economic policy, but a question of social values.

Yet another solution has been provided by Japan. There are a number of dimensions to this, the most important of which is the very low productivity levels of the domestic service sector in Japan. Large numbers of people are employed, at decent wage rates, carrying out tasks which to Westerners often appear incomprehensible. But although the economic productivity of the sector is low, its social productivity is high in the important sense that unemployment is kept low and social cohesion preserved. The costs in this case are met by Japanese consumers, who pay much higher prices for services than they would do if the sector were run on grounds of narrow economic efficiency alone.

The final model to mention is that of the West in general in the twenty five years or so following the Second World War. Economic prosperity grew dramatically, but in a framework in which the benefits were spread equally. The low skilled were not excluded from employment, and real wages rose at approximately similar rates across the income distribution. The specific historical background of the privations of the 1930s followed by the co-operative spirit of the war were obviously very important in allowing the model to operate successfully. As the impact of these values faded over time, America moved to a different answer to the distributional question - forcing down real wage rates - and Europe to another, namely the social exclusion of the unemployed.

The above three examples, whilst seemingly disparate in a number of respects, are in an analytical sense very similar. In terms of the geometric representation of our general model of social exclusion, we can think of the landscape as being one of gentle, rolling hills rather than the forbidding terrain of Europe in the past twenty years. The socially included behaved in such a way as to facilitate the absorption of the less skilled and potentially unemployed members of society. In different ways, the included accepted the costs of such behaviour.

6. European unemployment: a way forward

Whatever solutions to the problem of unemployment might have worked in different countries or at different times, it is not really meaningful as a policy prescription to think of borrowing or transferring social and cultural values. In particular, no amount of nostalgia can restore the past.

One way of creating jobs in Europe has already been noted. Namely, by opening the borders to immigration from the poor countries which surround the EU, and thereby force a change in the topography of the labour market. But this, as the American experience shows, brings with it a different set of exclusion problems arising from the associated widening of the distribution of income.

Thoughtful ways of assisting SMEs, and particularly assisting the unemployed to set up production on their own account, can help overcome the impact of increasing returns and the inherent tendency for unemployment to persist. But, even if successful, such policies would not be suitable for everyone.

The central issue is that the employed in Europe need to be given incentives to later their behaviour in a way which facilitates the re-entry of the unemployed to employment, rather than operating as a cartel and re-inforcing the micro-economic tendency to lock-out.

One such possibility is given by work sharing, using the phrase to encompass a wide range of options from literal sharing of a job by two people, to reductions in the total number of hours supplied by a worker over his or her lifetime, whether in the form of a shorter working life, longer holidays or a shorter working week. Of course, this must be accompanied by pro rata reductions in pay. But this is matched by an increase in leisure time. An explicit trade-off is made between work and leisure.

The idea of work sharing is attacked by economists on the grounds that the idea is derived from the lump of labour fallacy, from the mistaken idea that there is only a fixed number of jobs available. But on the contrary, the number of jobs can grow over time, as the stylised model of capitalism set out in section 5 above allows. It is not the number of jobs which is fixed, but the share of labour in national income (for any given growth rate, institutions and expectations). The growing real value of this share can be taken up entirely by those in employment, leaving the number of jobs constant, or, at the other extreme, entirely by new jobs leaving the level of real wages constant.

Keynes considered the question of worksharing as a solution to the unemployment of the 1930s in a little-remembered section of the *General Theory*. He rejected the idea, but only on the grounds that 'A point comes where every individual weighs the advantages of increased leisure against increased income. But at present the evidence is, I think, strong that the great majority of individuals would prefer increased income to increased leisure'. In other words, Keynes' only objection was that at the levels of income which obtained in the 1930s, the solution was 'premature'.

It is now nearly sixty years since the publication of the *General Theory*, and the world has moved on. A striking feature of this period, and in particular of most recent thirty-odd years, is the enormous appetite for increased leisure over the course of a working lifetime which people in the West have shown. In the memory of many people alive today, a working life consisted of what may be termed 'the three Fifties'. Almost everyone left school at 14 or 15, and was expected to work into their sixties, or for some fifty years. The working week was typically close to fifty hours a week. And people worked for fifty weeks a year, with just two weeks of holiday.

Today, a large and rising number of young people remain in full-time education until their early twenties, and many people retire well before the statutory retirement age. For most of the population, the expected number of years in a working life has fallen to under forty. In terms of hours per week, the majority of full-time employees work under forty hours a week. And whilst holiday entitlement has not yet increased so markedly as to ensure less than forty weeks a year at work - except for a small number of privileged groups - many workers now take five or six weeks' total holiday a year.

Under the regime of the 'three Fifties', just a few decades ago, the average worker who remained in full-time work throughout his or her lifetime would work for (50 x 50 x 50) = 125,000 hours during a lifetime. Even for a 'full-time' worker, in the mid-1990s this figure has fallen to some 65 -70,000 hours. In other words, during the second half of our century alone, the amount of work which a 'full-time' worker is expected to do in the course of a lifetime has fallen by almost a half.

So, in an important sense, by the standards of the 1930s and 1940s, almost every single worker today is part-time rather than full-time, and worksharing in its general sense is already both highly popular and practised very widely. As the economy grows and productivity rises, those in employment can take the benefits in two ways. At one extreme, all the increase is received in the form of a higher level of real income. At the other, real income can be kept constant, and the benefit taken in the form of doing less work for this level of income. In practice, of course, a mixture of the two occurs.

As a broad approximation, in the first half of the twentieth century, at the low levels of real income which prevailed, most of the benefits of growth were seen in the form of increases in real income rather than of leisure. In the second half, a much greater proportion of the total surplus generated by growth has been taken in the form of more leisure.

In short, during the past forty years, most people have expressed a clear desire to increase the amount of leisure time over the course of a lifetime. At the levels of real income which prevail in Europe, many people prefer to take a substantial proportion of the benefits created by higher productivity in the form of more leisure time.

The policy of work sharing simply articulates this clearly expressed consumer preference, and endeavours to use it positively to reduce unemployment. It is difficult to legislate specifically to restrict hours, increase holidays or whatever. To succeed, such moves must command the underlying support of the workforce. But governments can encourage such shifts in a variety of ways. Gregg [8], for example, argues for a marginal employment subsidy combined with a shorter working week, so that employers received for a limited period a proportion of the wages of any job created from hours released.

In Britain, a very successful policy to reduce unemployment by increasing leisure time was actually implemented by the government in the early 1980s, known as the Job Release Scheme. For a short time, anyone certified as suffering from a disability could retire early on full benefits, provided that his or her employer took on an unemployed person, not necessarily to fill the same position, but anywhere in the organisation. In the areas of high unemployment, doctors were only too willing to assist, and certified people with the most minor disabilities as being unfit for work. This in a sense was the undoing of the scheme, in that the government came to believe that skilled workers who were perfectly capable of work were retiring early, and that this was not the intention. But while it lasted, it was both very popular with the beneficiaries and very effective.

But, although work sharing in its broad sense is the clearly revealed preference of most of the workforce, active measures to promote it are often resisted. The apparent paradox between the clear desire to have more leisure time and the resistance to proposals to encourage this, is perhaps understandable in the climate of uncertainty which has been created in recent years. There are two dimensions to this. First, the fact that a switch away from work towards leisure may involve not just a loss of income but a loss of rights. Second, the speed of technological innovation combined with a new culture of management mean that there is a high level of worry about losing one's job completely, and so individuals have an incentive to extract as much money from it as they can in the short-run.

It is hardly surprising that, in such circumstances, it is difficult to create a climate in which co-operative solutions to unemployment can prevail. But it is essential that they do, for a system of economic relationships has been built up in the EU economies, deriving from the response of social institutions and of the general social fabric to major economic shocks, which now prevents the achievement of full employment through conventional economic policies, whether Keynesian, monetarist, or supply-side.

7. Conclusion

Unemployment can be thought of as a very important but nevertheless special case of the more general phenomenon of social exclusion. Three stylised facts characterise exclusion. First, the tendency for exclusion, once it arises, to persist for long periods of time. Second, self-equilibrating mechanisms appear to be weak or non-existent. Third, policies targeted at excluded groups have a long history of failure. Unemployment itself exhibits all these factors.

Mathematically, this can be thought of as a non-linear system in which positive feedback takes place. This latter term is used not in a normative sense, but in its technical sense of meaning that the dynamic processes at work re-inforce each other. The system becomes locked into a particular solution, from which it is difficult to exit.

'Nearest neighbour' strategies, which involve relatively small steps in the immediate locality of the solution path to try to escape from it, are known not to be very effective. This result accounts for the fact that many conventional policies of targeting expenditure on excluded groups to improve their position gradually have not really succeeded.

An illustration of this is macro-economic policy, whether of a Keynesian or monetarist kind. In general, such policies merely alter the shape of the particular cycle of unemployment and do not shift the average rate of unemployment around which such cycles take place.

The current widespread belief that higher rates of economic growth will reduce unemployment often fails to make the distinction between fluctuations in the growth rate around the underlying trend, and the trend itself. But even if this latter variable could in some way be increased, there is no guarantee that unemployment will be lower in the medium term. In the West in general, and particularly within Western Europe, there is little or no correlation over the course of several economic cycles between the rate of economic growth and either the growth of employment or the average rate of unemployment.

Unemployment is essentially a distributional question. For any given set of long term expectations, any particular growth path for an economy requires a particular share of profits in national income for it to be sustained. In the medium term, this implies a particular share of wages, defined in a broad sense, in national income. But the share of this latter factor either between the employed or between the employed and unemployed is not related to the underlying rate of economic growth.

A variety of empirical solutions can be observed to the share of labour in national income. In Western Europe in the past twenty years, the proceeds of economic growth have been appropriated by those in employment, to the exclusion of the unemployed. Any permanent solution to unemployment requires a change in behaviour by the employed. In terms of the general model of social exclusion, this can be thought of as altering the topography of the system, by modifying those forces which lead to lock-in and exclusion.

One such policy is that of work sharing, using the phrase to encompass a wide range of options and not just literally the sharing of a job by two people. The past forty years have seen a massive increase in effective job sharing, with the number of hours which an individual can expect to work during the course of his or her lifetime falling by a half. By the standards of the 1930s, almost everyone in employment today is a part-time worker. This trend of increased leisure over a lifetime is very popular but, paradoxically, explicit measures to promote various forms of sharing work are often resisted by the labour force. The challenge facing Europe's politicians is to find ways of overcoming such resistance in a new social contract to bring about a sustained and substantial fall in unemployment.

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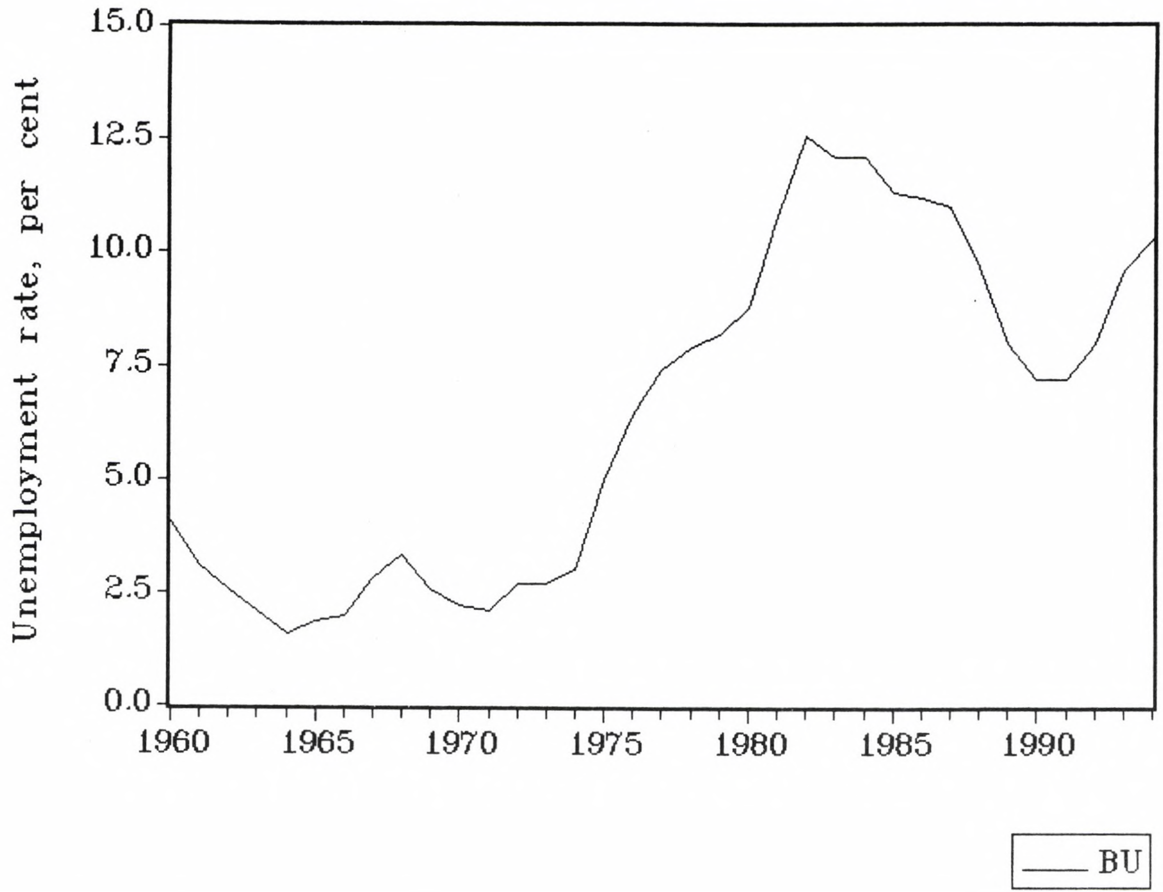


Chart 2. Connected scatter plot of Belgian unemployment 1960–94

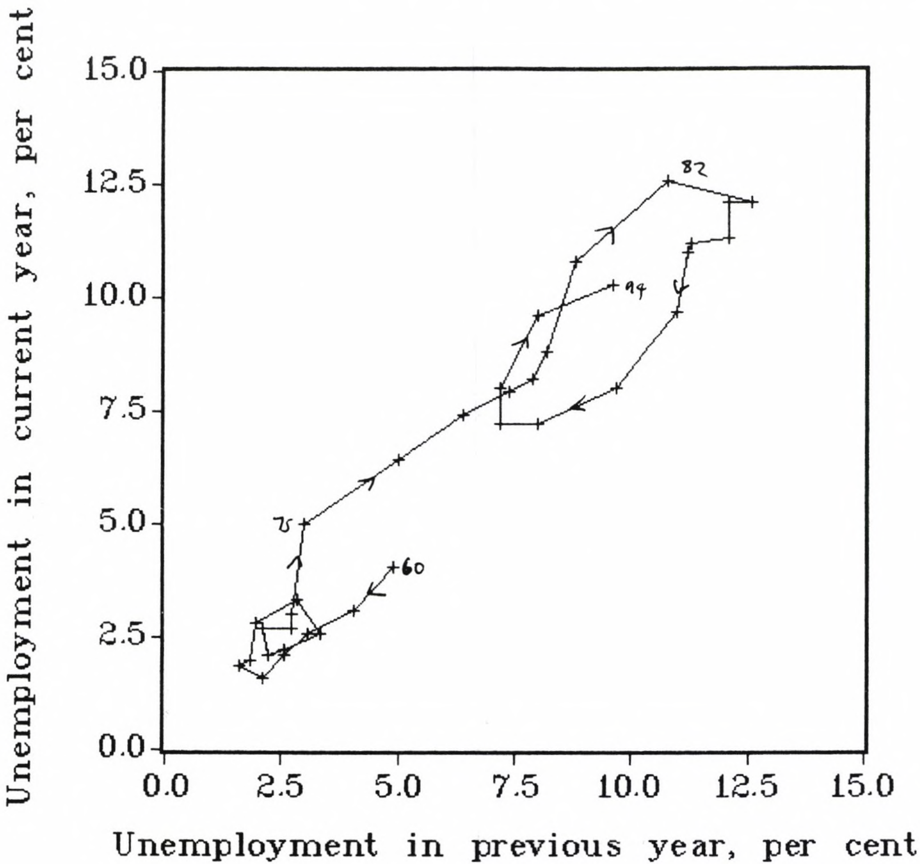


Chart 3. Connected scatter plot of West German unemployment 1960–94

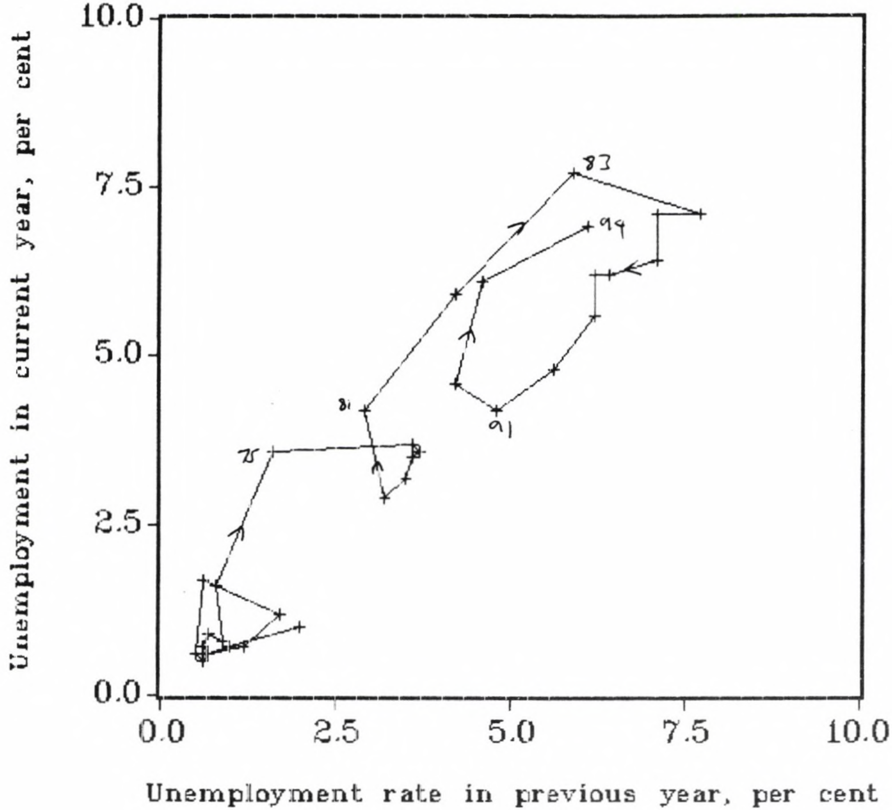


Chart 4. Connected scatter plot of British unemployment 1960–94

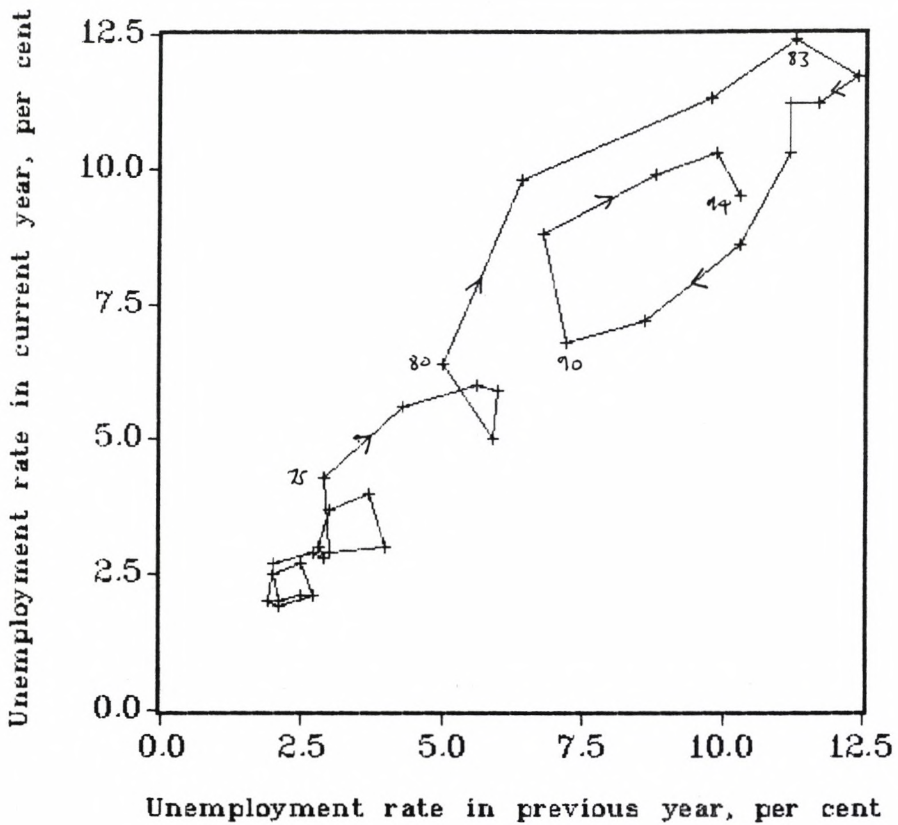
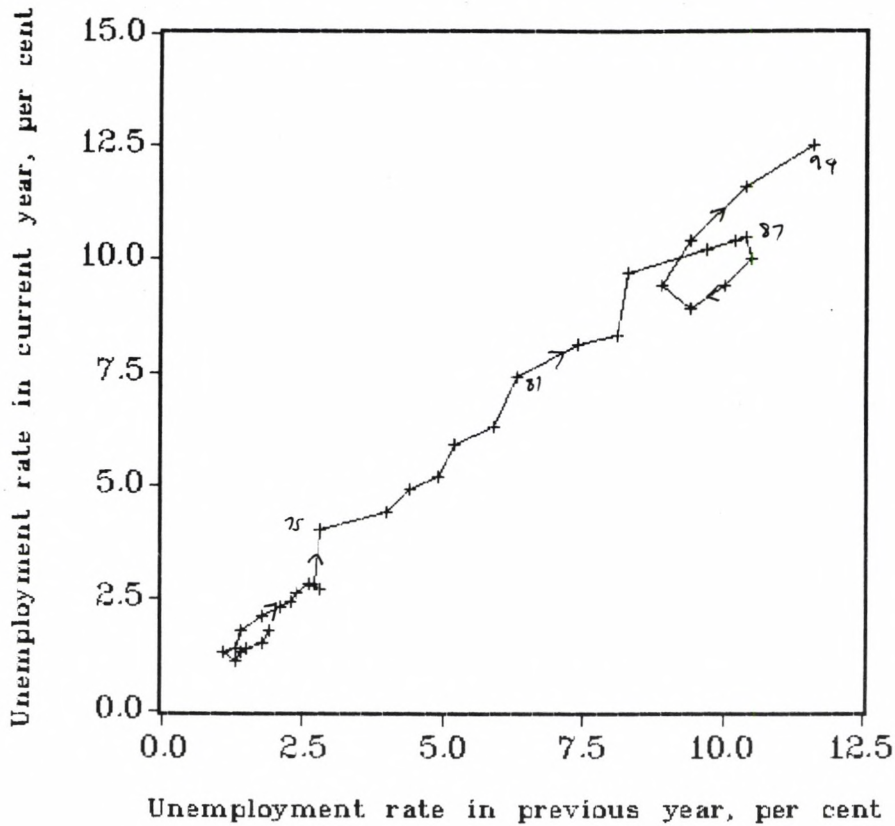


Chart 5. Conenctec scatter plot of French unemployment 1960–94



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