



# PEACS

Political Economic Analysis, Consulting & Strategies

## THE LABOUR MARKET AFTER COVID-19

Short-term reactions, long-term structural  
changes, and the jobs of tomorrow

### Abstract

Suffering a severe pandemic, the world is changing. Subdued consumption due to virus-containment measures has put companies under financial distress, leading to higher unemployment and drastically reduced GDP growth. While short-term reactions by governments can partially soften the blow, strategic institutional long-term policies must accompany government spending to maximise its benefits. Such action plans should be guided by lessons learnt from previous structural transformations and current trends in the labour market. This dossier hence presents an array of critical questions and proposed short- and long-run labour market policies to cope with the consequential political economic reality that Covid-19 presents us with.

Bob Hancké & Laurenz Mathei (Eds.)

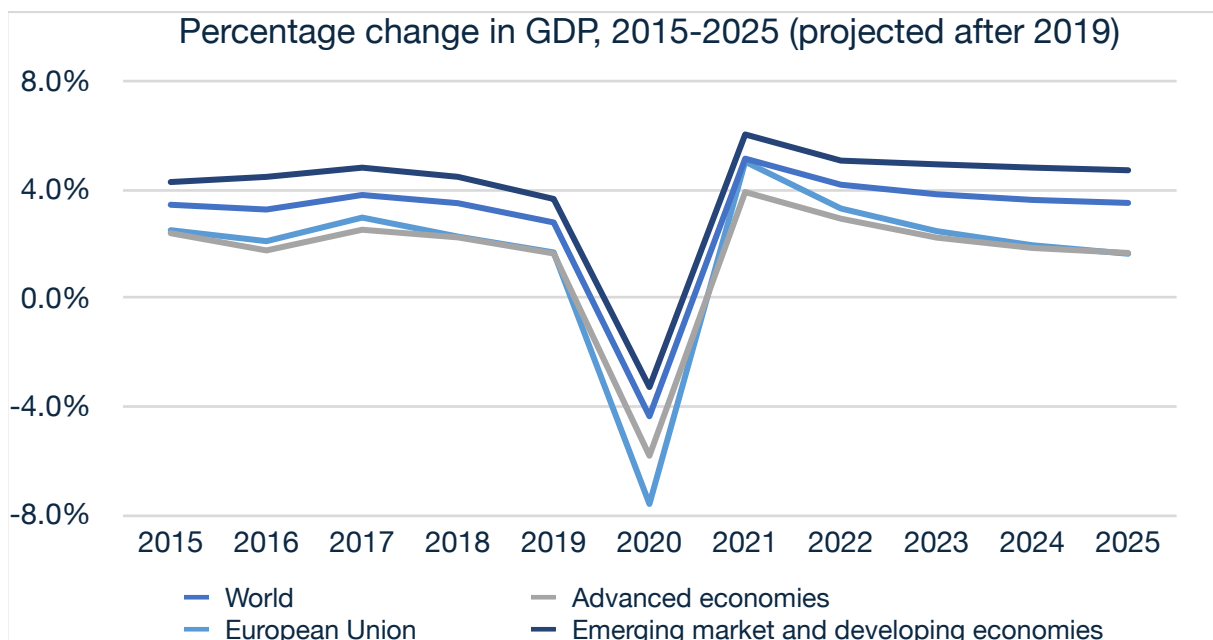
[info@peacs.info](mailto:info@peacs.info)

November 2020

## 1. The Labour Market after Covid-19: At a glance

At the time of writing, the world has seen more than 40 million confirmed Covid-19 cases, and more than 1.1 million deaths. While the pandemic is not unprecedented – conservative estimates attribute 50 million deaths globally between 1918 and 1920 to the Spanish flu – it is certainly the most severe health crisis we have experienced in the last century. Of course, Covid-19 isn't the first modern virus outbreak either, but its ease of transmission makes it far more dangerous than SARS, MERS, or Ebola – all of which (in ascending order) are deadlier than Covid, but much harder to contract. The only other easily spreading virus recently witnessed was the swine flu, though with much lower fatality rates.

Keeping these sad realities in mind, it becomes immediately clear why so many countries reacted – as they do again now to contain the second wave – with severe measures, such as social distancing or even complete lockdowns. Primarily driven by subdued consumer demand for goods and services, protective health policies had severe repercussions on the world economy. The latest IMF projections show a 4.4 per cent reduction in global GDP growth in 2020 (7.7 percentage points below the pre-Covid19 January 2020 outlook) with low-income households most heavily affected. EU economies face an even larger contraction with -7.2 per cent in 2020. A large wave of unemployment (though somewhat softened by job-retention schemes) significantly reduces households' disposable income, leading to a further decrease in consumption – as indicated also by low consumer confidence – and, hence, a sluggish recovery. Worldwide GDP growth is expected to increase by 5.4 per cent in 2021, though this figure is about 6.5 per cent lower than in pre-Covid-19 forecasts.



Source: PEACS graphic; data from IMF World Economic Outlook Database October 2020

Many governments as well as firms have implemented – mostly reactionary – short-term policies to keep workers in their jobs and make workplaces (more or less) Covid-safe. Introducing such measures quickly is crucial to keep the economy going, but there isn't a single blueprint, and different political economies require different policies. [Part 1](#) of this dossier sets out the various public and private reactions, and offers an opening discussion about how these quick fixes can be turned into sustainable relief measures.

These observations are clearly supported by the numbers. As the [IMF's Fiscal Monitor](#) shows, fiscal stimulus has amounted to \$11.7tn, or close to 12 per cent of global GDP. Government spending as a response to the current economic downturn is not only significant in absolute terms, but also considerably larger than the relief granted in the last *pan-economic* crisis, the Global Financial Crisis (GFC) 2008/09. National leaders seem to have learnt that increasing public debt in times of a severe economic contraction is indeed the right thing to do.

However, these large sums must be sustained by the right accompanying policies for the type of crisis we're facing. A close examination of the disruption's origin is a crucial tool for developing a coherent long-term strategy to get out of it. The virus-containment measures are a textbook example of an exogenous shock, i.e. an event that occurs outside of the economic system, but has dramatic effects on its performance. The GFC, on the contrary, was an example of an endogenous shock *within* the system, as it ensued because a bursting bubble brought financial markets into significant trouble.

In the wake of the GFC, authorities around the world passed new regulations for financial markets; but no one can tell the virus how to behave. It becomes therefore immediately clear that the exogenous nature of the present economic crisis' root causes renders any mitigation by economic players impossible. The only real option for mitigation is a globally distributed vaccine, but – while not impossible, as shown with over viruses, e.g. the common flu, or Polio – it will take a while to control or even eradicate Covid-19. Hence, while short-term economic relief mechanisms, e.g. a fiscal stimulus in the form of job retention schemes, are crucial to soften the disruption, in the medium to long run, the only way out of the *economic* Covid crisis is an adaptation to the new conditions under which the economy operates.

To prevent severe economic scarring, or a *long economic Covid* as a recent FT piece coined it, governments need to convert their short-term reactions to the downturn into stable action plans for economic recovery. [Part 2](#) of this dossier discusses the macro-economic and political dimension of large structural transformations – including the institutional landscape and policy strategy required to maxim-

ise the benefits of government spending and potential effects (or lack thereof) on economic fundamentals.

Any structural transformation should be guided by past experiences, but even more crucially, it must take into account current and future trends in the labour market, e.g. process organisation, tasks, and the resulting skills demand. Covid-19 provides an interesting example of how an exogenous event can be both a major driver and an accelerator for change in the world of work.

Working from home (WFH), on the one hand, was a technically feasible arrangement that was used in some organisations to cater for employees' needs, but usually only in extraordinary cases. The need to keep our distance and continue our work – even in complete lockdown – has created a revolutionary acceptance of WFH arrangements. As pointed out in Part 1 of this dossier, remote working is a largely feasible alternative to sitting in a crowded office space and is highly likely to stay present even after Covid-19.

Automation, on the other hand, is a trend that we've been observing for a while now. It offers – on the face of it – an attractive way of cutting production costs by replacing expensive labour with relatively cheap capital that amortises over a few years. The pandemic has put many companies under financial distress – liquidity shortages due to declining revenues are a common threat. While publicly funded job retention schemes have softened the unemployment wave slightly, many firms have laid off workers to minimise their expenditure, turning to robots instead. Covid-19 has thus facilitated an acceleration in the reduction of the workforce, which would likely have happened in any case – though at a later stage and potentially slower pace.

Both trends, however – while (for better or worse) almost impossible to reverse – need to be accompanied by forward-looking labour market policies to guarantee their success and minimise social costs. Part 3 of this dossier, hence, examines how a re-definition of tasks can make WFH more productive and enjoyable, how re-training employees is tantamount to utilising automation and makes it socially palatable, and closes with new ideas on how to design institutions that can help detect and provide skills of the future.

## 2. Short term reactions to the unforeseen calamity

### 2.1. Britain's job support schemes; right direction, more to do

*Some jobs will still be viable in a few months' time. Others won't. **Nicholas Barr** (LSE) argues that the government's job support schemes need to go further to reflect this new reality.*

On 21 December 1989, as communist regimes throughout Central and Eastern Europe collapsed, BBC news showed Romanian dictator Nicolae Ceauşescu's helicopter taking off from the roof of the headquarters of the Communist Party, having been booed by the crowd. Four days later he was gone. Nine months later, to my immense surprise, I was inside that building (by then the Ministry of Labour), outside walls pockmarked with bullet holes, on leave from LSE as part of a World Bank mission to advise the Romanian government on reforming social policy to complement a mixed economy.

Specifically, my colleagues and I were there to comment on a proposal by the first reform government to index all wages to price inflation indefinitely. While on the face of it the policy sounded humane, the reality was that it would have frozen relative wages. The problem was that in a typical communist economy wages were broadly similar whether or not a worker was doing a productive task, leaving economies in the region with profound structural misalignment. Part of addressing the problem was changing relative wages – raising them for people with sought-after skills, such as knowledge of Western languages (I rapidly learned that a good translator is essential), thereby encouraging more people to acquire those skills, and lowering them for workers whose skills were no longer in demand.

Fast forward to today. There are good reasons for thinking that the pandemic will lead to permanent structural changes, the most quoted being a decline in bricks-and-mortar retail as people move online. Once a semblance of normality returns there will be a partial – but only partial – reversal (my prescription meds now arrive through the post, and there will be no going back). In these and other areas, structural change – albeit nowhere near the scale in Romania – will affect the pattern of jobs. The government approach has two elements.

#### **The Job Retention Scheme (JRS)**

Introduced in April, the JRS means the government pays 80% of the wages of a worker who is furloughed. This mechanism freezes jobs in firms that initially had to be closed (pubs) or whose scale declined sharply (e.g. because of social distancing requirements). That is the right policy for phase 1.

To encourage employers to keep on workers after the JRS ends on 31 October, the Job Retention Bonus will make a one-off payment of £1,000 to employers for each worker who remains on the payroll at least until next 31 January.

### **The Job Support Scheme**

Announced on 24 September, the scheme continues to support workers' wages, but less generously. Where someone works one third of his or her normal hours, the taxpayer contributes about 22%, the worker 22% through lower pay, and the employer 55%. Thus, employers pay 100% of the wage of a full-time worker; but three workers each working one-third of normal hours will cost 165% (3 x 55%) of a full-time worker. For workers working more than one-third, the differential is somewhat smaller (see the Treasury's [Job Support Scheme Factsheet](#)).

As commentators have pointed out, the Job Retention Bonus makes it worthwhile to keep on most workers initially, but with a cliff edge at the end of January. The government's argument is that the JSS will make employers think about which of their workers has a potential long-term role, and which do not.

### **What's needed to complete the strategy**

At least until the end of March, many businesses will be compelled to work at less than full capacity, and many workers will be on benefits or lower pay, reducing demand. So, the problem during this phase is cyclical, not structural. The flaw in the government's strategy is that it proposes one policy – the JSS – to address two different problems. It is a basic tenet of public policy that the pursuit of multiple objectives needs multiple instruments. Thus, additional components are needed.

First is an element that addresses cyclical unemployment. The German programme of [Kurzarbeit](#) (i.e. short-time working) does that, but as my colleague [Bob Hancké explains](#), operates in a very different context. Specifically, it includes inbuilt incentives for firms to train workers. It is another basic tenet of public policy that transplanting designs into a different context usually ends unhappily.

Second is a package of active labour market policies, including skills training. Labour markets eventually sort themselves out, but as Keynes famously said, [in the long run we are all dead](#). Adjustment needs assistance.

A wider canvas includes addressing fundamental problems of corporate governance. The current governance regime creates powerful incentives for firms to engage in short-term financial transactions rather than longer-term policies such as investing in the [skills of their workers](#) or addressing [climate risk](#).

### **What next? We need multiple elements**

1. Addressing lockdown – hence the Job Retention Scheme, in place since April.
2. Addressing the cyclical dimension, i.e. workers who are in the right jobs, but where demand is depressed by the pandemic (in due course, pubs will reopen and flourish). The Job Retention Bonus pushes out the moment of reckoning to 31 January. Given that the JSS is in place, the simplest approach would be to introduce Job Retention Bonus Mark 2, additional to the current bonus, payable on 30 April.
3. A wider approach to structural change:
  - The JSS, refined and adjusted to address emerging concerns about its detailed design (as the [Resolution Foundation](#) has explained excellently).
  - Urgent action to improve benefits, including addressing child (and adult) hunger and quick, effective income replacement for people required to self-isolate going beyond [current proposals](#).
  - Skills training *and* retraining for all ages, including flexible options to build ‘stackable credentials’ across further and higher education (see the two-page [summary](#) of my [evidence to the Augar Review](#)). [Government proposals make a start](#).
  - Jobs. Encouraging the creation of private-sector jobs in areas that are growing, and also job creation in the public sector, not least in health and social care.

Right direction – more to do.

#### About the author(s)

**Nicholas Barr** is Professor in Public Economics at the European Institute, LSE.

*I am grateful for helpful comments to Bob Hancké, Abby Innes and Waltraud Schelkle, who are all blameless for the views expressed and any remaining errors.*

This piece was originally posted 01/10/2020 on the LSE Covid-19 blog:

<https://blogs.lse.ac.uk/covid19/2020/10/01/britains-job-support-schemes-right-direction-more-to-do/>

## 2.2. Anatomy of a wage subsidy

*Last week, the UK introduced a wage subsidy scheme that has strong similarities with the German Kurzarbeit (‘short work’) programme. **Bob Hancké, Toon Van Overbeke and Dustin Voss** argue that much in the UK’s approach is misguided. The German scheme works, they write, because it has three critical elements that*



*are wholly or mostly absent in the UK. It would be a surprise, therefore, if it worked as intended – even leaving aside the potentially prohibitive shift in costs from government to employers.*

The new UK wage subsidy scheme (the Job Support Scheme or JSS), introduced by Chancellor Rishi Sunak on 24 September, tries to balance the cyclical short-term problems of an economic downturn with the longer-term structural problems of adjusting to the emerging new economy. As our colleague Nick Barr points out, there are many problems with that balance. But leaving that aside, the policies are likely to be problematic for a set of deeper-rooted, institutional reasons.

The new scheme is copied almost verbatim from the existing German *Kurzarbeit* programme that has become something like the gold standard in this area. But crucially the performance of such schemes does not just hinge on how sensible the policies themselves are; they are also a result of the wider institutional context in which they are introduced. Three elements in particular seem vital for the success of this type of wage subsidy scheme.

### **Carrots and sticks aka incentives**

The carrot: German employers want to safeguard their large investments in sophisticated workforce skills, while employers in the UK have little investment to protect: Most education and training is paid for by government and the individual. The stick: German employers are forced to negotiate large and expensive social plans with trade unions, while British employers can more or less unilaterally fire and pay out a ludicrous notice period (one week per year worked above two years, else zilch).

German employers thus face very strong incentives to adopt *Kurzarbeit*, almost regardless of the cost, while British employers face the opposite incentives. That helps understand why, as [the Resolution Foundation has calculated](#), the scheme is simply too expensive for most employers in the UK. Those in the real world outside No 11 think it is a poor scheme because it is too expensive and contains very few incentives for employers to pick it up. In light of the carrot point above: the policy makes little sense for employers, unless they were going to do something similar on their own account anyway and can now have the government pay part of that.

### **German company governance**

In the company, where it is implemented, the German scheme is governed by employer and works council or trade union (or other workforce) representatives, who police the fairness, correctness and fraud in its implementation. That works because this form of ‘micro-corporatism’ is deeply embedded in a thick web of long-established mutual agreements, expectations and trust (supported and shaped by



vetoes that the workforce can exercise in particular areas of company organisation). Calling this a bit weaker in the UK might qualify as a euphemism.

### **Macro-corporatism**

At a political level, the *Kurzarbeit* scheme is in many ways an outcome of deeply embedded tripartite arrangements – a form of political exchange – that assign rights and responsibilities to business/employers and labour and are often financially and institutionally supported, instigated or steered by government. Participating in *Kurzarbeit* is therefore almost a moral obligation for employers – not because German employers are fundamentally nice people but because they understand the strategic long-term benefits of having a stable, functioning macro-level governance arrangement beyond the market. Such a settlement, if it ever existed, disappeared in the Thatcherite hurricane of the 1980s.

Combined, these three points show why importing such a policy and expecting the same outcome as elsewhere is questionable at best. That might help explain why few observers have actually seen much good in it. As the days go on, we expect an avalanche of criticism of precisely those details that make the whole JSS a big mess. The opening shots were fired in the *FT* and the *Guardian* over the past few days. Added to the more fundamental critiques here, it would be a surprise to us if the scheme survived in its current form.

#### **About the author(s)**

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.

**Toon Van Overbeke** is a PhD candidate at the European Institute, working on the comparative political economy of automation and future of work.

**Dustin Voss** is a PhD candidate in the Political Economy of Europe working on institutional continuity and change in European financial systems.

This piece was originally posted 28/09/2020 on LSE EUROPP:  
<https://blogs.lse.ac.uk/europpblog/2020/09/28/anatomy-of-a-wage-subsidy/>

### 2.3. Returning to the office: how to stay connected and socially distant

Companies around the world are debating how and when to return to the office. Health and safety has taken on a whole new significance in the era of coronavirus. To bring people back safely, the options for office redesign are bewildering. How

should desks be arranged to enable social distancing alongside the benefits of being in the same room? And do people need to return for five days a week?

Many companies are looking to have some employees work from home, some of the time. But unless careful thinking goes into this, companies run the risk of getting stuck in the middle, achieving neither the benefits of the traditional office nor the safety conferred by the home.

Consider, for instance, the 6 Feet Office. This concept, developed by a commercial real estate multinational, Cushman and Wakefield, aims to ensure that employees remain six feet apart at all times. It is achieved by spacing desks, creating one-way people circulation, and including visual signs in the carpeting around each desk so as to nudge people to keep their distance.

This idea runs the risk of throwing the baby out with the bathwater. As architecture scholar Kerstin Sailer has noted, its combination of distanced furniture, nudges, and warnings can also stigmatise social interaction, pushing all communication online, even in the office. If that is the case, why not just work from home?

Companies need to incorporate an essential lesson from the COVID-19 lockdown: Zoom works surprisingly well. But there are also lots of benefits to informal interaction – something a prearranged video call cannot replicate. In light of this, we propose a hybrid system of the best of both worlds. If fewer people are coming in to maintain social distancing, it is best to have all teams represented. And the office layout must facilitate connections between people rather than keeping them apart.

### **Planned vs unplanned communication**

There's an important distinction between planned and unplanned communication at work. Unplanned communication typically takes place via serendipitous encounters and, importantly, involves conversations across teams. Here proximity is needed.

This is because different teams are typically not part of the same reporting line, and so communication depends on unplanned engagements like overhearing each other talk or chance encounters in the corridor. This can have real business benefits. As one of us has documented in our recent book, unplanned social interaction across nearby desks in a Wall Street trading floor improved the use of financial models.

In the case of planned communication, remote conferencing technology has made proximity less important. The reason is that within-team communication typically happens on a planned and routine basis, so all it needs is a digital platform.

This message came out clearly from a panel event we organised at the LSE's Systemic Risk Centre. Charles Bristow, global head of rates trading at investment bank JP Morgan, and one of the panellists, explained that “a team of people trading together on a single product are getting incoming inquiries through the same channels” and “use the same tools”. For that reason, communicating remotely is incredibly easy and can even be more efficient.

So physical proximity is primarily needed for unplanned communication. It means remote working can continue at little cost to planned communication. And it potentially means that if companies want to bring limited numbers of people back to the office, they should focus on having at least one member from every team. This will enable cross-team communication, which relies on physical proximity.

### **Keeping everyone engaged**

Another important element of office design to take into account is the extent that it facilitates employee engagement – whether people leave their desks to come into face-to-face contact. This is important for building better relationships between colleagues and company culture.

To facilitate this, the focus on social distancing must distinguish between distance and accessibility. While distance reduces the extent that people can engage with each other and collaborate, research in architecture shows that ease of access and facilitating movement can partly compensate for distance.

As Sailer has established, in a house where every room is accessible to every other room via a door, connection is far easier than in one where you can only access a given room from the adjoining one. The same degree of distancing between people, in other words, can lead to vastly different levels of engagement.

To achieve this connectivity (while maintaining social distance), companies can leverage the staggered return of employees to remove some desks and create a corridor around the periphery of their open plan offices, giving employees the chance to easily access each other. Encounters and conversations can be further facilitated by nooks and corners outside such a corridor, so that employees can have quick one-on-ones without blocking circulation.

The return to the office after months of remote working gives companies a chance to make their setups more effective. They can incorporate the benefits of remote working, while ensuring people can interact and exchange ideas in a safer way than if they blindly replicated their pre-COVID work arrangements.

**About the author(s)**

**Daniel Beunza** is Associate Professor of Management at the Business School (formerly Cass).

**Derin Kent** is Postdoctoral Researcher in Management at Aalto University.

This piece was originally posted 28/08/2020 on The Conversation UK:  
<https://theconversation.com/returning-to-the-office-how-to-stay-connected-and-socially-distant-145210>

### 3. Macro-economic and political perspectives of structural change

#### 3.1. Big shifts: Lessons from the 1980s for the labour market after Covid-19

*The economy-wide restructuring that set in after the crisis of the 1970s harbours some important lessons for the imminent post-Covid world, **Bob Hancké** argues. Many industrial sectors that provided working class families with stable incomes disappeared, taking the life chances of those left behind with them. But that did not happen everywhere and understanding the origins and consequences of the different adjustment paths can help avoid a second generation of losers from economic restructuring.*

The post-Covid world is a place that has little in common with the economy eight months ago. In many countries, large parts of the small-company, often unproductive, service sectors are kept alive solely through subsidies, cheap loans and grants that are almost certain to disappear when the market takes over again. Employees and managers in the service sector have discovered the virtues of telecommuting (although some managers see only vices and a lot can and should be done to adapt workplaces to these new forms of self-management, as I have argued [elsewhere](#)).

And even sophisticated manufacturing operations such as the engine producer [Rolls-Royce](#) in the UK and [MAN trucks](#) in Germany have announced massive redundancies as a result of projected drops in demand. Allowing adjustment to the post-Covid world to run its 'natural' course, risks producing a second generation with lower life chances than their parents, a dramatic deterioration of economic opportunities (with all the social [despair](#) that this entails), a collapse of citizenship as a result, and a further erosion of the political systems of the advanced capitalist democracies.

#### **The social cost of restructuring**

My colleague Nick Barr has offered some [useful thoughts](#) on how a successful furlough scheme could be the basis for a more sustained labour market adjustment strategy that equips the workforce with skills for the future. Yet because history is not written in abstract textbook language but in concrete situations, adapting broad labour market policies to the world in which we live may face significant obstacles. Without solid [institutional underpinnings](#) that incentivise employers to (re-)train instead of fire old skills and hire new ones, chances of a social bloodbath are high. And, often ignored, constructing such institutions [does not come without costs](#): some countries start from a better place than others in their ability to resolve the

collective action problems associated with these second-order institutions that govern the externalities associated with training.

### **The crisis of the 1970s**

We have – by definition if indeed it is a repeat – been here before. The first post-war deregulation and globalisation wave following the turbulent 1970s also produced the first lost generation, working class communities that collapsed, young people without the prospect of a stable job for several years with a lifetime unemployment scar as a result, and generally a dramatic worsening of stable labour markets with a significant fall in current and lifetime income as a result.

When steel plants and coal mines all over Europe closed, and car factories restructured, often by closing their gates or reducing their workforces by half or more, the local economies disintegrated. The people from somewhere, in David Goodhart's words, suddenly had nowhere to go, and thus turned inward. Neglected for decades, pushed to the brink by a dearth of new chances and exposed to austerity policies after the financial crisis that hollowed out the little social resilience left, they turned to Brexit in the UK, and Trump and opioid addictions in the US.

### **The not so 'left behind'**

But not everywhere went nowhere. In Germany, Belgium and the Netherlands, restructuring in the steel and coal industries, though painful as well, always included a large package of 'reconversion' measures: regional development, social plans including early retirement, future-oriented training programmes, meaningful jobs for older workers (turning mines into recreation areas, for example, staffed by former miners), and a shift in the local economic infrastructure from old basic manufacturing to knowledge-based service industries.

A stroll through Düsseldorf (Germany), Maastricht (Netherlands) or Hasselt (Belgium) leaves little doubt that industrial restructuring can be accompanied by social revival: you will find vibrant, clean inner cities, booming universities and colleges, R&D centres and conference venues. Even northern France, possibly the least successful case of adjustment on the continent, did a lot better than large patches of Yorkshire in the UK and West Virginia or Detroit in the US. Whilst industrial readjustment is always painful, it does not always have to lead to mass unemployment, opioid overdoses or political Brexit illusions.

History never truly repeats itself, and the Covid response will take a different shape, no doubt, than the 1980s wave of restructuring. But if there is one thing to be learned from that decade, out of which Germany and its economic satellites emerged in pretty good shape and the UK with an ever-increasing trade deficit, a parasitic financial sector and a politically alienated, disenfranchised working class, it

is that such large waves of restructuring are best not left to the market. It offers short-term solutions when you need long-term thinking and destroys viable livelihoods without alternatives as a result. Without supporting institutions in place, the market is simply too thin a framework for coordinating economic action.

### **The role of government**

The furlough schemes that many governments in Europe and beyond introduced at the start of the pandemic were therefore a step in the right direction. In countries where companies and social partners have dense arrangements for labour market governance, the private sector can be left more or less on its own to think about the labour markets of the future, perhaps helped by a little nudge from governments.

When these underlying conditions are absent, however, government's role becomes all the more important, financially as well as organisationally. The UK government got the first act right; but sadly, in contrast to other countries, where governments are keeping the tap open until the worst of the crisis is behind us, it is on track to repeat the mistakes of the 1980s. Covid has already hit the left behind communities hard; it would be a folly to kick them economically now that they are down. We know now where that can lead.

#### **About the author(s)**

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.

*The author would like to thank Nick Barr and Laurenz Mathei for comments on an earlier version of this article.*

This piece was originally posted 08/10/2020 on LSE EUROPP:

<https://blogs.lse.ac.uk/europpblog/2020/10/08/big-shifts-lessons-from-the-1980s-for-the-labour-market-after-covid-19/>

### **3.2. On the problem of publicly funding supply side adjustment**

A very interesting piece by Jean Pisani-Ferry on the *grand écart*, as the French say (*Spagat* in German) of the European Recovery Fund [here](#). He may be right about the need to balance different contradictory aspects of governance to avoid the Fund being dead on arrival. We at PEACS are thinking about that.

What got me thinking for now was the notion that the EU fund is simply a supply-side fund. I think that particular characterisation is a little too simple – 3% of GDP, even if only 1% annually, on top of the fiscal policies implemented by national governments is definitely counter-cyclical. But it does point to the problem of the pot of



gold in Keynes's argument. While it should be used and not sit idle, if necessary, just to pay workers to dig it up and bury it again, assuming nothing else can be done, ideally it should be complemented by — the often forgotten second part of Keynes's statement — something useful if possible.

The problem here is that this is in fact quite difficult to do. While it is easy to say, as many governments and commentators do, that more training is needed to prepare workers for the jobs of the future, it is a lot harder to say what exactly that training should consist of. Which types of knowledge will be necessary for the good jobs of the future? Mainly jobs relying on specific skills even if those are broader than what we now think of when we say that, or should we instead build up high general skills as a solid basis for the flexible deployment of workers and which companies only have to top up? A lot of money and lives can go wasted if we go for general qualifications, companies experiment too much and make mistakes based on their short-term interests.

To make that more effective, you probably need a mechanism to gather and process relevant information, and which then helps decide how to organise what appears as relevant training — something that does not work all that well if organised by the government, or at least not the state alone, viz. the many attempts by French governments since Mitterrand to emulate the German training system. But the analytical problem of information clearing and interest aggregation does not disappear.

Here's the snag: companies and other private actors are reluctant to do that because it imposes costs on them while benefitting everyone else (as well as them). It is in essence a question of first order and second order collective action problems, as my friend and colleague Bill Ferguson calls it in his latest book: building institutions to help you overcome the initial collective action problem are themselves subject to collective action problems. It costs the actors that are building them resources to do so, while those who do not contribute also benefit. That explains, it seems to me, why many economic policies beyond simply handing out money are often so difficult to organise successfully.

#### **About the author(s)**

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.

This piece was originally posted 30/09/2020 on PEACS:

<https://www.peacs.info/post/on-the-problem-of-publicly-funding-supply-side-adjustment>

### 3.3. Why inflation is not lurking in the shadows

*In a recent op-ed in the FT, economist Stephen Roach suggested a future of stagflation as a combined result of the increasing brittleness of supply chains and the pent-up consumer demand caused by the lockdown. But he is wrong, **Bob Hancké** suggests. The real world is considerably more complicated.*

A few days ago, Stephen Roach, erstwhile of JP Morgan, author of several books on the world economy, and economist at Yale University, published a remarkable op-ed in the FT. He sketched a future of stagflation as a result of the increasing brittleness of supply chains that we discovered during and after the Covid-19 crisis and the pent-up consumer demand that the lockdown imposed. The moment, he suggested, that citizens are allowed to go shopping again as they did a few months ago, even a single bottleneck in supply chains might have dramatic effects on prices. Too much money, a result of pent-up demand, will chase too few goods, a result of broken supply chains, and inflation is born.

He has certainly come up with an interesting take on an old argument. But he is fundamentally wrong. In essence, the argument reiterates a fear of many new classical economists who take their cues from Milton Friedman's assertion that inflation is always a monetary phenomenon. If that is the mantra you follow, you don't need a good explanation, just an 'over-supply' of money for inflation to follow as day follows night. That's why the fiscal response to the financial crisis ten years ago was supposed to herald accelerating inflation (it never happened) and that's why the current fiscal response again has inflation lurking in the shadows. But the real world is slightly more complicated than these simple, almost tautological, views suggest.

#### **What supply chains are and are not**

First of all, the key feature of the brittle just-in-time (JIT) supply systems that do so much of the work in this argument is not that suppliers are located thousands of miles away in Asia, but in the close vicinity of the place where parts are used. Most car plants with tight JIT arrangements, for example, have their main systems suppliers within a few minutes or maximum a few hours ride. Cost obviously matters in such a production link, but quality, competencies and flexibility matter much, much more for interior and seating systems, heating and cooling systems, brake and drive train systems etc. Input prices have fallen for the standard parts that can be produced far away, but considerably less so for the sophisticated systems that key suppliers produce.

Many small cheap parts do, of course, make cheap big inputs. Since nuts and bolts made in Vietnam are an order of magnitude cheaper than those made in Germany or France, the thousands of nuts and bolts in a car thus quickly add up. Re-shoring

is, in that scenario, a recipe for inflation: the basic good remains the same but the input prices go through the roof.

### **Industry 4.0**

Perhaps: the caveat is that while companies are considering re-shoring, they have also thought about alternatives to conventional manufacturing. The ability to combine automated production, additive manufacturing (aka 3-D printing), and sophisticated skills certainly will allow European companies very soon to produce much more sophisticated parts competitively. The first two bring prices of small series down, while the skills assure quality and flexibility. So, we would pay relatively less for a more customised, better product. Technically speaking that is the opposite of inflation.

### **Where are the bottlenecks?**

Technically, stagflation is a combination of low growth and high inflation. But the pent-up demand can probably be easily accommodated: supply chains are now running at less than 50% capacity. That's why it is so important to have furlough schemes for workers: not only does it stop people from starving or becoming homeless, it also assures companies of a skilled workforce when the economy picks up again. I fail to see perennial, structural supply bottlenecks in manufacturing.

Things might be slightly different in the service sectors, but I wonder exactly how. If you didn't have a monthly hair cut for three months, you need one now, not three: once it's cut, it's cut. Even if you went to the restaurant seven times a week over the next few months, your demand is maxed out: there is no eighth or ninth day in the week. And there is no pent-up demand for many clerical-type services (insurance, banks, ...). Even the so-called 'stimulus' fiscal measures hardly warrant the term. They remind me more of a patient in a steel lung that 'stimulates' her to breathe, not an injection of performance-enhancing drugs. And if we were to go back to normal, that's where we are then: back to normal.

### **The economic effects of deep uncertainty**

In addition, the future is going to be very uncertain for many households for a very long time: virus, robots, debt, weaker trade unions, and a host of other crisis factors. We know the micro-economic effect of uncertainty: all other things being equal, it increases savings. But if saving rates go up, consumption levels fall; if public debt is already high, there will be very little countercyclical fiscal push in the system. The likely outcome is deflation, not inflation.

### **How high is bad inflation?**

Finally, it is not a bad idea to keep some perspective: even if inflation were to rise, a 4% inflation rate is hardly a catastrophe. The current consensus of about 2% is al-

most certainly too low in a volatile world in which technology moves quickly and trade unions are weak. Even the hawkish German Finance minister Wolfgang Schäuble thought wage inflation was too low a few years ago.

In any case, a higher inflation rate for a few years would simply mean that we balance out the deflation of the past 10-15 years and essentially a return to normal. And it would indeed have the advantage that debt is silently eroded: we would simply use inflation to clean up the financial crisis and the Covid-19 crisis.

No one knows the future. That's why we develop different scenarios, based on theoretical workhorses, and of how they may play out. Concentrating on one small link in a logical chain, ignoring any of the many counterarguments, and blowing that one link out of proportion produces a doomsday scenario. Marxists had a copyright on such analyses. They predicted 20 out of the last seven recessions...

#### **About the author(s)**

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.

This piece was originally posted 12/05/2020 on LSE EUROPP:

<https://blogs.lse.ac.uk/europpblog/2020/05/12/why-inflation-is-not-lurking-in-the-shadows/>

## 4. Jobs, tasks, and productivity

### 4.1. WFH requires a paradigm shift in how we think of work, job autonomy and cooperation

*The dramatic and massive shift toward work-from-home (WFH) arrangements in the spring of 2020 has the potential to upset long-held ideas of how work should be organised. But too often it has led to more intrusive surveillance in the virtual workplace. **Bob Hancké** reflects on this tension between monitoring and productivity. Unless we rethink work from the bottom up and redesign tasks into projects with increased team autonomy, organisations are unlikely to reap the benefits of remote working.*

A chilling [article](#) in the Guardian on 27 September (with the cynical but admittedly amusing title ‘Shirking from home’) reported a significant increase in surveillance software by employers to monitor work from home (WFH). The usual argument for enhanced surveillance is akin to other prejudices, such as the immigrant crime networks (more autochthonous are in jail), welfare tourism (fewer immigrants draw welfare benefits and they actually are net contributors to every economy where they are), or the doctor’s wife who has a nice little side income in unemployment benefits: while such cases may well exist, they distract from the fact that UB are crucial lifelines for almost all unemployed. So: perhaps some of us shirk when WFH; but most of us simply don’t shave or put on casual clothing and get on with the job, very often using the hours of commuting gained to work a bit longer – but in their own time (kids are NIS –Not in School—and need attention and food).

Leaving aside the non-trivial privacy and human rights implications, it shows that many employers get the problem the wrong way around. WFH should not be WIO (work in office) but from home. Instead of keeping tabs on hours worked, employers should think about reconfiguring tasks and work so that employees have a clearer sense of what needs to be done, by when, and with whom. Instead of monitoring the hours that employees put in, bosses should think more deeply about how to redesign work into projects, i.e. bundles of meaningful tasks, for individual employees and teams. Redesigning organisations to transfer responsibility and autonomy to their workforce should be their main job. Teaching them to devise a division of labour in their teams should be one of their main training goals. In short, making employees project managers instead of WFH.

But that all would require a very different conception of education and training, hierarchy and collaboration, and it is far from clear if employers are able to release themselves of the quasi-feudal remnants of work that crept into the capitalist division of labour. Ultimately, you would think, the most profitable (because most pro-

ductive) company will win out; if WFH in redesigned virtual workplaces is more productive, then these will win. But that counterargument misses the point that a cartel of reactionary bosses might stop precisely that. And shallow, chopped-up tasks begot more surveillance – not because it is intrinsically necessary but because detailed monitoring requires shallow, fragmented work.

Almost fifty years ago, the great Harvard economist Steve Marglin spent over 70 pages analysing what bosses do. His answer: remarkably little that employees could not do on their own. And the great British sociologists Robin Blackburn and Michael Mann demonstrated, statistical analysis in hand, that workers used more and more sophisticated skills driving to their workplace than they would ever use once they arrived there. Things have undoubtedly improved (I hope), but as the newspaper article suggests, not nearly as much as we would like to think. Let's use the next WFH wave (coming soon to a house near you) to redesign work so employees work better, smarter and with a larger and deeper sense of purpose.

#### About the author(s)

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.

This piece was originally published 06/10/2020 on PEACS:

<https://www.peacs.info/post/wfh-requires-a-paradigm-shift-in-how-we-think-of-work-job-autonomy-and-cooperation>

#### 4.2. The future of work and robots after Covid-19

*While Covid-19 spells bad news for most, the pandemic is set to cause particular hardship among blue-collar workers in industrialised economies as automation might take another leap forward. **Bob Hancké** and **Toon Van Overbeke** (LSE) argue that it is a political and economic imperative to ensure this transition is an inclusive one, which does not leave workers behind.*

The Covid-19 shock is bad news for the advanced capitalist economies. It is even worse news for some of the workers there: not only is their job suspended in the best of cases, recessions are usually strongly associated with increased automation, especially of routine jobs (Jaimovic and Siu 2012). Yes, you read that right: when unemployment rises (and wages stagnate or fall), companies introduce robots. Whilst in normal times, firms that want to restructure face inhibitive costs associated with firing workers, during a recession, the worsening business cycle can force firms to lay off workers in order to stay afloat. This, in turn, allows management to restructure the organization in a more capital-intensive way. Against the

background of lower overall economic growth rates, which explains why in the last few recessions we have often ended up with so-called ‘jobless recoveries’.

In addition, the very nature of the Covid-19 pandemic forces companies’ hands. In 2008 firms were faced with a ‘simple’ demand shock; today, the global economy is witnessing a collapse of both demand *and* supply, as global value chains have been disrupted by the sudden drop in international trade. Companies are therefore not simply trying to cut costs, but are equally scrambling to ‘de-risk’ supply chains, by turning towards highly automated re-shored production. Firms have equally had to deal with the collapse of domestic production as countries around the world went into lockdown. Going forward, robots are therefore likely to become even more attractive: they ignore pandemics.

Finally, if physical distancing and fear of contamination become the norm, we might be looking at increasingly automated services more generally. As Carl Benedikt Frey points out, the Spanish flu had an important impact on social behaviour. It is not too far-fetched to imagine that consumers will prefer automated services over face-to-face interactions. Some early signs suggest that such a Covid-driven process is already underway. A recent survey by EY reported that some 36% of firms are accelerating investment in automation as a result of Covid-19 while a further 41% are planning to do so.

Where does this leave us? In the past, automation attacked specific occupations but led to, or at least went hand in hand with, overall higher employment numbers. But the outcome may be different this time. The current recession is likely to cause serious social dislocation when we can least afford it. As governments try to pull their economies away from the abyss of an unprecedented Greater Depression, policymakers have good reason to rethink the negative effects of labour-replacing technological change. Among the most important factors is that we need to protect life chances and general well-being, especially of the most vulnerable. Automation and subsequent labour-market polarisation have wreaked havoc on many communities over the last three decades, and might even be a key driver behind the surge in support for populist voices (Kurer 2018; Kurer & Gallego 2019; Im et al. 2019). Moreover, when looking at the present situation it is clear that, while many white-collar workers have been afforded financial stability through tele-working, precarious manual workers have faced considerably less favourable circumstances as production simply shut down, putting them out of work. As progressives, we cannot simply disregard the prosperity and wellbeing of these communities, and policy-makers must work to ameliorate the situation.

We also need to confront the macroeconomic effects of this recession. As governments and central banks around the world mount enormous fiscal and monetary



efforts to stabilise global demand, it would make little sense to depress worker consumption further by layering a second – technological – shock on top of the first. Any serious macroeconomic effort should also consider its distributive consequences. Subsidising the current technological transitions that firms are engaged in, through direct fiscal intervention or indirect monetary policy, without also socialising the potential negative by-products for workers would be a political and economic catastrophe.

This is not a Luddite call to arms. Governments should seize this opportunity to future-proof the industries at the heart of their countercyclical policies. Automation is a key element in that effort. But any technological transition should be an inclusive one, but what do we mean by an inclusive transition? Quite simply, it is a transition to a more capital-intensive form of production which does not simply leave workers behind. Or, in slightly different and more complex terms, it is an overall Pareto-improving transition, in which one party can gain without anyone else being significantly worse off – the exact opposite of what appears to be lurking in the shadows today. At a macro-level there are a number of possibilities for how to achieve this, ranging from making sure that employers pay at least a part of the social costs of adjustment, creating stimulus packages that include ‘social assessment’ clauses, or even setting up generous public funds to cover the fall-out of technological change, including through local and regional development policies. At the micro policy-level this could mean offering incentives for firms that guarantee workers’ continued employment or forcing companies to continue paying out wages to displaced workers.

But above all, perhaps, we should focus on generating generous public and/or private funded retraining programmes both to upskill incumbent workers and to offer opportunities for those otherwise left behind. One of the key problems with labour-replacing technological change is not that it necessarily leads to a slump in demand for labour, but rather that it eats away at routine jobs. Meanwhile, the new jobs that re-emerge tend to be more skill-intensive and, because they are in many ways the mirror image of the disappearing jobs, unattainable for those workers that have just become unemployed. Retraining, which will also require effort on behalf of workers, is therefore key. Promising examples include Marlin Steel (analysed by [Tracy Mayor](#)), which retrained its workers to operate in its new production environment, or the Swedish ‘[job security councils](#)’ which ensure retraining for workers that are laid off.

So far, so good. Recessions produce automation, but not all recessions are the same – and neither are all robots the same for that matter. The current recession is shaping up as something completely different compared to past episodes of economic slowdown. There are ways to ensure this transition works for everyone. However, not every country has, by virtue of its political-economic history of industrial-

isation and deindustrialisation, the same resources to enter this new world. Suppose for a moment, as seems to be the consensus today, that routine-based organisational systems with highly predictable tasks are more easily automatable. Suppose, in addition, that these also produce a politics of the workplace that leaves employers a freer hand in redesigning work and production to take advantage of the supposed benefits of automation. In this understanding of the world, the prevalence of such organizations in different advanced and emerging capitalist economies becomes a crucial element in the story as it will be told a generation from now.

In essence, this question revolves around the ability of workers to shape the future of work in general and specifically under disruptive automation. Two elements determine that ability: the type and level of skill, and the type and strength of formal and informal institutions that influence strategic decision-making.

In a world in which employers are highly dependent on the skills of their workforce and, importantly, are unable to monitor employees because codifying these skills is extremely difficult, workers gain a strategic advantage in any debate on the future of work. For example, if you ask a plumber or a machine tool builder to explain how they reached their conclusion about how to design a heating system or about how they decided on the specific tolerances in a laser system, you seriously run the risk that the explanation takes considerably longer than the actual work. The knowledge and expertise built up over years is not easily explained in straightforward terms that a computer needs, and it is unclear if quantum computers are better at handling the experience-based judgments at the basis of these activities. Such computers would need prior understanding of judgment that surpasses any simple 1-0 arrangement, as Ian McEwan masterfully explored in 2018's *'Machines like me'*. Similarly, you can ask a heart or brain surgeon something similar, and will understand why they need years in school and several more years in practice before they really know what they are doing. The accumulated knowledge is more than simply the sum of the parts. In a fundamental way, the accumulation makes a jump into another realm, where 'feeling' and understanding – the 'Gestalt' of what they are doing -are more important than the clean parameters of the activity itself.

If an employer understands the components that enter into a craft, however, or if a machine can replicate the underlying logic of the decision, then the tables are turned. Today, software can develop its own next-generation software, AI systems in healthcare can produce many basic diagnoses following relatively simple flow charts that reproduce a doctor's line of reasoning, and a large part of most jobs in large bureaucracies are almost certain to be performed by machines in the future. The predictability of the tasks, expressed in their *codifiability*, makes these jobs more prone to automation.

These are the building blocks which suggest that the politics of work, embedded in jobs and tasks, determine the extent and nature of automation. But this picture would be incomplete without a careful look at the more or less institutionalised negotiating power that workers have in different workplaces. Broadly speaking, there are two models of this in the advanced capitalist world. Firstly, one where management can by and large impose reorganizations, including lay-offs, on its own terms; and secondly, one where the workforce, through its representatives – that is, unions, works councils, or other forms of representation – have a variety of increasing legal and de facto information, consultation and bargaining rights. The stronger forms of the latter are found in the ‘corporatist’ economies of northwest Europe (including Belgium, Germany and the Nordics), while weaker models of employee inclusion exist in Latin Europe. The labour-exclusionary model, in turn, is typical of Anglo-Saxon economies, where management tends to rule. The institutional setting is not entirely independent of the power base conferred through skills, where managers that are highly dependent on their workforce are almost forced to include their views in decision-making, while workers would not invest in specific skills with limited portability without guarantees that their voice be heard and their views respected. It makes sense, in fact, to think of both as two sides of the same coin – what can be dubbed a Marxian power base in skills and a social-democratic one in institutions – that develop together in tandem.

This also helps make sense of the general problem being considered here. The political and institutional framework for labour politics will influence the choices that companies make in this recession. In economies where the views of employees are always organically part of corporate decision-making – also known as ‘stakeholder’ systems – recessions, automation and necessary workforce restructuring will be a negotiated process, in which different parties minimise their losses in light of the loss-minimising strategies of others. Managers want to safeguard the skills in which they also invested through training but also the acquisition or development of capital dedicated to those skills, and they are forced by soft and hard law to include the views of these high-skilled workers in their decision-making. But when managers face less of a hold-up problem because skills are relatively general and therefore easy to find, and can ignore employee concerns to a large extent, the freedom thus gained from the political and institutional constraints will lead to a different outcome. The German car industry thus responded to the challenge of Japanese competitors in the 1980s by investing more in skills while moving up-market, while the US car industry invested in robots and standardisation. Guess who has fared better a decade later...

This sounds like bad news for workers in the US and the UK. Fortunately for them, there is still a small glimmer of hope, in the form of a paradox. While management in these countries can unilaterally reorganise companies to please shareholders,

automation in manufacturing actually seems to be more advanced in more inclusionary models of capitalism. The number of multipurpose robots per 10,000 workers (known as the level of robot density) is systematically higher in countries such as Germany, Denmark, Belgium and Sweden. Inclusionary models of automation, which are more or less the norm in these countries, are therefore not anti-innovation. The negotiated introduction of automation has helped to foster a highly productive, innovative manufacturing sector which is often the envy of others, where industry has far from disappeared.

The road ahead should now be clear. We need to ensure that the incoming wave of automation likely to come in the wake of the Covid-19 pandemic leaves no one behind. Not only is it a moral and political imperative for progressive, but it also makes perfect economic sense. Most importantly, focussing on inclusive automation might actually benefit both workers *and* employers. Following such a path will be a complex undertaking, not least because many of the labour-exclusive models have very thin institutional histories to start from. But if all crises are opportunities, as the cliché goes, this is as good a time as any to start.

#### About the author(s)

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.

**Toon Van Overbeke** is a PhD candidate at the European Institute, working on the comparative political economy of automation and future of work.

This piece was originally posted 16/06/2020 on Policy Network:  
<https://policynetwork.org/opinions/blogs/the-future-of-work-and-robots-after-covid19/>

### 4.3. The Political Economy of Skills

*The large structural changes of our time require ever-changing work tasks, and hence, skills. But to identify these new skills, let alone deliver them, we need an understanding of the specific process of skill formation. **Bob Hancké** argues that this needs to be a messy, political process rather than a technocratic exercise. Only this way can labour market actors build a common set of rules and understandings, which are embodied in institutions.*

Skills are the future. Training and education are the best safeguards against unemployment and low wages. Skills improve not just labour productivity, but also allow the use of more sophisticated tools and machines. Companies, industry associ-

ations, consultancies, and strategy units in governments all agree: The industries of the future will be built on very different skill sets than the ones we know today. Governments make it the centrepiece of their education, industrial, and regional development policies. It is one of the few areas where market-oriented and more interventionist policymakers and observers agree.

Yet skills embody a paradox: They are a necessary ingredient of modern advanced capitalist economies, but actually very difficult to get right. Producing skills often requires the simultaneous orchestration and coordination of many actors, the need for thick institutions to contain the actors, and ways to monitor the skill production. And that all happens against the background of often at least partially diverging interests among these actors. Coordinating all those actions is hard but necessary.

The labour market problem today, as Nick Barr [explains](#), is exacerbated by a series of new developments that originate in the combination of new products and services (from electric vehicles which require different skill sets to an economy based on gigs); automation (poised to supplant most of the jobs that have provided a stable livelihood for the bulk of the workforce in the OECD); and emerging new models of work organization (hybrid work and WFH, project-based self-employment, etc, often related to the Covid shock). All this suggests new skills and more training. But that is where the problem starts.

In essence the issue of skills has three dimensions: Do we – always – need more skills? Do we need new specific skills or, instead, more general skills? And, probably most importantly, how would we know what we need? After a short analytical introduction to the problem of skills, these three questions will guide the rest of this paper. Foreshadowing the analysis here: Rather than being a technical exercise (or even a survey-based inventory), producing skills – defining them and building mechanisms through which they can be acquired – is a messy, political process, in which parties with partly competing visions (actors in government, industry, and labour) build a common set of rules and understandings, which are embodied in institutions. Those jointly managed institutions are needed to have a better chance at identifying the skills needed; and an understanding of the specific process of skill formation is needed to arrive at these newly needed skills.

### **Why is skill formation a problem?**

A short excursus on skill formation – often an elusive political economy problem – will allow us to get a measure of the problem. For modern advanced capitalist societies skills are a crucial ingredient of their economic success, because these economies have little else: few raw materials, agricultural monopolies or other natural endowments that produce wealth. Yes, some have wine and gas or oil, but the first is a relatively small part of GDP, even in France and Italy, and the latter is in many

cases as much as curse as a blessing – such cheap money is usually not wisely spent.

While very important, skills are not simple to produce. Even if we know (or think we know) what we need, we have to design a system that will successfully generate them. Start from the basics: With very few exceptions, most skills are useful in different organisations – in other companies in the same sector (eg. skilled machine tool builders, doctors or accountants), in similar occupations in different companies and sectors (eg. ICT or mechanics), or in many different professions in many different sectors (eg. economists). As a result, a company may well train an employee, but another company can employ her without incurring the training costs for a slightly higher wage than the former intended to pay. The former thus stops training lest they subsidise the competition, and the skills that benefited everyone, at least in principle – the employee, the industry, the companies, and society as a whole – are not there.

Skills are underprovided as a result of the collective action problem that ensues, unless one or more of three conditions are met: the benefits accrue, entirely or as good as, to those who fund the training (company or individual); the government funds a large part of the training and makes it accessible to all; or all companies in a sector (or a region) contribute more or less equally to the funding of a training. The latter requires, of course, that companies are incentivised to do so – in this simple prisoners' dilemma situation a confluence of interests among actors is not enough for a sophisticated system for training to develop. That is the bare bones political economy problem.

### **So, do we need new skills in the future?**

The generic answer to the question of the need for new skills is almost invariably yes. But sometimes old skills, which rely on tacit knowledge make more sense. If something can be automated, it will be. But tacit or practical knowledge is hard to codify and therefore automate. If machines take over the 'easy', repetitive tasks, we may need to develop the 'difficult' (from a machine's point of view), unique tasks. This does not have to be esoteric stuff. A cleaning robot, for example, would probably throw away a Rolex watch left in a hotel bathroom as rubbish, while the human cleaner would recognise it in a fraction of a second and alert the reception. We are simply better equipped to deal with this eventuality than the robot – who may well be a much better cleaner in every other way.

Something similar happens with hybrid working and work from home (WFH). While we need the stimulus that comes with simultaneous physical presence, many, and probably most, jobs could improve tremendously, for both the employee and the company, if they were treated as a series of project-like task bundles. But doing so



likely requires a portfolio of old-fashioned ‘people skills’, workflow management skills, and possibly even ways to handle low-level logistics problems. These perhaps redundant skills may be useful even for staff that is not likely to use them since they could step in during emergencies or give their advice on how to improve processes.

The upshot is that we need to take a careful look at the work that can be usefully farmed out to machines, and upgrade the remaining jobs. Importantly, this is not a static problem, whereby we identify tasks that exist now: the redesign of jobs will generate new task profiles and, thus, new skills, or at the very least old skills repurposed for these new working arrangements.

### **Different specific skills or more general skills?**

A second problem is how to think about the nature of future skills. Broadly speaking, we distinguish between two types of skills: those that belong to a particular occupation and can only or almost solely be used in that occupation. We call those ‘specific’ skills, of which nurses, machine tool builders, doctors, lawyers or plumbers are paradigmatic examples; or those skills that rely on insights and analytical knowledge that can be used in many different occupations and settings – so-called ‘general’ skills, for instance, engineers or economists.

The difference between the two is not the level of abstraction or the depth of knowledge but the restrictive nature of the setting within which the skills can be used. A lawyer, doctor or plumber know a lot of things, including sophisticated abstract principles, that civilians do not know – try installing a heating system in a new house if you don’t think so; and then do it again in the neighbouring, also new but differently designed house. That is why these jobs very often have dedicated training institutions (medical, nursing or law schools, or long apprenticeships) and highly policed labour markets (*numerus clausus*, public exams, certificates, etc.).

Now, the issue with regard to future skills is whether we need (more but) different specific skills, relying on specialised knowledge that can only be used in a limited number of situations, or more general skills instead. Ignore the examples above: the world will always need nurses, doctors, plumbers and lawyers. But will we need machine tool builders in a world of electric vehicles – and as many as we have now? Will we need steel workers in a circular economy? Will we generally need many manual workers in the future, or do we actually need trained engineers to monitor and control the computers that perform most of the manual work? The argument for emphasising general skills in future is strong: if the future is this uncertain, societies hedge by diversifying their skills portfolio – but that implies, in this instance, also hedging the individual skill portfolio and concentrating on highly transferable general skills, at the cost of the stable jobs, careers, beautiful products, and politics that came with a labour market built around specific skills. And if we lose the labour



market as a coordinating institution altogether, in a dystopian generalised gig economy, the risk of job loss has become endemic and only general skills can save you.

### **How would we know?**

But probably this extreme scenario is a little far-fetched, and the choice between new specific and more general skills is one of balance – a bit of both, in other words. That raises the third problem with regards to skills. How would we know? What is the mechanism for aggregating the information on future skill needs and how do we organise the information clearing so skills that are necessary find employers and employees willing to invest in them, individually, collectively, privately, or publicly?

This is an underestimated dimension of the skills problem. One issue is breadth. Even if a company knows what it wants, it might set the parameters for training too narrowly, so that skills can only be used in that one place; this may result in life-time employment, but not necessarily of the type compatible with open labour markets. A worker in such a situation would never have a chance to leave for another job, and aggregated over the population at large, we would end up with stagnant, closed, quasi-feudal societies. No worker would willingly do this, of course, and training falls through. But the company may also be simply wrong: it thinks it needs more skilled machine tool builders, trains them, and then discovers that the technological and organisational model that it based its decision on is obsolete. Plenty of lives can be ruined in this way, as the US Midwest's deindustrialisation drive over the last three decades demonstrates.

While the knowledge problem is a generic one, there are no easy answers. Hayek and his followers would emphasise the ability of a decentralised market economy to do the work: millions of more or less informed decisions will aggregate up to an optimal solution. Ignore, as this argument does, the existence of market failures and concentrate on the paradox that what may be socially optimal could be an individual catastrophe. What if everyone simultaneously makes the same mistake (as happened during the dotcom boom and the financial crisis)? Imagine, for example, that all car companies (and their unions) think that the turn to electric vehicles implies that we need better trained skilled workers in the area of mechatronics (combining mechanics and electronics), but one company decides to have a decentralised system, where they name and market a brand, hire Amazon for the logistics and Tandy (Radio Shack) for the generic parts of an electric vehicle; they would make a very cheap, customised car in a local garage in a week or less. This may sound like social science fiction, but so was reliable communication on a tablet computer via Skype or Zoom only a generation ago.

Yet the state, the immediate mirror solution, does not necessarily work much better. You don't need to think of the excesses of centralised planning in the Soviet Union (with its 5000 right shoes instead of 2500 pairs) to see the problem. Even strong, democratic states in open societies and market economies have failed. France has worked hard on its version of a German-style dual training system since the mid-1970s and failed. The UK destroyed functioning apprenticeships since its forced deindustrialisation and has struggled to rebuild them ever since.

Hayek was right about the problem here – the overly centralised nature of decision-making – but wrong about the market as the solution. The German training system (which also exists in a similar form in Austria, Belgium, Switzerland and elsewhere) works well because it is a private yet non-market, and collective yet decentralised information and decision-making mechanism. It includes business associations and chambers of commerce, employers and trade unions, and works councils and HR departments, all balanced in a long-term, mutually beneficial arrangement in which all actors hold soft or hard veto positions.

But those organisations, in this or a similar form, with the strategic vision to disentangle short-term costs and long-term gains, are not equally strong or may not even exist everywhere. One of the reasons why the introduction of training systems in France and the UK has been a failure is the relative lack of underpinning institutions that would govern the process of building and running a functioning training system: unions and employers are too weak, chambers of commerce are absent as local players, and links between schools, universities and companies are either too close or too tenuous.

### **The political economy problem at the core of skills**

The vexed question of skills is, in essence, a political economy problem. It is very difficult to think of the future of skills without a history of collective organisations that produce frameworks allowing all stakeholders in the skills debate to have their say. Not only does such a set-up balance the different claims; it will also produce genuinely better outcomes because all opinions can be challenged and need to be explained. Once those arrangements are in place, the contents of skills and the concomitant training system can be addressed.

The generic issues with regard to skills are simple, in other words: you need a mechanism to elicit and aggregate relevant information; a space where ideas can be voiced, evaluated, modified or withdrawn; underpinning arrangements that would make decisions binding yet revisable without undermining trust; and a monitoring and policing mechanism that all parties deem legitimate. And all these prior arrangements have to be up for grabs at (almost) any time, since you cannot innovate

the product (skills) without knowing (and innovating) the process of building the product.

Balancing those needs is a highwire act – which helps us understand why modern France and the UK, while achieving most formidable political accomplishments in the history of humankind by most standards, have hit a wall so many times. For the technocrats in the Elysée and Number 10 defining the new skills was the first, but also the last step. They ignored the need for the institutional infrastructure that addressed the different political dimensions of the problem, including the possibilities of constructive disagreement. Instead of concentrating on the contents of skills, they would have been better advised, perhaps, to think about the less glorious but more substantive job of incentivising socio-economic actors to develop the arenas necessary for such negotiations.

### **Conclusion**

Skills are, with capital, the economic life blood of modern advanced capitalist democracies. But they are also a high-stakes gamble for individual employees and companies. Getting them wrong has a high cost – and the more uncertain the environment, the higher the chances for failure, dragging along entire communities and industries. Skills are therefore not just an economic but also a political issue, on which different parties in the economy project their life chances.

Political problems require political solutions. In Germany and its satellites, this has taken the form of a complex dual training system that involves all relevant actors – companies, unions, governments, and industry associations – who negotiate a new future of the economy, of companies, and of skills. Not everywhere are the institutional endowments present to address the skills problem in this way. But, in a basic sense, all have to think about the central political questions. The central issue is, therefore, how to translate these crucial conditions for skill development into institutions that strengthen those bequeathed on countries and sectors by history, and how to overcome the structural constraints that history imposes. Exploring the art of the possible, in other words – or politics.

### **About the author(s)**

**Bob Hancké** is Associate Professor of Political Economy at the London School of Economics and Political Science and Managing Director of PEACS.