CHAPTER 11

'THE CULT OF TRAINING'; UNEMPLOYMENT AND CAPITALIST EMPLOYMENT POLICY

Gregory Albo

The economic disorder that swept across the advanced capitalist countries with the end of the post-war boom in the mid-1970s signalled an economic turning point at the end of the twentieth century. Real growth rates in the advanced capitalist countries fell from averaging about 4 per cent over the period 1950 to 1973 to less than half from 1973 to 1989, and further still over the course of the subsequent business cycle. The post-war reduction of trade barriers through the GATT process and the growth of trans-nationals, moreover, had steadily synchronised economic cycles and trade interdependencies in the core capitalist countries. The currency convertibility that arrived in 1973 with the end to the Bretton Woods fixed exchange rate system reinforced international economic instability and the constraints imposed by global money and commodity markets on national economies. The intensification of competitive pressures has resulted in a drawn-out and contentious process of restructuring production relations, in terms of both the distributional bargains between workers and owners and the technical conditions of production. Some industries and economies have suffered a stark period of decline, more have stagnated, while just a few sectors (and no countries within this zone) have been ascendant. Workers have universally assumed the burden of the restructuring process, suffering a material loss in their standard of living along with an intensification of work processes.

These two general trends - slower growth of output and increased internationalisation of economic activities - have thus left an indelible mark on the labour market. The International Labour Organisation, in its cautiously optimistic inaugural World Employment Report, observed that over two decades of turbulence and change, no OECD labour market has remained unaffected; labour market performance has deteriorated when compared with the stable environment of growth that prevailed until 1970. And this deterioration has occurred irrespective of differences in labour market regulation (1995; 156). Although there have been distinctive national growth paths and labour market outcomes in the post-boom period - what many have referred to as specific patterns of inadequacy or disaster -

several general features can be noted. First, since the economic clamp-down and oil crisis of the early 1970s, unemployment rates have been increasing remorselessly across the OECD countries. Even in the US where unemployment is an extremely unsatisfactory measure of labour market distress (its wage compression and involuntary part-time work mirror the poor performance elsewhere), across the business cycle average unemployment rates remain above the boom levels. Employment and labour force growth trends, however, have been more steady, although there is mounting evidence of slowdowns in the 1990s. This suggests that with labour productivity growth also declining for much of the period, slower output growth has left a larger reserve of unemployed after each recession that is becoming more intractable over time. Second, the slowdown in industrial output has been even greater than the slowdown in GDP growth. The differential growth in productivity between services and industry has meant, in turn, that employment shares have increased in services but declined in industry. The compositional shift in employment has dislodged wage and skill patterns as industrial employment has typically paid average incomes for acquired skills, while service sector pay and educational requirements vary tremendously. The changes to occupational categories has been characterised as a polarised job market; professional and technical jobs have been increasing their small share of employment, but the largest volume of total employment growth has been in clerical, sales and personal services that have been poorly paid and of minimal skill requirement. Finally, labour market inequality has generally increased; directly for the unemployed and the large number of prime-age males who have dropped out of the labour market; through the shift in employment composition to services for the employed labour force; from higher average educational levels attained relative to pay and job quality in service sector work for new job entrants; and an alarming rise in menial, contingent employment for the unskilled. These common trends of labour market inadequacy have differed between the advanced capitalist countries only in the degree of national disaster and the institutional means by which wage austerity and paid employment has been distributed across the working classes.

These radical changes in the structure of the labour market and industry - and the instability, risk and uncertainty that inevitably follows - have made flexibility in relation to market activities one of the keywords of modern employment policy (Boyer 1988). Such a general, notional concept as flexibility, however, does not lend itself to any ready set of policies to improve the adaptability of economic agents to market turmoil. Indeed, distinct conceptions of flexibility have been a central point of division in contending approaches to capitalist employment and training policies. Flexibility, on the one hand, has been counter-posed to wage and market rigidities, such as trade unions, minimum wages, job controls, standard hours, qualification restrictions, that hinder free market adjustment to altered economic and technical conditions. Reduction of wage costs and realignment of skills is seen as essential to meeting international competition. On the other hand, flexibility is said to arise from innovation and skill capacities so that firm level responses to restructuring, indeed regional and national responses as well, are met by productivity advances and new products rather than wage competition. International competitiveness - and hence the

high employment and wages that are seen to follow - is underwritten by a high-skills workforce.

These two opposed conceptions of market flexibility - the pure market adjustment of numerical flexibility versus the process and product adaptability of functional flexibility - have a material foundation in the dualist nature of skills and (un)employment within capitalism, both being individual attributes of a worker and social conditions of production. As the demand for labour is heterogenous, workers acquire and embody diverse skills that are under constant pressure to adapt (in terms of both upgrading some skills and degradation of others) to changing market and technical conditions beyond any individual worker's direct control. This is what the neo-liberal OECD has in mind when it states that

> governments are faced with designing and redesigning a range of polices across the economy and society in order to help foster - or in some cases stop hindering - adaptation to evolving ways of production and trade . . . Businesses, trade unions and workers need to be innovative to develop new products, processes, and ways of working that will create new jobs, and help shape skills to fit with the jobs of the future (1994b; 7).

At another level, however, the competitive capacities of capitalist firms and regions are dependent upon the labour force, or at least portions thereof, having the technical capacities to utilise advanced production technologies. The wider the skills basis, other things being equal, the greater the potential external competitive basis for high-value added production and quality employment. According to social market advocates, training and employment strategies are necessary to avoid

> becoming trapped in a low-skills, low-quality equilibrium with low initial education and poor skills leading to low productivity and a predominantly low-quality market orientation ...of companies... The dynamic challenge is how to develop a vocational education and training system and other mechanisms of quality market re-orientation (Stevens and Walsh 1991; 25-6).

It is difficult, therefore, to disentangle the processes of skill acquisition, the specific object of training policy, from the wider concerns of employment policy with the regulation of unemployment and the labour market. Skills are an integral component of the capacity to labour and thus a critical dimension of the wage bargain between purchasers and sellers of labour-power (Botwinick 1993; 11-3). Indeed, the frequent invocation of training as the key pre-condition to improving employment outcomes - what many have referred to as the 'cult of training' - has become a key element of neo-liberal and social democratic employment strategies in the advanced capitalist countries over the last decade. This essay will situate and critically assess training within these dominant approaches to employment policy,

particularly with respect to claims for training policy in the containment of the capitalist tendency to produce surplus labour as part of its competitive processes.

Neo-liberal policy on training and unemployment

The neo-liberal position on unemployment and training policy proceeds from the view that capitalism is an economic system best understood as a process of free individual exchange operating in competitive markets. In a labour market, individual maximising actors voluntarily adjust their labour supply in response to price signals so that the market clears and equilibrium is quickly re-established. The demand for labour itself is a derived demand from the profit maximisation decisions of firms. Under the assumption of perfect competition, firms hire labour until the marginal product is equated with the real wage. As incremental output is a decreasing function of employment, real wages and the level of employment vary inversely. In the labour market individuals compare the current and expected wage rate against the costs of training and their preference for leisure, and, based on this trade-off, voluntarily choose to seek work or not. The structure of individual preferences is 'distorted' by interference in pure market wage-setting. In a flexible price system, labour markets would clear in both the short and long runs. All neo-liberal explanations account for unemployment, therefore, as a consequence of voluntary choice, real wage rates (as a measure of individual productivity), and the obstacles to the flexibility of these variables (Nickell 1990; Cross 1995).

Unemployment results when the real wages being asked are too high and profits are too low to warrant increasing production, leading to fewer job offers, a lower rate of investment and the use of labour-saving techniques. Because of unionisation, or more generally unrealistic expectations about wage offers, wage demands do not adjust downwards until unemployment growth begins to exert its disillusion effect (the famous short run Phillips curve). Attempting to lower real wages through inflation (as Keynesian stimulus does), soon leads to workers' wage expectations adapting to the rise in goods prices, leaving real wages and the aggregate labour supply unchanged. Unemployment remains at its natural, or voluntary, rate of unemployment as demand stimulus does not affect real output and long term 'employment will be back at the level that prevailed before the assumed unanticipated acceleration in aggregate nominal demand' (Friedman 1977; 457; Lucas 1978).

A level of positive unemployment would still, however, represent a *prima facie* case for regulating the market. Unemployment must either be denied or explained away as a result of voluntary decisions that simply produce the statistical artifact that is labelled 'unemployment' (Darby 1976; Romer 1986). The proliferation of neo-liberal refinements to the natural rate of unemployment explanation have, therefore, attempted to demonstrate how the actual existing level of unemployment is a rational outcome producing voluntary unemployment; that is, to explain how a divergence between wages and productivity (represented by workers' skills) causes a 'real wage gap' resulting in unemployment.

The general point of departure for neo-liberals has been to see unemployment as a 'market' phenomenon - simply a temporary transition between equilibria - due to lagged price and wage adjustments. The widely-cited explanation of Bruno and Sachs (1985) of the post-1973 rise in unemployment, for example, contends that the supply side price shocks and the decline in productivity growth lowered the real wage growth rate compatible with full employment. Adjustment did not occur because labour market behaviour has maintained wage growth and hence pushed the unemployment rate up. There are numerous possible reasons for why the market has been 'frustrated' in taking its natural course of adjusting to lower real wages. Many neo-liberals maintain that market forces have been blocked because of institutional rigidities of welfare, skill credentials, trade unions, and minimum wages that prevent individuals from accepting the lower wage rates that would lead to a higher demand for labour. Alternatively, a demographic bulge, due to an influx of the numbers of youth, women, or immigrant workers, may also have led to an autonomous shift in the labour supply, but their lower levels of skills and productivity are incompatible with existing wages, causing temporary unemployment. At the other end, a shift in labour demand from new products or advanced techniques will cause industrial dislocation, and a need for labour reallocation toward higher skills because of the shift in the inter-industry dispersion of employment growth. Efforts to defend declining sectors, old wage bargains and disappearing skills will simply block the transition to the most efficient production techniques. Similarly, if labour has been kept immobile due to 'place' rigidities, such as regionally differentiated unemployment benefits, wage adjustments will lag causing the natural rate to rise. In all these cases, market barriers block short period labour market-clearing; 'purer' markets would resolve much of the adjustment problem (Osberg 1988; Knight 1987).

Neo-liberals also dismiss unemployment as simply a voluntary 'agency' choice that maximises an individual preference between leisure and additional income (with the expectations forming preferences lagging behind harsher market conditions). There are several specific theories to explain the choice. Unemployed individuals have a reservation wage, for example, and simply search for a job until one meets their wage demand or they lower their expectations (Phelps 1972). Inadequate market signalling through asymmetric information flows also might lengthen the search time and the adjustment of individual preference functions. Voluntary quits and labour market turnover that are recorded as unemployment may actually be more an indication of an active market of individuals maximising preferences than unemployment (Feldstein 1976). Alternatively, implicit contracts formed between workers and firms include a wage premium dependent on the probability of layoff (Azariadis 1975). Workers knowingly choose unstable employers, and the combination of contracts and unemployment compensation cause wages that result in unemployment that is expected and accepted. Similarly, unemployment insurance shifts the labour-leisure trade-off toward leisure as unemployment is 'free time' equivalent to leisure (Green and Cousineau 1976). As a portion of leisure-time is compensated by unemployment benefits, some agents maximise their 'utility' by selecting unemployment. Whatever the specific cause the result is the same;

voluntary market decisions leave a positive unemployment rate, yet still at an efficient equilibrium (but one that might not be socially optimal).

Workers' skills enter into all these explanations of unemployment and market adjustment directly or indirectly as wages reflect the contribution to marginal productivity, which is dependant upon individual skills. Skill attributes are a result of individual investment in human capital (including investment in job search, qualifications and so on). Higher wages generally imply higher qualifications, a return to individual investments in human capital (longer periods of unemployment reducing the return to investment in training and thus the over-supply of the qualified). 'This knowledge and skill are in great part the product of investment and, combined with other human investment, predominantly account for the productive superiority of the technically advanced countries' (Schultz 1961; 3). Firms establish their production function in response to relative costs of factor inputs (such as the price of labour and training) with no dynamic variation in technique from a skilled labour supply. In neo-liberal arguments, wage offers - or the lack thereof - are also a register of skills, and the unemployed are always, by definition, deficient in skills relative to their reservation wages (as skills must improve or wages fall). Labour market 'mismatches' involve, therefore, an adjustment of skills and real wages in response to price signals, given the nature of labour market rigidities and individual choices (Bosworth and Wilson 1994). This equilibriating process is the central proposition of neo-liberal employment and training policies; the labour market yields private wage signals (that are also signals of return to investment in skills) that eliminate involuntary unemployment and induce skills formation that is consistent with the social signals (of new technological paradigms, of educational needs, of worthwhile work) for the economy as a whole.

The neo-liberal approach to employment and training policies, therefore, stresses closing the 'real wage gap' by what can be termed measures of market reinforcement (Friedman 1977; Phelps 1992). That is, real wages and skills must be made 'numerically' flexible to be brought in line with productivity and labour demand. One set of measures is straightforward; as government intervention distorts market efficiency and delays adjustment to supply-side shocks, its role should be minimised and stabilised. A stable macro-economic environment of low inflation is central so that capitalists can have more certainty about their investments (with the principle of substitutability of labour and capital making any investment bias to capital-using technological change a transitory phenomenon, unimportant except for determining the composition of growth). Deregulation to eliminate non-market barriers that prevent real wages from falling can then lower the natural unemployment rate. The institutional securities for workers built into the labour market that limited flexibility and compressed wage differentials need to be 'rolled back' and market incentives reinforced. This entails: reducing trade union power; minimising the welfare disincentives to work; improving information flows and labour mobility; leaving investment in training to individual decisions of human capital needs; and eliminating market restraints, such as minimum wages and unemployment insurance, which limit downward wage flexibility.

The other set of policy measures require adjustment to skills formation. It is possible to argue, for example, that skills directly affect the rate of unemployment in that the 'equilibriating' rate of unemployment is kept higher by wages facing less labour supply pressures (Abraham 1991). Semi-skilled industrial workers laid-off are 'mismatched' with high-skilled service sector jobs in computer programming. Improving training markets should lead, in the neo-liberal view, to *pro tanto* positive unemployment results. Transferable skills that raise productivity in any firm, and thus are susceptible to being poached by non-training firms as workers are mobile, could benefit from direct wage subsidies or lower trainee allowances so that all firms would have incentive to hire and train (Becker 1975). Training markets could also be improved by deregulation that restores price signals and incentives to human capital formation; deregulation of education and training monopolies; lowering taxes such as training levies on payroll; encouraging individual savings and decisions with respect to human capital formation; wage subsidies that encourage the basic training and employment of the unskilled who need job entry or to overcome 'job shyness' as with workfare programmes; and even training assistance in job search that realigns wage expectations with the skills of the unemployed (Chapman 1993; Prais 1995).

There are, however, several theoretical objections to neo-liberal training and employment policies. For there to exist a natural rate of unemployment that could be considered a voluntary equilibrium, wage setting must, at least in the long term, act as a flexible price market. If the labour market does not adjust in this way, even neo-liberals concede that 'non-natural' unemployment will exist. In fact, the labour market exhibits various degrees of wage rigidity apart from government interference or unions (whose forms themselves can be dismissed as unwarranted interference in markets only on the basis of ideological prejudice and not by history or reason). Relative wages across occupations and industries are rigid by custom, the heterogeneity of labour, organisational efficiencies, and conceptions of distributive justice ('a fair day's wage') (Thurow 1983; Gordon 1972). These are structural attributes of the labour market that negate the idealist neo-liberal view of purely autonomous self-interested agents. The lack of flexible prices in the real world raises, then, the traditional Keynesian and Marxian arguments that decreasing real wages can trigger perverse consequences from efforts to impose flexibility. That is, quantity adjustments are likely to be as important as price movements so that market-clearing is unlikely to be smooth. Moreover, by taking demand out of the system, rather than increasing employment there may well be a further increase in the jobless unless there is a compensating demand source to maintain realisation conditions. As long as these kinds of wage rigidities exist in the real world, whether in the Keynesian or Marxist senses, the actual and trend rates of unemployment are unlikely to equal the natural rate. The natural rate of unemployment simply serves as a hypothetical assertion, drawn from dubious assumptions, of limited normative value (Cherry 1981; Shulman 1989).

The empirical evidence is not surprisingly quite mixed, despite sustained efforts at neo-liberal employment policies since the early 1980s and the persistent invocation of the North American model of labour market flexibility, that widely reducing labour costs increases employment. And in no case does the evidence support the

employment impacts predicted by the wage and market flexibility advocates (Glyn 1995b; Solow 1990). In a thorough assessment of the literature, Bean notes that 'real wage gaps had disappeared in most countries by the mid-1980s' but unemployment remained high (1994; 577). In contrast, the weight of recent studies provides decisive evidence that the inequality and social costs (in the growth in both the inactive and prison populations) of neo-liberal flexibility are quite high and damaging (Freeman 1995; ILO 1995; 157).

Market failures specific to training compound the labour market imbalances caused by the pursuit of wage flexibility. The most widely-cited failure of training markets is convincing theoretically and empirically pervasive. As few skills a worker learns are exclusive to a firm, and all skill development involves costs, it is logical that in competitive markets capitalists attempt to limit their individual expenditures on training. The profit-making incentive for each capitalist agent is in fact to degrade as many jobs as possible and to skill as few workers as is feasible to employ the existing level of technology to maintain a competitive advantage. Firms may well find it to their benefit to 'poach' trained workers away from training firms to reduce their training expenditures even more. If this process occurs systematically some firms may simply cease to train so that markets with poachers and trainers are likely to be unstable and continuously imbalanced. This would reveal itself, as it does in Britain, by persistent skill shortages and bottlenecks alongside pools of low-skilled unemployed for long durations (Senker 1992; Rainbird 1990).

The specific market failures of training can, therefore, compound through time into structural obstacles to adjustment; firms have less incentive to post skilled vacancies as this would increase the returns (wages) to skilled workers; and workers have little incentive to train as the stock of skilled vacancies is low. This reinforcing failure can create a 'low-skills, bad jobs' trap that is systematically linked to national training and education institutions (with different training institutions and historical contexts arguably producing 'high-skill, good jobs', although there are flaws to this contention as we show below) (Snower 1996; 112-3). Education and employment subsidies (as Snower himself proposes) are likely to be insufficient to break the vicious cycle that keeps an economy trapped into minimal skills development. Other labour market failures will probably add to training market deficiencies and the 'low-skills, bad jobs trap' - information asymmetries, innovation externalities, training economies of scale, skill and wage rigidities, differential risk premiums, and so on (Finegold and Soskice 1988).

The distributional obstacles raised by market-driven training structures similarly undermine the general claim that training can serve as a mechanism for the disadvantaged to improve their labour market position. For example, trainees will have to pay for their training either in the form of direct outlays or foregone income. As the period in which these expenditures occur is different from the one in which earnings are made, the training must be financed. Capital markets, however, are unlikely to fill this gap, especially when the link between employment prospects and training is so tenuous or when groups encounter structural societal inequalities as do women, minorities and workers. Skill investments will be less than required and many skills in under-supply, the more the market is relied upon to finance and supply

training. But even if some form of state assistance and planning of training expenditures will inevitably have to occur, the efforts to reach those most in need of training, through youth training strategies or special employment training for the long-term unemployed, will tend to be inadequate relative to the problems of the most vulnerable as long as unemployment is conceptualised as an individual problem of skill investments and wage demands. This conceptual point parallels the actual experience; partly because these kinds of programmes have had funding declines as part of neo-liberal retrenchment, and partly because market-based delivery systems have failed so miserably in terms of equity, continuity and skills-upgrading. Indeed, without labour demand for the semi-skilled to provide stable employment, these programmes - and the workfare variants common in North America - have only reinforced the vicious circle of unemployment, low skills and unstable jobs (Skuse 1995; Rubery 1996; Myles, 1996).

Adjustment of the supply and demand of skills and labour through market signals must take place through time and not the abstract equilibrium space of neo-liberal employment policy. The concept of hysteresis has often been invoked to explain the time-dependent path of unemployment. In neo-liberal terms, hysteresis means that a recession creates the conditions for a continuation of high unemployment dependent upon the speed of adjustment of labour market institutions to the supply side shocks which opened a real wage gap. In other words, there will be a period of adjustment before the economy moves to its lower long run equilibrium point. But path-dependent adjustment - the actual historical movement of economies determining outcomes - is susceptible to compounding adjustment problems and indeterminate outcomes. There are, for example, irreducible lags and processes involved in training that can move the market just as easily away as toward a hypothetical equilibrium point. Because training is inherently uncertain, it is hard to estimate what skills will be needed in the future (or in what supply). For production techniques that are only partially known the recovery of training investments may be very risky. Once competitive cost-cutting takes hold, training expenditures become even more uncertain, and the option of poaching from other firms through higher wages is a more reasonable proposition for each firm. For the economy as a whole, however, the 'rational' action by private economic agents can only lengthen the problems of skill adjustment and unemployment. Thus chronic under-supply of skills is likely as long as skills are treated as exclusively 'private' goods and human capital investment decisions. The impact of market adjustment, in such a process of 'cumulative causation' through time, for competitive capacity and unemployment could be quite serious.

If the trajectory of unemployment is history-dependent and institutionally-mediated, as the hysteresis concept implies, it is impossible to sustain the neo-liberal position that unemployment is all voluntary and government policy is impotent. Historical time must be conceptualised as more than an inertial force slowing the tendency of economic processes to move toward some hypothetical equilibrium point of natural unemployment. This point has been acknowledged, at the cost of theoretical consistency, even within the neo-liberal camp; 'What is required is a theory of unemployment in which unemployment, far from returning to a stable

equilibrium - or 'natural rate' - over time, is instead strongly dependent on history...to highlight the sensitive dependence of unemployment on current and past events' (Blanchard and Summers 1987; 182). Training and employment policies of market reinforcement to increase functional flexibility are, in the actual movement of economies in a period of instability and restructuring, likely to inflame the capitalist unemployment problem and social inequalities rather than mitigate them.

Social democratic policy on training and unemployment

The neo-liberal position has most often been rejected on the basis of a specific critique of capitalist market failures and its 'simple commodity economy' presumption that buyers and sellers are equal economic agents voluntarily exchanging commodities (McCombie 1985). Social democratic employment policy rejects several claims central to its analysis of market-clearing; that production directly creates demand for consumption goods; that savings leads to demand for investment funds; that the demand for labour varies inversely to the real wage; and that price signals are adequate to generate and adjust skill profiles. However, interpretations vary substantially as to the degree to which employment market failures are systemic to capitalist economies, or whether they arise primarily from short run demand imbalances (Keynesians) or long term supply side transformations (institutionalists).

In the Keynesian view, for example, the capitalist unemployment problem is not located in the labour market *per se*, but in the macro-economic conditions produced by uncoordinated individual actions that determine the utilisation of productive capacity. In opposition to the 'classical school' of Say's law that supply creates its own demand, Keynes argued that 'the volume of employment is not determined by the marginal disutility of labour measured in terms of real wages, except in so far as the supply of labour available at a given real wage sets a maximum level to employment. The propensity to consume and the rate of new investment determine between them the volume of employment, and the volume of employment is uniquely related to a given level of real wages - not the other way around' (Keynes 1936; 30). The analytical and policy problem is to identify and stabilise the factors that determine effective demand, the level of demand actually attained in a monetary economy, and thereby the level of employment.

Although consumption is a relatively stable proportion of income, it does not increase directly as income increases; as income levels rise, savings increase, lowering effective demand unless the demand for investment funds fills the gap. Yet investment is unstable, dependent as it is upon capitalists' *ex ante* expectations of future profits (introducing directly a sense of an economy set in historical time), and, to a lesser extent, on the rate of interest. If balance in the payments position is assumed, all countries logically being unable to run surpluses, the level of employment is determined, therefore, by the level of investment based on short run expectations about the rate of accumulation. A lack of investor confidence, what Keynes termed 'animal spirits', could easily develop from any shift off the full employment equilibrium growth path. Lower interest rates might create more

liquidity, for example, but not necessarily increase investment. With effective demand weakened, capitalists would not even realise existing investments, and savings and investment would again become equated *ex post*, but at lower levels of income and employment. Moreover, a decline in real wages would not lead to an increase in employment *pro tanto*, as capital goods embody different capital-labour ratios, and capitalists willingly pay a wage premium to keep skilled workers (reflecting the heterogeneity of labour inputs and the need to recoup training investments). The new short period equilibrium at less that full employment might well extend into indefinite stagnation.

The effect of the 'multiplier' process on expenditures, moreover, is to raise the likelihood of just such an occurrence; disturbances in one of the components of demand, notably investment, are magnified, thereby moving the economy substantially away from the potential level of output. Additionally, investment in this period creates productive capacity in the next but, as Keynesians argue, this does not mean that wage earners will have the income to consume the expanded potential output. This depends upon workers' earnings in other industries, the savings decisions of households, and the payments balance. There is no reason to expect, then, without a regulating force external to the market, that effective demand will be adequate to potential output capacity and that investment will match savings. In other words, against the self-equilibriating neo-liberal view, lack of demand creates a gap with potential supply (as seen by capacity utilisation in the short period). The actual 'equilibrium' can be at a demand level too low to employ the existing labour supply leaving a pool, as Keynes called them, of the 'involuntary unemployed' (Keynes 1936; 6).

The extent of the market instability, and thus the trajectory of growth, employment and skills, is widely disputed (Trevithick 1992; Worswick 1991). In the 'neo-classical synthesis' short-term money wage rigidities mean that it is better to use aggregate demand management than sacrifice output. Moreover, to the extent that money wage expectations incorporate an inflationary component, incomes and labour market policies might assist in managing the trade-off between unemployment and inflation at higher levels of output. In contrast, in the 'Keynesian reappraisal' the volatility of market trading and misinformation mean that a multiple of disequilibria points exist such that labour markets may not easily clear. The possibility of multiple equilibria means that economic growth in the long term may expand at rates of investment and full capacity output levels that may not coincide with full employment. In any case, the 'knife-edge' growth path for full employment will be highly unstable due to investment volatility.

Keynesianism is often equated to government policies that 'fine-tune' capacity utilisation and that manage specific market failures. In the short period situation where unemployment exceeds the full employment level, and unused capacity exists, the central objective is to bolster effective demand. Monetary policy can increase liquidity or lower interest rates to spur purchases of consumer durables and housing, and borrowing for investment. The impact on demand, however, will depend more upon profit expectations than credit availability. In contrast, fiscal policy measures are likely to have a direct impact. Tax cuts encourage consumption; subsidies to

business stimulate investment; and government expenditures, financed through deficit spending, can increase consumption or build social infrastructure. Other measures form an integral part of Keynesian employment policies. Currency devaluation, for example, may help switch domestic expenditures and boost exports. Industrial planning and regulation of financial markets will help maintain the 'knife-edge' full employment growth trajectory.

In the institutionalist view, the specific market failures creating involuntary unemployment can also emerge from mismatches between available skills and the 'technical attributes' of the capital stock on the supply-side. The unevenness of economic development and the heterogeneity of the labour stock can show, for example, in a variety of short period adjustment problems. The dualist structure of the economy, divided between a core group of dynamic firms and a backward unstable periphery, as argued by Piore, Doeringer and others, presents a number of structural unemployment problems. Structural unemployment arises from the skill profile of the labour force. Because of institutional blockages in the labour market, for instance barriers caused by race or gender discrimination, segments of the workforce may systematically lack appropriate skills. These marginal workers tend to find employment in the peripheral sector and occupy the lower segment of the labour market, suffering higher rates of unemployment, lower pay and unstable jobs. To the extent their acquisition of skills or mobility is impaired, the average rate of unemployment will tend to be higher, adjustment to new techniques slower and the 'distribution [of unemployment] among various demographic groups' uneven (Piore 1979; 9; Doeringer and Piore 1975). Declining regions and sectors will also suffer a mismatch between existing skills and future employment openings. In these cases, labour market policies could 'improve market efficiency and hence reduce the equilibrium unemployment rate' (Jackman, et al. 1990; 452). If the rigidities preventing market-clearing wages are controlled, demand stimulation to increase job openings is not wasted through wage inflation and skill bottlenecks.

Long run supply-side transformation presents the skills mismatch as a dynamic blockage to adjustment. Involuntary unemployment from technological change arises because 'development is punctuated by periods of unusual structural change to which market economies find it difficult to adapt' (Driver 1987; 4). New production technologies cause a shift in labour demand so that some industries and skills become redundant while others become dynamic growth poles requiring new skills. Although real wage and Keynesian unemployment may occur with structural change, they will not be alleviated either by wage-cutting or conventional demand management. Rather, the potential difficulties of structural adjustment depend on two factors; first, the extent to which 'bunching' of new technologies occurs; and, second, the institutional processes that shape the adjustment of the capital stock and the labour force. Schumpeter, for example, argued that innovation tends to occur in a 'creative gale of destruction' that forms long cycles of growth and transition. The gales of innovation produce investment booms with low unemployment followed by periods of low investment, structural decline and mass unemployment. In Schumpeter's theory of 'disequilibriating' economic growth, 'cyclical unemployment is technological unemployment... periods of prolonged supernormal unemployment,

coincide with the periods in which the results of inventions are spreading over the system' (Schumpeter 1939; 515). More recently, Mensch has argued that such a large shift in autonomous investment occurred in the early 1970s, making adjustment of the capital stock and skills crucial to preparing the conditions for a new investment upswing from new technologies and lower unemployment (Mensch 1975). This position is, however, rather one-sided; it leaves the sense that structural crises will inevitably be followed by long booms, and it is quite difficult to correlate diverse national unemployment trajectories to the technical composition of the capital stock or skill attributes of the labour-force.

The detailed study of Freeman, Clarke and Soete (1982) also stresses the unevenness of technological change, although they doubt that such a close correlation exists between periods of investment clusters and those of depressions. In this view, investment in a new technical system initially creates a boom and employment expansion; however, scale economies eventually take over the new technique and investment and employment levels steady. Once this 'mature' stage is reached, the problem is making the leap to a new vintage technology, entailing an institutional transition in production paradigms (technology, organisation, capital stock and skills), without debilitating structural unemployment developing.

For example, the difficult transition between technological systems lies behind the current unemployment crisis that followed the post-war boom. In the boom itself, the older vintage plant was either destroyed in the war or made obsolete by reduced capital values in the 1930s depression; an investment surge at the end of the war, in new industries such as chemicals, electrical goods and autos, produced a long wave of growth and high profits. By the 1960s, however, output was growing by five per cent but industrial employment by less than one per cent. So, by the 1980s, unemployment was higher at any particular level of capacity utilisation. The old technological system was exhausted, Freeman and his colleagues argue, increasing productivity mainly by labour-saving techniques. The wave of new vintage microelectronics technology added to the adjustment problem by raising capital intensity in the most productive sectors. The demand side shocks from oil increases and government restraint meant, therefore, jobless growth, as old vintage industries develop surplus capacity and new ones lack the demand to expand to increase employment (Freeman and Soete 1987; OECD 1985). In contrast to the Keynesian view which offers support for declining industries and protectionism to keep up employment, the institutionalist view argues that delays in the transition to new technologies can make things worse. Competitiveness and payments difficulties are likely to mount, and unemployment will be prone to secular increases. Indeed, a major problem of structural decline may occur, as Britain experienced under Thatcher, if restraint is pursued dogmatically. The unemployment crisis is foremost due, then, to the lag of adjustment of skills and the capital stock on the supply-side, in the context of unstable macro-economic conditions.

The transition between technological paradigms presents, in the institutionalist view, the long period policy problem of establishing the institutions to support a permanent adjustment of the capital stock and skills to a new work regime. (This is often depicted, notably in the work of neo-Schumpeterians and regulationists, as the

organisational transition between Fordist economies of scale to post-Fordist economies of scope, as in Freeman and Soete 1987; Piore and Sabel 1984; Boyer 1988). As the structural crisis lies on the supply side, shifting investment out of old industries and techniques to capital stock in new sectors and new technologies is the priority. Keynesian reflation without industrial policies is quite unconvincing. As Freeman, Clark and Soete (1982; 134) warn, the new industries where demand is likely to go might well be at full capacity with skill shortages, causing a burst of inflation. Industrial policies will help alleviate any 'capital shortage' unemployment, but long term employment will emerge only with the expansion of new sectors alongside the growth of demand to absorb new capacity. Worker adjustment policies, such as retraining and mobility assistance will speed the shift to new techniques and production zones, as the substitutability between capital and labour is not instantaneous or neutral (Hudson 1988; 27-35).

Institutionalists like Streeck have therefore argued that skills should be seen as a 'collective good';

> ...moving product ranges "upwards" towards more diversified demands and high quality markets requires not only capital investments in research and development for more diversified products, but also human resource investment in new and higher skills....[But] the fundamental uncertainty for employers of recovering their training expenses...turns skills, from the view of the individual employer, into a collective good. (1989; 90-1)

The specific failures of training markets and hence the differentiated institutionalisation of skills as a collective good leads to commonly observed differences in training regimes. In 'Anglo-American capitalisms' the orientation is toward market-driven training systems with consequently more polarised labour markets and extensive skill shortages; in 'Germanic models' corporatist institutions regulate a highly-developed training complex for high skills as part of industrial adjustment; in 'Scandinavian capitalisms' the state plays a significant role in equalising training opportunities and encouraging labour mobility. Sorge and Warner (1986) contend that national training traditions are in fact linked to capacity for technological adaptation; strong training structures allow workers to be re-deployed, new techniques quickly introduced and competitiveness sustained. Such functional flexibility produces a high skills, high productivity, low unemployment equilibrium, a path that would otherwise be blocked by skill shortages and adjustment lags. The production of skills is therefore a central object of employment policy.

The employment and training policies of market control of both Keynesians and institutionalists recognise, as with Marx, the possibility of unemployment in the temporal disjunctures in a monetary economy between the processes of production, distribution and realisation. Employment policies are seen as operating on the temporal stabilisation of exchange processes and by embedding the institutional context for market relations. Yet even with the instability presented by weak demand conditions that interact with long period technological transformations that

add capacity and new techniques, unemployment is posited as a particular, and not a general, failure of capitalist markets. Technical policy adjustments on the demand and supply sides can maintain a stable growth path at low unemployment moving through historical time. Employment and training market failures are always of degree - and not of kind - from the normal operations of capitalist production expanding output and employment opportunities.

The long term structural failure of the capitalist economies to stay on a high employment growth path after 1974 present problems in explaining the spiral of unemployment. It is possible to argue, as Solow (1986; 8) does, that the monetarist shocks from the 1970s on have meant that the capitalist countries have passed through 'a long period of inadequate aggregate demand, with governments unable or unwilling to engage in compensatory fiscal and monetary policy.' This demand constrained environment would also hinder long period adjustment to technological change. This might explain why the base rate of unemployment initially increased, but it is not convincing as to the continual rise in unemployment, at any given level of capacity utilisation, and its resistance to demand stimulation. But as Solow (1986; 11) observes, 'recent [1980s] increases in unemployment have not been accompanied by corresponding reductions in capacity utilisation.' Many Keynesians have thus followed Blinder (1988; 2) into acceptance of neo-liberal arguments on numerical flexibility that 'intransigent trade unions and well-intentioned but unintelligent governments have erected a web of micro-economic barriers to full employment that both make labour more expensive and transform wages from variable into fixed costs.' This view suffers, however, from the same glaring flaw as the natural rate of unemployment theory; the reversal of 'market flexibility' conditions that pushed up unemployment in the 1970s have not brought it down in the 1990s (even in the US recorded unemployment remains higher).

The institutionalist incorporation of supply-side transformations to explain the long term run-up in unemployment also falters. It is hard to draw an association between the sudden onset of the crisis in 1974 with the abrupt exhaustion of old innovations - productivity declines were apparent since the late 1960s - or the introduction of a new technological paradigm. In addition, the supply-side account does not explain why the general rise in unemployment rates has followed particular national patterns of inadequacy and disaster, although all the advanced countries must have faced similar old and new technical systems. National skill and industrial adjustment policies might explain part of the divergence, but not all of it. It is hard to make the case, for example, that Germany's highly-regarded and often invoked technical system or skill policies lag other countries, yet its unemployment rate places it closer to countries like Canada or Italy, neither of which has a strong innovation or training record. On comparative grounds, therefore, it is questionable to see containing unemployment as mainly an issue of supply-side adjustment policies of skills for growth in high value-added sectors.

There is, moreover, the more fundamental problem of treating training policy and skills adjustment like a 'cargo cult' - developing an oversupply of skills as if it will induce a resolution of other economic imbalances. Removing skill blockages in specific industries, for example, will not necessarily produce the conditions to lower

unemployment if the problem is a system-wide transition. This will require supportive industrial policies an investment in technology, infrastructure and so on. But even adjusting skills development as a whole *ex ante* to match a new production paradigm *ex post* suggests a smoother process of industrial restructuring than economic history warrants. Indeed, as the advanced capitalist countries have experienced over the last decade, average skill levels might increase but not aggregate employment. If technical change is capital-using, removing either specific or general skill blockages will be insufficient alone to contain unemployment growth. This will depend upon the balance between a decline in the average hours of work, the redistribution of income, the spread of work outside the industrial sector and the overall growth rate achievable (ignoring environmental consequences). This points to a fundamental process of structural transformations and instabilities in market processes that cannot be accommodated by the functional flexibility of workers alone (given a context of adequate effective demand).

Even if we grant the assumptions of the market control case that some amount of involuntary unemployment is related to insufficient demand compounded by skill adjustment problems (views that we have argued are insufficient to account for the unemployment crisis), the sources of effective demand and the maintenance of external balance between competitive states all deploying new technologies in production raises distinct problems. It should be underlined that the hypothesised supply-side transformations between technological paradigms hinges on rapid growth in world markets to absorb the exports of the high value-added industries that training and industrial policies are promoting to reduce unemployment. The internationalisation of economic activity has meant that conditions of realisation are in part determined by 'international' effective demand, that is, the macro-economic strategies of other states. There is, however, neither the institutional capacity at present nor in the foreseeable future to co-ordinate an international reflation. Indeed, international agencies like the International Monetary Fund and the World Bank have favoured deflationary national strategies. Yet even with a different policy orientation, it is not clear how an international reflation is undertaken without at least the pre-conditions of national governments of common inclination, co-operative and not competitive economies, and stronger international, national and local planning capacities than now exist to ensure productive capacity is in place and balances with demand. Without such pre-conditions backed by the legitimacy and capacity to implement coercive sanctions, countries can always gain competitive advantage by 'cheating' by not maintaining demand conditions, engaging in environmental cost externalisation, or by applying non-tariff barriers. It is dubious analytically and politically wreckless, therefore, to posit that export markets will grow to the extent necessary so that the expansion of the high value-added production sector will be large enough to absorb not just the unemployed, but also the loss of jobs in more labour-intensive sectors and from capital-using new technologies.

If the sources of effective demand are uncertain and yet the skills-oriented supply-side policies to increase exports are widely adopted to reduce general unemployment, a compositional fallacy of aggregation immediately has to be confronted. The 'beggar-thy-neighbour' strategy of improving payments balance is

impossible for all; some countries must absorb the payments surplus, so all countries facing unemployment cannot adopt it (Robinson 1937; 210-30). This type of competitive strategy is inherently unstable; the trading partners running deficits must respond to improve their own competitive positions by deflation and devaluation (a process that has been unfolding since the mid-80s Plaza and Louvre accords to the Chinese devaluation to the recent competitive devaluations sweeping Asia). As the underlying unemployment remains for the trading partners, a spiral of 'competitive austerity' must ensue. If a country pursues an export-oriented strategy for high employment on a weak competitive base in these deteriorating external conditions (as Canada and Britain have historically done), they stand to lose on several grounds; the national economy further loses its internal coherence and planning capacities to redistribute economic activity and employment; competitive pressures will produce social polarisation as only a few workers are skilled and these are pushed as far as possible by competitive firms to re-coup training investments; and employment growth will have to occur in sectors with high resource rents, low waged and non-tradeable activities as in 'servant-type' services or sectors with high potential cost-externalisation of ecologically-destructive outputs (the real sources of the 'North American jobs machine'). For countries (such as Sweden and Germany) that have a strong competitive capacity built on leading sectors and a high skills foundation, this will intensify efforts to preserve 'good jobs' in a slow-growth, unstable economic climate. To the extent that this 'skills-oriented' employment policy contains a re-distributional component to extend universal access to education and training (as with Germany until recently), it will also come under severe pressure to selectively target reduced training expenditures and limit the access to training and education (Mahnkopf 1992).

The market control argument that training policy could pose as an alternative transition to a more internationalised and technologically advanced economy is theoretically suspect and empirically at odds with actual outcomes. As long as there exist global labour surpluses in an internationalising economic context, the competitive pressures will be toward wages being determined by the supply price of labour whatever the variation in average productivity in national contexts. The most that could be claimed is that countries with institutional structures supportive of employment and training strategies of market control have been 'less inadequate' than others in the transition to the so-called new technological paradigm. Cornwall (1991; 114), for instance, argues that the path-dependence of employment outcomes produces a policy irreversibility that blocks formally realisable goals and allows others. Solow (1990; 59) similarly confesses that the rate of unemployment 'actually observed depends on history.'

The capacity even to maintain alternate market control strategies that are less inadequate is, however, likely to decrease through time in a context of unstable, asymmetrical internationalisation. It has proven difficult even for the leading countries to maintain the share of 'good jobs', never mind increase the overall share through successful export-oriented policies. These will come, in any respect, at the expense of others attempting the same strategy. Streeck (1997; 256) has recently noted with respect to Germany that 'economic globalisation erodes the conditions for

such [market-correcting] intervention and, by default but also by design, leaves only de-politicised, privatised and market-driven forms of economic order.' Increased levels of training cannot contain the underlying contradictions producing unemployment; a 'credential inflation' of needing more advanced skills just to get employment in far less demanding jobs in a harsher labour market climate is more likely. Training and employment policies of market control will have a diminishing capacity to contain involuntary unemployment or to compress social inequalities, the general problems that the capitalist unemployment problem continually re-poses.

Capitalism, training and employment policy

The acquisition of appropriate skills by workers is conventionally put forth by government employment departments and business associations as a simple proposition; that individuals improving their skill attributes will better their prospect of being hired in the labour market. This commonplace has a theoretical justification; if individual workers adjust their skills (and relative wage acceptance rates) they will better match labour demand conditions and thereby raise individual and overall social welfare. This reasoning from individual actions to social outcomes is, however, a quite misleading account of the macro-economic conditions that establish labour demand and the micro-economic processes that produce numerous failures in 'training markets'. Even on the narrow terms of improving individual earnings and employment, as even the OECD (1994a) has conceded, training results have often been decidedly indifferent. Neo-liberal employment and training policies of market reinforcement, stressing numerical flexibility leading to hypothesised equilibriating adjustments of the price of labour and skills of workers, are likely to contribute further to the social divisions of modern capitalism. Indeed, the only potential benefit from lowering real wages and reducing the training and non-paid work options such as welfare for workers, increasingly through the coercive form of North American style workfare, is likely to be some easing of recorded rates of unemployment, although at the cost of even more sharply socially polarised societies. This has certainly been the experience of the 'Anglo-American' models of capitalism in adopting market-driven training and employment policies (Gordon 1996; Green 1994; McBride 1992).

The social democratic alternative employment policy linking skill acquisition to long-term structural changes in the technical conditions of production and the market potential for high quality value-added products advances a quite different proposition and path of adjustment; if workers are broadly skilled as a 'collective good' to improve technical attributes, and to directly compensate for the systemic failures of the training market, they will increase external competitive capacities and thereby general employment conditions. This kind of skills-oriented employment policy to improve the functional flexibility of workers via more general transferable skills between workplaces and high-skilled, more team-oriented and less hierarchical practices within workplaces, implies a quite significant reorganisation of general education and skill formation toward the objective of market rationality. The success of the strategy hinges on current unemployment levels being a function of skill

shortages or a 'labour demand twist' so that skilled workers are now permanently more demanded than unskilled (Glyn 1995a). This position is unconvincing; general educational and training levels have been increasing alongside increased levels of labour reserves for some time. It is quite unclear, moreover, how such localised supply-side transformations in the labour market will generate adequate national and international effective demand to reduce unemployment imbalances given the problem of co-ordination of competitive states and firms (and, of course, the evidence that most existing unemployment is not Keynesian). This strategy, too, is likely to deepen the social divisions of modern capitalism as competitive labour market pressures orient highly-skilled workers to form 'productivity pacts' with managers of competitive enterprises and peripheral workers are compelled to accept lower wages in marginalised service activities. A social democratic skills-oriented employment policy seeking only to control market failures in training is also likely to increase social inequality. The economic strains breaking apart the German and Swedish models clearly indicate the limitations of this kind of 'progressive competitiveness' employment strategy (Mahnkopf 1992; Albo 1994).

In European policy circles currently, there is much discussion of a 'third way' between these two paths of capitalist employment policy through adopting both measures of labour market flexibility that reinforce market processes and supply side policies that stimulate training expenditures to control market failures. This 'third way' has had political momentum from the recent election of Tony Blair's New Labour government and the bargaining occurring at the European Union level over a European-wide employment expansion. There is little integration, however, of expansionary demand side policies because of the specific Maastricht fiscal convergence criteria and the more general 'prisoner's dilemma' costs for countries choosing expansion in a world of capital mobility. The 'third way' for capitalist employment policy hinges on two premises. There is a premise that a limited market is an external constraint on employment expansion; thus further economic liberalisation through regional trading blocks and global free trade will increase output capacity on the supply side and improved realisation conditions on the demand side. This will, in its turn, lead to increased labour demand and employment. There is also the premise that inflexible labour markets and the lack of skilled workers provide internal constraints to adjustment along the 'globalisation' path of output and employment expansion; thus removing labour market rigidities and disincentives while controlling for specific market failures will allow increased capitalist sector employment to absorb the unemployed and real incomes to rise as productivity improves with output expansion.

There is, however, a great deal of counterfactual argumentation and policy experience to cast serious doubts on these premise and hypothesised economic outcomes. The increased labour market flexibility will add to the growth of involuntary part-time employment, a decline in relative pay, and the expansion of low productivity labour intensive capitalist service sector employment (mainly related to servant-type activity purchased by asset holders or those in high-waged jobs). This is the kind of employment expansion that the US has undergone; distressed labour market circumstances and lack of welfare benefits lead workers to

take up all kinds of informal and low paid activities, but low recorded rates of unemployment and productivity increases do not lead to improved wages and incomes for the working classes. This is a labour market outcome Joan Robinson once referred to as 'disguised unemployment', and what Marx had earlier called the 'stagnant reserve army of labour' and the 'pauperised class'. There is little that expanding training incentives or welfare-to-work policies can do to alter this kind of economic outcome in the absence of industrial policies for capitalist sector employment and redistributional policies for the expansion of state sector employment. It is quite difficult, then, to see this strategy as anything but a 'third way' to the same kinds of societal polarisation as the other two discussed strategies. Moreover, to the extent that the current economic conjuncture is already plagued by the deflationary conditions of competitive austerity internationally and deregulation of national labour markets that is placing downward pressure on wages, the 'third way may well compound both problems by attempting to expand the supply side while constricting the demand side. Such a strategy is unlikely to constitute an alternate policy outcome to neo-liberal employment policies; rather 'third way' employment and training policies concede that 'open-economy social democracy', as both a policy strategy and economic outcome, has become incorporated as a subordinate component of the wider dominant processes of neo-liberal economic restructuring and internationalisation.

Thus, there are neither theoretical nor empirical reasons to be optimistic about the prospects of any of these kinds of training policies improving employment outcomes in terms of lower unemployment or social inequality. This conclusion does not deny the importance of developing and equalising training and educational opportunities as a fundamental component of democratic citizenship. It is to insist, however, that more active employment policies that disengage work and incomes from market determination - and thus adopt measures that directly confront the tendency of capitalism to produce surplus labour as Marxists have pointed out - remain fundamental to the achievement of high employment and social equality.

Economists and political scientists would do well to link training policy to a wider set of questions that merit concerted research and policy attention. If technical advances mean hours of work can no longer be what they were, by how much should work-time be cut? If the majority of job growth will no longer be in manufacturing, what kind of egalitarian, collective services should be developed? If high general skills are as important as technical skills, including skills and capacities in democracy and administration, how should equal learning opportunities - including across race and gender divisions - be provided? If economic growth can no longer be the source of increasing employment for reasons of ecology, how do we plan for a re-distributional and quality growth model? If it is no longer acceptable to allow capital mobility and unplanned trade disrupt local communities and employment, what kind of international controls and local planning capacities should be established? These questions have been marginalised in recent discussions of capitalist employment policy by the 'cult of training' as a utopian pursuit of a 'pure market' or as a status-quo 'technical solution' to what are fundamentally social -

hence political - conditions; the structural social inequities and unemployed labour reserves that are produced by the capitalist form of production.