

The Steady State Economy Conference

Working Towards an Alternative to Economic Growth

Policy Proposal

Workshop 8: Employment

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Question: How can full employment and satisfying work be achieved in a steady state economy?

Background

Over time, technological progress has allowed businesses to become more efficient at producing goods and services, such that a given volume of goods can be produced with much less labour than was previously possible. Instead of using new technologies to reduce working hours, however, we have largely used them to produce more goods and services, whilst keeping working hours relatively constant.

In a Steady State Economy (SSE), it would not be possible to continue to increase production in this way if this resulted in an increase in resource use and waste emission. Indeed, the transition to an SSE requires significant reductions in resource use and emissions so that they fall back within sustainable levels. If technological improvements in efficiency cannot achieve these goals (and there is little evidence that they will be able to) then reductions in production and consumption are unavoidable.

Whilst the transition to an SSE will mean some industries may grow (e.g. renewable energy), and others change production methods (e.g. switching from energy-intensive to labour-intensive methods), overall a fall in production means a fall in total work required in the economy. Experience with economic slumps is that unemployment rises under these conditions. How is this to be managed? How does policy protect the income security of individuals? How does policy prevent massive unemployment as total work required in the economy shrinks, creating a division between secure full-time workers and long-term unemployed?

Proposals

Two proposals are made here for supporting full employment in an SSE: *working time reduction*, which reduces labour supply in a controlled way, and *guaranteed jobs*, which supports demand.

Working Time Reduction

The first approach that has been proposed to prevent unemployment from rising in a steady state economy is to take productivity gains as an increase in leisure time, by

gradually shortening the working day, week, year and career: Working Time Reduction (WTR) policy. Individual workers work less over their lives, via shorter hours per week, longer career breaks, earlier retirement and so on, so that the reduced total level of work needed by the economy is spread more evenly through the population.

WTR has numerous advantages:

- It responds to falling demand for labour as total work in the economy falls, as consumption is reduced either voluntarily or via policy incentives, or involuntarily due to resource scarcities.
- It is itself a driver of reduced demand for consumer goods, as people spend less of their time in paid work, and hence earn less, spend less and consume less.
- It allows work and leisure time to be distributed more evenly across the work-age population. This theoretically prevents unemployment and associated pressures on welfare states (high costs of benefits payments) and other potentially undesirable effects.
- There is also a “convenient truth”, that WTR has benefits not just for the environment, but also for happiness, as individuals have more free time to spend on non-consumption routes to wellbeing, such as time with family, participating in their community and in creative, personal and spiritual development activities (see for example, Speth et al. 2007).

Policies to influence the working patterns of individuals are by no means novel. They are often referred to as “work-life balance” (WLB) policies, and in many high income countries, especially in Europe, WLB policies have already been in place for many years. There is an extensive list of social and economic goals that WLB policies could contribute to. These include better utilisation of the productive work-age population in paid labour (for economic efficiency and international competitiveness); reduced levels of unemployment; greater support for individuals to balance work and family commitments and non-work interests; and greater flexibility to lead one’s life as one wishes.

Whilst these policies have no environmental aims, and often exist alongside policies aimed at increasing total work in the economy rather than reducing it, they nevertheless provide useful insights into how Working Time Reduction policies in a steady state economy could be designed and work in practice.

The most familiar and well established forms of such policies are maternity leave rights, and retirement. In the UK now, parents with children under the age of 8 (18 if the child is disabled) also have the right to request shorter working hours (with pro rata pay) from their employer. At the time of writing (June 2010) the new government says it intends to extend this right to all workers.

However, such policies have the potential to go much further. They could give substantial and general rights and incentives to people to reduce working hours and take sabbaticals for any purpose across the life course, so that an overall drop in working time is achieved. Individuals would have the freedom to adjust their working patterns to

match their preferences at different stages of life. Macro goals and individual preferences could thus be met at the same time.

The Netherlands is the country that has come closest to such a scheme in practice, although it is still a work in progress. Working time policy has been increasing worker rights over several decades. As well as long-standing, collective moderation of working time and wages (under the 1982 Wasenaar Agreement), individuals also have rights to request reduced working hours in their jobs, and rights to take career breaks of up to three years in length under the Life Course Savings Scheme, introduced in 2006. Under the LCSS, individuals save a proportion of their income in special savings accounts, to be used to fund a subsequent period of career break. The employer is required to allow the employee back to work after the career break.

Such WLB policies are informed by the “life course perspective”, which focuses on two important resources in people’s lives, time and money:

1. WLB policies provide people with greater sovereignty over their own time, allowing them to enter and leave the labour market more easily, with protection from serious adverse impacts on future employability of using these freedoms. For example, employers are prohibited from firing an employee on the grounds that they took a career break, or requested reduced working hours. This gives individuals greater rights to lead their lives how they wish, better meeting preferences for reduced levels of paid work at certain stages of the life course (such as to care for children). This, in turn, should improve their wellbeing as they voluntarily exchange income (and thus consumption) for more free time.
2. WLB policies aim to provide facilities to decouple (to an extent) when an individual works in the labour market from when they receive income, essentially using borrowing and savings facilities. For example, an individual may save part of their income during periods of employment, for use during a later career break or period of shorter working hours. Alternatively, they may borrow for a career break now and pay it back later through paid work. Furthermore, WLB policies should also provide financial transfers (benefits payments) from the state to the individual when they exit the labour market for specific “accepted” reasons:
 - to protect an individual’s income when they have left work due to factors outside of their control (such as job loss or illness), or
 - when they have left voluntarily for socially valuable or acceptable reasons (which may include for child care, lifelong learning to improve their labour market value, or retirement).

Apart from financial support for these two sets of reasons (which may replace paid income partially or fully for periods of up to a year or so), WLB policy assumes that all adults should derive their own individual (or family’s) income from undertaking paid work, and that their total income from paid work over the life course should match their total lifetime expenditure on consumption. WLB policies thus do not in general *guarantee*

an income, but do improve income security by facilitating transitions in and out of paid work, and by protecting individuals from certain risks.

Importantly for a Steady State Economy, these time rights, and financial incentives and disincentives, can be tailored to encourage levels of work that match with macro-level policy goals. Policy can thus be designed to support environmental goals: over time, the level of time rights, and the relative financial costs and benefits of different patterns of working hours, career breaks, and ages of retirement, can be adjusted to encourage individuals to work progressively less over their work–age lifecourse, spending more time outside of paid work, having longer career breaks, retiring earlier, and earning and consuming less (ideally also deriving more of their wellbeing from non-consumption activities).

Job Guarantee

A second option is the job guarantee, with the state acting as “Employer of Last Resort”, providing a job for those wishing to work but unable to find employment. In a shrinking or shrunken economy, if today’s employment policies remain unchanged, there is likely to be even more unemployment than usual. Whilst full employment should be a high-priority goal in both growing and stationary times, if people are to democratically embrace the ‘degrowth’ of the economy to its steady-state size, their fears of unemployment must be allayed.

Traditionally, fighting unemployment has mainly been done *economically*: economic growth was supposed to, and generally did, mean more and more jobs, whilst in slump times fiscal ‘Keynesian’ or deficit-spending policies were used – always simultaneously trying not to cause inflation. A second approach was not economic but *political*: private jobs were sought or subsidised, and public ones created, by the state. These programmes are universally partial and stop-gap e.g. Jobcentres helping some sectors, or work schemes for specific tasks that are discontinued when the crisis ebbs.

The most radical political solution to unemployment is to guarantee jobs. The right to work is indeed written down in Article 23.1 of the 1948 Universal Declaration of Human Rights and has been partially enacted in India, Argentina and some European cities. A job guarantee policy can further three goals: (1) providing *income* for those out of work but not on welfare benefits; (2) using relatively cheap labour to do what are perceived as *good* public works (caring, cleaning, gardening, building); and (3) relieving the *psychological and social* problems arising from the dissatisfaction of wanting to work but finding none. This third goal is, however, the defining one because the first two can be reached by other means, such as income guarantees and financing good public works through normal channels.

Yes, this most likely means it is the state that hires people. It is therefore not surprising that such a scheme would be politically challenging: What wages should be paid? Would there be negative effects on low-paid workers in the normal government or private sectors? What tasks would thus be taken from the private sector? Would normal

employment law apply concerning work duties, work time and termination of contracts? What about bad workers?

The major argument for the guaranteed job is that it directly guarantees success in achieving full employment. Whilst economic growth, deficit spending, stop-gap employment programmes and working time reduction might indirectly achieve a greater number of jobs, they also might not. Finally, note that the job guarantee is *not* a tool for reducing the size of the economy. This must be done by other specific policies like resource caps, taxes, or working time reduction. It is only a policy that addresses psychological and social problems accompanying a smaller, steady-state economy.

Information Resources

Further background on the reducing demand for work in a Steady State Economy:

Sanne, C. 2010. *A steady state of leisure?*

On Working Time Reduction:

Coote, A., J. Franklin, and A. Simms. 2010. *21 hours: Why a shorter working week can help us all to flourish in the 21st century*. London: New Economics Foundation
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Speth, J. G., R. Costanza, S. J. Hassol and T. Kasser. 9 December 2007. Some convenient truths: Scaling back our energy-hungry lifestyles means more of what matters, not less. *Grist*. <http://gristmill.grist.org/story/2007/12/7/171425/969>.

Schor, J.B. 2005. Sustainable consumption and worktime reduction. *Journal of Industrial Ecology* 9, no. 1-2: 37-50.

On the Dutch Life Course Savings Scheme, with a critique from the life course perspective:

Maier, R., W. de Graaf, and P. Frericks. 2007. Policy for the 'peak hour' of life: Lessons from the new Dutch Life Course Saving Scheme. *European Societies*. 9:339-358.

On the Job Guarantee and Employer of Last Resort:

Alcott, B. 26 – 29 March, 2010. *Degrowth and unemployment: Guaranteed jobs?* Barcelona: Second International Degrowth Conference

Echeverri-Gent, John, 1988. Guaranteed employment in an Indian state: The Maharashtra experience. *Asian Survey* Vol. VIII (12): 1294-1310.

Mitchell, William F., & L. Randall Wray, 2005. In defense of employer of last resort: A response to Malcolm Sawyer. *Journal of Economic Issues* 39 (1): 235-244.

Sawyer, Malcolm, 2003. Employer of last resort: Could it deliver full employment and price stability? *Journal of Economic Issues* 37 (4): 881-907.

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Wray, L. Randall, 2007. *The Employer of Last Resort programme: Could it work for developing countries?* International Labour Office (ILO) Working Paper 2007/5, Geneva.
<http://www.cfeps.org/elm07-5.pdf>