

Working For Change

Promoting Jobs and Employability

Policy Paper 9



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Work and Unemployment

“A person who has difficulty in buying the labour that he wants suffers inconvenience or reduction of profits. A person who cannot sell his labour is in effect told that he is of no use. The first difficulty causes annoyance or loss. The other is a personal catastrophe.”

William Beveridge, 1944

1.0.1 Unemployment ranks high amongst the issues that most trouble people, and rightly so. The economic and social costs of nearly one person in ten in Britain being out of work are unacceptable. But unemployment cannot be tackled, nor can policy responses to it be effective, until the scale of the revolution in work that has taken place over the past 20 years has been grasped.

1.1 The Changing Labour Market

1.1.1 The labour market in Britain, and indeed in other advanced industrial countries, has changed out of all recognition. There are two major reasons for this. The first is the globalisation of business; producers today compete for markets in a world in which borders are almost irrelevant, and in which most trade restrictions have been swept away. International competitiveness is key. To survive, firms and countries alike have to keep up with the latest technological innovations, seize opportunities as they arise, and fill niches for new or different products.

1.1.2 The second reason for the revolution in work is the scale and pervasiveness of new technologies, in particular information technology. Whole new industries and many new jobs have been created because of these technologies. But many other jobs have been lost and skills made obsolete as older systems of production and work organisation have declined. There are no jobs for shipwrights and

few for coal miners in contemporary Britain, while in the service sector many middle management and clerical jobs are disappearing.

1.1.3 People who are in demand in the new labour market are adaptable, well educated, entrepreneurial and willing to go on learning new skills. They will probably have to, since they may change their jobs many times, and their careers several times, in the course of a working lifetime. These men and women form the core of the new workforce. They are expected to work hard, often for very long hours and in stressful situations. In return they receive a high remuneration and expect to be consulted and involved in the decisions that shape their working lives. This core workforce will increase in size, its pay will probably increase faster and its productivity faster still. It has been predicted that in time this core will consist of half of today's workforce, paid twice as much and producing three times as much.

1.1.4 There is a second group of people who represent the traditional labour market, those with hitherto secure life-long jobs. These people are mainly in the public sector - doctors, police officers, teachers, postal workers and so on. But the traditional labour market is disappearing fast. Secure public sector employment is being privatised and turned into fixed term jobs, or jobs for contractors or franchisees. The number and proportion of lifetime posts is declining all the time. Nor is it only the security of these jobs that is changing, but their substance. They are subject to more competition, internal and external. Their customers are more demanding. And they too are challenged by technological advances, from new medical techniques to electronic mail. Nothing stands still.

1.1.5 A third group of people occupy jobs in parts of the private services sector, such as retailing and leisure, which have expanded in

recent years. Most of this group is female, part-time, low paid and low skilled; their jobs, however, are not particularly precarious and their part-time status often the result of their own choice.

1.1.6 All these relatively successful groups in the labour market lack, however, a sense of security. They cannot know what tomorrow may bring. They have to live with much more uncertainty than did their parents or grandparents. They are not concerned simply with their wage or salary; they want to maintain efficient public services - health, education, policing - and they are prepared to pay reasonable taxes to improve them.

1.1.7 Around these core groups is a periphery of other workers, usually less skilled, many of them part-time or temporary. Most of them are not well paid; they have little job security and few prospects. Many are women. Recent statistics indicate that the position of the least well paid among them, the bottom 10% of people in work, has deteriorated seriously relative to the rest of the workforce.

1.1.8 Self-employment has risen by over two-thirds since 1979, bringing both new opportunities and new problems. In general, the labour market has become much more fluid, with more people moving both in and out. During 1994, a fall in unemployment has been accompanied by a reduction in the numbers employed, probably reflecting increased numbers in higher and further education or taking up earlier retirement or self-employment.

1.1.9 Finally, and most damagingly, there are the unemployed. For nearly 20 years, unemployment in Britain has been at least double the level of 3% set by Beveridge in the 1940s to define a state of full employment. Today, even after numerous administrative redefinitions effectively removing up to a million people from the register, it stands at 2,642,300, or 9.4% of the workforce (June 1994), more than three times Beveridge's figure. By 1979 definitions the unemployment rate would be closer to 12%. Of those unemployed, over a million have been out of

work for more than a year, and over 300,000 for more than three years.

1.1.10 For the economy, unemployment means both a loss of resources and a loss, sometimes irreplaceable, of talent and opportunities to acquire skills and work experience, particularly for young people. Unemployment places heavy demands on the Exchequer. Each person unemployed costs the country nearly £9,000 a year in benefits and tax revenue foregone - which means that the nation as a whole is paying nearly £25 billion a year to keep men and women out of work, a huge waste of public resources.

1.1.11 For society, unemployment at current levels - particularly amongst young unskilled men - exacerbates crime and racial and social tensions as well as increasing inequality. The large numbers of people who are unemployed for a year or more contribute to the emergence of a largely unskilled and increasingly unemployable underclass.

1.1.12 For the individual, unemployment imposes both poverty and the misery of enforced idleness and isolation. It is hard to retain self-confidence and a sense of self-worth during a long spell of unemployment. It weighs especially heavily on particular groups at a disadvantage in the labour market - people with disabilities; ethnic minorities; women lacking recent working experience; men and women aged 40 and over who are made redundant; and young people, especially those with poor education or few skills. Yet most people want to contribute to society, just as they want to discover and develop their own potential.

1.2 The Nature of Unemployment

1.2.1 The problem of unemployment affects most of the industrialised world. The current British rate is just under the average for the EU (10%), while in the OECD as a whole numbers have more than trebled since 1972, from 11 to 35 million. A long run decline in employment in the primary and manufacturing industries

has caused job losses over most of the century, but this has accelerated in recent years; a third of the manufacturing jobs in Britain in 1979 has since disappeared. Even in sectors which are expanding, intensive capital investment can produce 'jobless growth'. Until fairly recently, this decline was offset by expansion in services, both private (eg finance, retailing, hotels and catering) and public (eg health, education and welfare). However, in the last few years, privatisation and the contraction of the public sector - notably in defence - has ended this balance.

1.2.2 Unemployment falls into three categories. *Frictional* unemployment is caused by people changing jobs. Since this happens all the time, there is always likely to be a minimum, frictional, level of unemployment of between 3 and 4% (higher than Beveridge's 3% due to greater job mobility.) *Structural* unemployment is caused by changing patterns of industrial and employment structure; in any dynamic economy some sectors are growing and others declining, with accompanying job gains and losses. *Cyclical* unemployment arises from inadequate aggregate demand, such as occurs in a recession. The classical definition of full employment is a situation in which anyone of adequate capacity seeking a full time job can obtain one - ie there is little or no structural or cyclical unemployment. Since most EU countries have for the last 10 years endured unemployment rates over twice the frictional rate, they have clearly been experiencing either cyclical or structural unemployment or both.

1.2.3 It has become fashionable to dismiss cyclical unemployment as a major factor. Whereas Keynes argued that governments could, and should, take action to limit the ups and downs of the trade cycle through demand management, the prevailing conservative view has been that governments abuse this power and that their actions exacerbate rather than ease the problems of unemployment.

1.2.4 Yet the role of government is seldom neutral. The Conservatives' cuts in interest rates and income tax in 1987-88 played a

major part in the over-expansion of the UK economy in the late 1980s, while over-reaction to the boom led in the early 1990s to an unnecessarily deep and long recession. Similarly in Europe as a whole, the Bundesbank's very cautious approach to interest rates in the 1980s and its continuing tight stance throughout the period of German unification undoubtedly affected levels of unemployment. As the European Commission's 1993 White Paper *Growth, Competitiveness and Employment* recognises, both in Britain and in the rest of Europe some part at least of the current unemployment would traditionally have been described as cyclical - ie it would disappear if governments took action to expand demand.

1.2.5 However, the fact that in 1988-89 UK unemployment failed to fall below 7% even at the height of the boom confirms that structural unemployment is also to blame. The phenomenon of old industries declining and shedding jobs before new industries can expand to take up the slack has been part of the dynamic of growth ever since the industrial revolution. However, the process is not a smooth one. Industries tend to decline faster in periods of recession and new industries grow faster in periods of boom. This suggests some linkage between cyclical and structural unemployment.

1.2.6 Developments in science and technology also influence the rise of new industries - and the decline of old - and these too do not occur smoothly. Major scientific breakthroughs are random events which have knock-on effects of great magnitude. The development and application of new technologies both affects and is affected by what is happening in the economy. The diffusion of a new technology depends crucially on firms being prepared to invest and take risks - which tends not to happen in the depths of a recession, when firms often cut back on both investment and R&D expenditure.

1.2.7 It is often suggested that the new technologies being introduced today, especially those associated with computerisation and

automation, are by their nature labour-saving and therefore destroy jobs. While in particular instances this is true, the history of industrialisation has to date been one of *creating* jobs overall. New technologies increase the output of those in work, which in turn means either increased earnings or less work time, or in practice usually both. The extra spending from higher earnings in turn creates more jobs, but not necessarily in the same areas. Much of the extra earnings generated during the 1980s from computerisation, for example, was spent on homes and gardens and new jobs were created in DIY stores and garden centres. This creation of new jobs from higher spending has happened time and again since the industrial revolution.

1.2.8 There are, however, two caveats. First, the *time dimension*. It takes time for the extra incomes created by using new technologies to 'trickle down' through the economy and create new demands. The pace will be influenced by investment, not only in the replacement of old plant and equipment, but also in the new skills and working methods needed to make use of it. Second, the *international dimension*. No modern economy exists in isolation. If Britain's competitors are picking up and using new technologies faster than British firms then they may well be in a position to offer the same quality goods at lower prices.

1.2.9 While the application of new technology in Britain *will* generate extra earnings, therefore, those earnings will only create new jobs at home if British industry is competitive with overseas producers. And the UK has a poor record both in investment in education and training, and in picking up and using new technologies. British firms' inability to compete has tended to push them into the lower technology end of the market, into which many newly industrialising countries are moving and where price competition is very intense.

1.2.10 There is, therefore, no neat divide between the structural and cyclical aspects of unemployment. Low levels of investment which characterise periods of recession limit the take-

up of new technologies. What is more, firms, preoccupied with maintaining profits, often see that part of the investment which is most critical to the introduction of new technologies - research, development and training expenditures - as the most expendable in times of crisis. In turn this limits the adaptability of the economy in the upturn.

1.2.11 Take the example of training. In some skills, shortages are present even in the middle of recession, with the result that when activity begins to pick up the shortage becomes acute. When this happens, employers will raise wages and salaries in their efforts to attract skilled staff and thus create inflationary pressures at an early point in the cycle. (Bricklayers' wages in London, for example, rose by 25% in the first quarter of 1994 as the property sector pulled out of recession.) In turn inflation tends to trigger changes in policy which means that, just at the point when the economy is beginning to recover, government clamps down again, perpetuating the stop-go cycle which has characterised the British economy throughout the postwar period.

1.2.12 In other words, Britain has ended up in a vicious circle. In the long run the unemployment problem will not be cured unless the economy becomes more competitive vis-à-vis countries like the US, Japan and South Korea, which are dominating the development of new technologies. Yet it is mainly the present structural problems of the UK economy which inhibit the long term investment - in plant and equipment, R&D, education and training - necessary to cure those structural problems. What is needed is a set of policies which simultaneously tackles both the structural and the cyclical elements in unemployment and which is sufficiently adaptable to remain relevant within a rapidly changing global market.

The Liberal Democrat Approach

2.0.1 The core belief of Liberal Democrats is that every individual should have the opportunity to discover and develop his or her own potential. Millions of British citizens currently live their lives without ever knowing what they might have achieved. This is a tragedy, not only for the individuals themselves, but also for society and for the country as a whole. Britain's future prosperity depends on the success with which the skills and talents of its people can be developed and harnessed. Britain's society cannot flourish unless all its members are able to develop and contribute.

2.0.2 In 1990s Britain, unemployment is one of the biggest barriers to individuals realising their own potential - and, consequently, to the ability of the economy and of society to prosper and develop. We believe that a market-based economy is best at generating prosperity, maximising choice, decentralising economic power and stimulating innovation. However, it is clear that the free play of market forces alone will not produce the employment outcome society desires. We believe, therefore, that a key responsibility of government at all levels - European, UK, national, regional and local - is to attack unemployment, and to do everything in its power to maximise employment opportunities.

2.0.3 The Liberal Democrat approach centres around five themes:

□ *Promoting full employability:* investing in education and training to ensure that every individual is skilled and adaptable enough not to become permanently and involuntarily excluded from the workforce.

□ *Boosting employment:* stimulating the capacity of the economy to create additional jobs, by investing in Britain's neglected social and economic infrastructure, regenerating

regional and local economies and assisting small firms to grow and compete.

□ *Increasing flexibility:* improving the operation of the labour market by removing obstacles to employment and job mobility and taking radical action to bring the long-term unemployed back into economic activity.

□ *Encouraging community service:* providing the opportunity, especially for young people, to participate in and learn from 'Citizen's Service'.

□ *Enabling employees to exercise their full potential:* creating a framework of mutual rights and obligations within which everyone who works and manages will benefit - including protection against exploitation for those on the employment periphery.

2.0.4 Each of these themes is explored in the following chapters. Applied together, they form an effective package for increasing employment and improving working conditions in a fast-changing labour market. We cannot promise the return of 'full employment' in Beveridge's sense of the word; in today's interdependent world, no single national government could. In the long term, changes in society's attitudes to 'work' and 'employment', including greater recognition of the values of voluntary work and caring (topics to which we will return in a future policy paper), will in any case change the definition of this term out of all recognition.

2.0.5 But in the present circumstances there is enormous scope for action. Policies, like people, need to be adaptable and responsive. We do not believe that there is any single, simple answer, a 'magic bullet' which will solve the problem. But we *do* believe that it is the responsibility of government to promote the highest possible level of employment in today's open market economy - and that is our aim.

Promoting Employability

3.0.1 The concept of *employability* is crucial to our strategy of attacking unemployment. By this we mean that no-one should be permanently and involuntarily excluded from participating in the workforce through lack of skills. People may indeed experience periods of unemployment, but these should neither be so long nor so frequent as permanently to undermine their confidence or devalue them in the eyes of employers. Government should follow policies which maximise individuals' potential for employment, increasing their skills and their ability to adapt to different kinds of work.

3.0.2 Education and training are thus the keys to promoting full employability. All the evidence shows that, if the British economy is to be competitive in the next century, it will be necessary to pursue a policy of fostering high quality, high value added products which will require a well educated, highly (but flexibly) skilled population. Rapid technological and economic change mean that people will need a wide range of skills, among them the ability to communicate, to assess, to adapt and to work with others. Training in such skills demands a good, broad educational foundation, to provide school leavers with a confident grasp of language and numeracy. To such a base, more specialised competences can readily be added.

3.0.3 Britain's poor performance in education and training ranks as a national crisis. Only one in three of Britain's three and four year olds attends nursery school - the worst record in the EU apart from Portugal. Just 25% of Britain's 18 year-olds are in full-time education, fewer than in any OECD nation other than Turkey. Although for over 30 years successive governments have acknowledged the need to improve training, the British workforce remains poorly trained compared with other developed countries. Only one in seven of

British employees receives training from their employer.

3.0.4 In England and Wales (it is far less true of Scotland) there has been a failure to straddle the gulf between academic and vocational education. Vocational education has been the poor relation; training has often been short term and low quality, especially since the once respected apprenticeship system was largely abandoned. Recognition of the need for parity of esteem between vocational and academic qualifications is the essential first step on the road to a proper, effective learning revolution.

3.0.5 Liberal Democrats' key proposals for education are:

- A guarantee of access to pre-school education for every three and four year old in the country.
- Increased funding for books, equipment and school buildings, and for pupils with special educational needs.
- The equivalent of at least two days a week education or training for all 16-18 year-olds (see further in 3.1.4).
- An entitlement, for every adult, to a period of education or retraining at a time of their choice. Cost implications require this entitlement to be based on distance learning costs and phased in; we would start with those groups most in need, including the long-term unemployed and lone parents.
- Further expansion of universities and colleges, opening up access to higher education.

3.0.6 These proposals are set out in full in English White Paper 4, *Excellence for All*

(1992), and are not further covered here. The remainder of this Chapter deals specifically with training policy. In making this distinction, however, it is important not to understate the value of a broad general educational background. Training related to specific skills and jobs is most important, but will be far more effective if it builds on a sound educational background that teaches people how to learn and how to adapt - the key component of employability.

3.0.7 Increasing the employability of the long-term unemployed is also an important issue; in many ways people who have been unemployed for more than six months find themselves excluded from the labour market. This is dealt with in Section 5.2.

3.1 Delivering Learning

3.1.1 The needs of young people must have a central place in training strategy. Youth unemployment now accounts for a third of the unemployed, including nearly 80,000 16 and 17 year olds without a job, training place or benefits. Training must be related closely to the needs of the changing labour market. While we welcome the Government's recent announcement of modern apprenticeship schemes, the failure to provide any new resources will greatly limit their effectiveness.

3.1.2 Links between academic and vocational education and training should be encouraged at school. School-to-work programmes and apprenticeships for school leavers are necessary and effective. Without them, young people may drop out of work-based society altogether. Work experience should be part of education from the age of 14, though it must be carefully structured to complement individual learning, and should be part of each person's portfolio of achievement. Work experience will normally constitute only a small part of the school week, but it can strongly motivate pupils, especially those who cannot see the point of learning.

3.1.3 An effective Careers Service is an essential part of a modern education and

training system, providing independent and objective help and advice for school leavers and those beginning working life, in close collaboration with schools, colleges and TECs. Local authorities should remain responsible for the Careers Service.

3.1.4 We reaffirm existing Liberal Democrat policy to require employers to release their employees aged under 19 for a minimum of two days a week further education and/or training (either in-house or external) for nationally validated qualifications. Young people aged 16 to 18 who choose not to stay on at school and who do not find a job would be given a similar training guarantee by local TECs and would receive a government training allowance, subject to regular attendance. Any wages employers chose to pay to trainees for these two days would not be deductible from the Training Levy (see 3.2.2) but, if additional training was provided during the remaining three days of the week (in traineeships or short apprenticeships), costs would be deductible. We would aim to extend this entitlement when feasible; the idea of employing two young people for each full time job (with one of them undergoing training or education on any given day), for instance, is an attractive one.

Education and training are the keys to promoting employability.

3.1.5 Employers would be required to incorporate a commitment to suitable, work-related training as an express term in the individual contracts of all employees. We would build on existing schemes such as the Investors in People Standard, the National Training Awards and the National Targets for Education and Training, with the active involvement of TECs, in order to focus attention on the quality of training in companies. Trade unions would be encouraged to play an active role in monitoring quality and delivery. The government has a role in promoting good training standards and supporting relevant research; the German

Federal Institute for Vocational Training offers a possible model. We would consider creating a statutory entitlement for all employees to study leave for recognised educational or training courses.

3.1.6 Training for those out of employment is just as important. Existing schemes such as *Training for Work* have been starved of funds by central government and given a low priority by TECs. We would give local education authorities the responsibility for promoting the employability of unemployed people. Community scheme jobs funded through our Benefit Transfer Programme (see 5.2) would contain a strong element of training. We would also give unemployed people the highest priority in phasing in our entitlement to a period of education or retraining throughout life (see 3.0.5). We would end the so-called ‘21 hour rule’, which currently leads to withdrawal of benefits from anyone studying or being trained for more than 21 hours a week while unemployed.

3.1.7 The concept of individual ‘learning accounts’ has been proposed as a method of coordinating and encouraging training and education. A series of joint accounts would be established between employers and employees, or between unemployed people and the state. The accounts would be used to purchase education and training, with the individuals concerned exercising a considerable degree of choice over what courses they purchased. This idea fits in well with the proposals we have put forward above, and we welcome and encourage it.

Our objective is to encourage all companies to develop a culture in which investment in human resources is given a high priority.

3.1.8 A central requirement of any training strategy is a comprehensive set of recognised and valued qualifications. The aim of National Vocational Qualifications (NVQs) was to bring

coherence to existing vocational qualifications and to fill the gaps in their coverage; the need was seen as particularly marked at technician and craft levels. Occupational standards and NVQs have made firms think more about competences and skills, and their acceptability is growing after a difficult start. However, the system is too bureaucratic and requires a thorough and urgent review in order to establish credibility with employers.

3.1.9 We would build into the NVQ system a continuous review process to ensure consistent quality of delivery. The on-the-job assessment process depends for its success on greatly enhancing the understanding of training and assessment in the workplace and requires a drive to develop the training and mentoring skills of first-line managers and supervisors. Models of good practice should be adopted from other countries; Britain has much to learn in the areas of providing basic education and training (employability training and job-based vocational training), work experience for school students, and closer integration with educational programmes.

3.1.10 Quality assurance mechanisms should be expanded and improved to ensure that national standards are recognised and delivered throughout the country. This includes strengthened arrangements for the accreditation of training providers, higher training levels of trainers, supervisors and mentors and a unified inspection service. A proportion of the Training Levy proceeds (see 3.2.2) would be devoted to funding the training of trainers in industry.

3.2 Funding

3.2.1 The Liberal Democrat objective is to encourage all companies to develop a culture in which investment in human resources is given a high priority. In addition to the measures set out in Section 3.1, we would introduce a statutory requirement for companies to disclose their expenditure on training, broken down by staff grade, in their published accounts and financial statements.

3.2.2 Industry currently possesses an uneven level of commitment to training. Companies which invest substantially in training and development risk losing their skilled staff to free-riding competitors. We would therefore introduce a remissible Training Levy, a proposal recently endorsed by the OECD (*OECD Jobs Study*, 1994). We propose an easily administered levy equivalent to 2% of companies' payroll, minus their approved expenditure on training, with a minimum payment of zero. Firms would not be able to make deductions unless they offered training opportunities of approved quality to all employees. Companies employing very small numbers of people would be exempt.

3.2.3 The Training Levy would be collected through the tax system, with the net proceeds hypothecated to training and redistributed via regional governments (before their establishment, via the existing Integrated Regional Offices of government departments) to TECs, local authorities and the sector-based Industry Training Organisations. Rebates would be based on audited expenditure on training as published in companies' financial reports.

3.3 Organisation

3.3.1 Changes in structure and strategy are required nationally and locally in order to create the coherent provision of learning opportunities so clearly needed, and to forge acceptable levels of accountability. For Liberal Democrats, local delivery is crucial. Whilst the 82 Training and Enterprise Councils (TECs) in England and Wales, together with the 22 Local Enterprise Companies in Scotland, have varied greatly in their effectiveness, we support the concept of giving responsibility to local bodies for developing training provision based on local needs and linked to enterprise development - within the overall coordinating framework of local and regional authorities.

3.3.2 TECs have had a mixed record. Their roles in training and economic development have been confused, reflecting the conflicting priorities of different government departments

rather than the needs of their localities; in economic development they can compete with local authorities and other government agencies (see Section 4.5). Their boards tend to be insufficiently representative of local businesses and the local community, and many of their chairmen have been party political appointees. TECs' reliance on short-term funding and the unnecessary restrictions placed on them by central government have discouraged long term planning and investment in high quality training.

3.3.3 We therefore believe that TECs need to be restructured. First, local accountability must be improved. Industry should continue to have the lead role, so that companies are encouraged to take responsibility for identifying and meeting training needs. However, TECs must be more broadly based, drawing on the support of small and medium as well as large businesses and working in partnership with local authorities, education and community interests. We would encourage TECs to continue to develop close working links with local chambers of commerce to minimise duplication of services, and to consult widely with local authorities, businesses and the voluntary sector. TEC boards should consist of a simple majority (instead of two-thirds, as at present) of business and industry representatives, including at least two members drawn from the small business and self-employed sector. Other members should include local authority, education, trade union and voluntary sector representation.

3.3.4 The names and addresses of board members, and regular reports on TEC activities and plans, should be widely publicised and accessible to the communities they serve. Meetings should be open to the public and agendas and minutes should be published; the possibility of public question times should be explored. Regional and local authorities should consider establishing joint committees, similar in function to Parliamentary select committees, to which TECs in their area could be answerable. Also, in the final analysis, TECs must be accountable to their funding organisation - the Department of Employment -

for the way in which they spend the £2 billion worth of public funds they currently receive. In these ways TECs would be made more genuinely accountable to the business and local community for their expenditure of public funds. Once they were fully accountable, we would distribute the proceeds of the Training Levy through them (see 3.2.2).

3.3.5 We would change the contractual arrangements for funding TECs, reducing detailed ministerial controls so that TECs could become more responsive to local requirements and remove anomalies in financial support for different groups in their localities. Restructured TECs with rolling funding would then be in a position to plan for the longer term and to concentrate on the clearly defined remit of providing skills training to individuals in employment, and enterprise support to new and growing local businesses. However, central and local government, rather than TECs, should have responsibility for training the unemployed, restoring the role of colleges of further education. It makes no sense for this responsibility to be fragmented among different agencies. Training of the unemployed could, of course, be sub-contracted to TECs by local authorities.

3.3.6 In addition to the TECs, the role of the sector-based Industry Training Organisations is important in discovering and diffusing good practice through networks which firms use.

Central funding should be available to ITOs to enable them to carry out their work.

3.3.7 We see the the role of central government as that of providing advice and encouragement on training standards and quality, support for training the unemployed, and provision of labour market information on which TECs could draw in making their plans. Policy and strategic development in these areas can be most effectively handled by a single Department for Education and Training, merging the current Department for Education with the Training, Enterprise and Education Directorate of the Department of Employment. It would of course be essential for this Department fully to consult with employers and employees in the development of training policy and strategy, and to maintain close links with the Department of Employment on labour market information and advice.

3.3.8 An adult education and training unit should be established within the new Department, with specific responsibility for liaison with local authorities and voluntary organisations, and for targeted promotion campaigns, determining quality criteria and monitoring adult provision. Additional resources would be made available to local authorities for adult education and training (see 3.0.5).

Expanding Employment

4.0.1 Along with policies which maximise employability need to go policies which maximise employment. Both reinforce each other. Investment in infrastructure and investment in education and training provide jobs and build the high-skill, adaptable and competitive workforce and economy needed for future success. Neither can succeed on its own. Government therefore needs to take action to improve the employment capacity of the economy: its ability to generate new jobs both in the private and public sectors. Liberal Democrats place particular stress on encouraging regional and local initiatives as a major source of employment growth; regional and local levels of government are much better placed to judge and respond to local circumstances and needs.

4.1 Investing for the Future

4.1.1 Whereas the Conservative Government looks to consumption expenditures to fuel economic recovery, the Liberal Democrat emphasis is on *investment* - in new plant and equipment, in infrastructure, in research and development and in education and training. All such investment must of course meet the test of environmental sustainability. The proposals set out below represent a mix of macro- and micro-economic measures which meet these criteria. Investment in education and training, which itself generates jobs, has been dealt with in detail in Chapter Three. Assistance and encouragement for small and medium sized businesses, which often offer the best opportunities for new employment, is covered in Section 4.6.

4.1.2 At the macroeconomic level the crucial need is to create a stable economic climate which gives business and government the confidence to make long term decisions. Our commitment to an independent Central Bank, both for the UK and for the EU, provides reassurance that monetary policy would be geared to long term

objectives. We believe, however, that the aim of high employment levels should be written into the objectives of the Central Bank, as it is for the US Federal Reserve. Without this, monetary policy may be unduly restrictive.

4.1.3 We are also anxious to see greater consistency and continuity in fiscal policy. Liberal Democrat policy (set out in Federal White Paper 4, *Economics for the Future* (1991)) is based on the belief that over the longer run Britain needs to increase investment in relation to consumption. This means that if the necessary levels of investment are to be funded without inflation savings must increase as a proportion of national income. We are pledged to a medium term savings target in order to achieve this, which implies that, if necessary, we may raise taxes to prevent the economy from overheating.

4.1.4 We are likewise pledged to end the short-termism which is so characteristic of the Treasury and the City. Public expenditure commitments to local authorities, hospitals, universities, etc should be based on a rolling forward commitment so that these bodies can make plans and investments for the future, confident that they will not find, as happens at present, that their funding is arbitrarily changed from one financial year to another. The private sector should be encouraged to reinvest a greater share of its profits. The presence of a core of independent non-executive directors on plc boards, for example, would encourage a more long-term view, as would the adoption of the 'stakeholder' concept put forward in the recent interim report of the RSA's *Tomorrow's Company* enquiry.

4.1.5 In the modern world, there are limits to the degree to which national economies can reflate unilaterally. We endorse in principle the proposals made in the European Commission's White Paper *Growth, Competitiveness and Employment* (November 1993) for a programme

of investment in trans-European transport and energy networks, telecommunications information highways and environmental projects. We condemn the Government's negative response to the paper; we would ensure that Britain played a full part in implementing these plans. We further propose a major package of aid and technical assistance for Eastern and Central Europe, particularly in technologies which promote environmental sustainability. This would not only assist the recovery of those economies, and the stability of their democracies, but boost the recovery of Western industries and exporters.

4.1.6 We would also put in hand a programme of public investment in the UK. The present Government's neglect of Britain's public assets is undermining its future capacity for employment and prosperity. We would provide support for transport infrastructure and construction programmes in education and health and local authority housing (funded by the release of capital receipts). Research, innovation and design should be encouraged in the public and private sectors.

4.1.7 We would encourage investments in technologies which contribute to cleaning up the environment and developing a sustainable lifestyle. As is made clear in Policy Paper 8, *Agenda for Sustainability* (1994), we believe that it is both desirable and feasible that Britain and other economies shift to a more sustainable pattern of development. This implies a reduction in energy consumption, a shift from private to public modes of transport and an appreciation of the value (as well as pleasure) to be derived from the biodiversity of the planet. Investment will be required in areas such as home insulation, public transport, sewage and water facilities and the active promotion of research into clean (energy efficient, non-polluting) technologies. A shift in the burden of taxation from employment to pollution and resource depletion is necessary to create the appropriate incentives (see 5.1.6).

4.1.8 These moves towards sustainability will help, not hinder, economic prosperity. Environmental protection projects tend to be

labour-intensive, helping to create new jobs; an increase in energy efficiency will boost the competitive edge of British industry; and there is an expanding new market in pollution control equipment and environmentally sensitive technology in which domestic businesses can thrive. Taxing pollution rather than employment will at the same time help create jobs and contribute to sustainability.

4.1.9 These proposals amount to a substantial increase in public investment. This is crucial to long-term success but would also in the short term help get people back to work. It remains a tragedy that the present Government has both squandered the revenue from North Sea oil which should have been invested in the country's future, and ignored the opportunities for cost-effective investment during the trough of the recession. The legacy of the Government's mismanagement of the economy means that it is unlikely that investment could be as high or as rapid as we would wish. Nevertheless, our commitment is to increase the proportion of GDP committed to such long term, benefit-yielding investment.

4.2 The Social Benefits of Employment

4.2.1 A society whose members feel safe from the fear of crime, care for one another and enjoy a healthy environment is a society that offers a good quality of life. The present arrangements for public expenditure calculations make only inadequate allowances, however, for the environmental effects of policy decisions and very little for such factors as crime, vandalism and the results of social neglect. In many cases this is very clearly counterproductive: wards with desperately overworked nurses, unstaffed railway stations and housing estates without caretakers can be inhumane and often dangerous places. In many instances, as in the last two examples, staffing reductions encourage opportunistic crime and vandalism, and may well cost more in the long run in maintenance and repair and revenue foregone than the savings obtained from lower staff costs.

4.2.2 Liberal Democrats believe that government should adopt a holistic approach, taking full account of the social and environmental impact of its programmes. Public sector programmes, at national, regional and local levels, therefore need to be subjected to social and environmental cost-benefit analysis studies, showing the uncoded benefits (and costs) of a given item of provision. By ignoring these effects, current public expenditure calculations are effectively biased towards savings costs, usually of labour, irrespective of the resulting disbenefits. At the same time as ensuring that public money was used efficiently, this would also create worthwhile jobs. Employing caretakers in council house blocks, for example, instead of merely fitting entry phones, would reduce vandalism and maintenance costs as well as providing a better service.

4.3 Regional and Local Economies

4.3.1 One of the major problems of the UK is the relative lack of dynamism of its local and regional economies. In most western nations, autonomous regional and local governments enable and encourage local communities to innovate, to mobilise their resources and to create jobs. In federal countries like Germany and the USA much of the effort to create new jobs is undertaken at state and local level. Local employment initiatives and partnerships between elected local authorities and the private and voluntary sectors are among the most promising approaches. In Britain, centralisation of control over local government has killed much of this diversity and left little or no financial discretion in the hands of local bodies. As a result, local initiative and enterprise has been stifled.

4.3.2 Unleashing the power, imagination and commitment which lie dormant in Britain's communities is essential for long term economic recovery. Liberal Democrats therefore aim to decentralise political power throughout the UK. Not only will this regenerate British democracy, allowing ordinary citizens to participate in the institutions which govern their lives; it will also

revitalise local economies, spreading prosperity and generating employment.

4.3.3 We propose the creation of a federal framework of government for the UK, within which as much power as feasible is exercised by Scottish, Welsh and English Regional parliaments. Power should be further decentralised to most-purpose local authorities, and to lower tier neighbourhood councils, based on natural communities and the wishes of local people. Elections to all these bodies would be carried out by proportional representation, ensuring that they properly reflected the communities they were elected to serve. (See further in Federal White Paper 6, *Here We Stand* (1993).)

4.3.4 National, regional and local authorities would be responsible for raising much of their income from their own sources - which implies the decentralisation of significant powers over taxation. This would both ensure that the authorities were genuinely accountable for their spending decisions, and help unlock the potential and creativity of local communities which is now bottled up by the dead hand of Treasury control. Our proposals for investment in infrastructure (see 4.1), and encouragement for the dispersal of public agencies and businesses, in part through harnessing the potential of distance working (see 5.4.4), would also help to bring about greater regional independence and an economy less centred on South East England.

4.3.5 The system of finance for industry should similarly be decentralised. EU regional funds should be used for their intended purpose of stimulating new development to reduce regional inequalities, not to finance UK expenditure which has already been programmed. Legislation should be introduced to enable local authorities, individually or jointly, to invest more widely in local jobs and services; spending limits should be raised to allow them to provide matching funds for EU finance.

4.3.6 There is currently a plethora of agencies, authorities and schemes operating at regional and local level to promote employment,

training and enterprise. Increasingly since 1979, central government has channelled much of its spending on local economic development through schemes which it can directly control or through non-accountable quangos such as Urban Development Corporations. In contrast, we believe that elected regional and local authorities are generally in the best position to oversee local economic development and respond to the needs of local industry. While there is a case for specific agencies, such as urban development corporations or local enterprise agencies, to bring together public, private and voluntary sectors, in general we believe that elected and accountable bodies should take the lead role on economic development.

4.4 Regional Initiatives

4.4.1 Liberal Democrats' first priority in the decentralisation of power is home rule for Scotland and Wales. We would also create the framework for regional government throughout England, but we recognise that not every region might wish to take advantage of it at once. In all areas in which regional government was not set up immediately we would therefore establish regional development agencies (RDAs). Modelled on the successful experience of the original Scottish and Welsh Development Agencies, the Northern Development Company, Lancashire Enterprises and similar bodies, RDAs would be responsible for overseeing and coordinating economic development in their regions, adopting structures and mechanisms appropriate to local needs.

4.4.2 Local authorities and businesses are increasingly realising the disadvantages of the UK's lack of a regional tier of government. These derive both from the inability of either central or local government to guide effective regional development and from impaired communication with the European Union, all of whose larger member states possess a regional tier. Much of the EU's development funds are intended to be routed through regions, and often they are dependent on matching funds, which UK government policies do not allow. Regional local authority groupings are increasingly

coordinating their approach to the EU; we welcome and encourage this development.

4.4.3 Guided by a regional council drawn from elected county and local councillors, RDAs would consult fully with business, education and employee representatives in drawing up and implementing a regional economic development strategy. They would be responsible for:

- Taking over the work of the recently-established Integrated Regional Offices, thereby making regionally based civil servants accountable to their regions.
- Administering and reforming the Single Regeneration Budgets, currently controlled by the civil service regional directors.
- Liaising directly with the European Commission to ensure that available funding was fully taken up.
- Channelling funds to local TECs and Business Links and ensuring that their plans took account of the regional strategy.
- Developing regional inward investment strategies - incorporating the inward investment agencies currently funded by the DTI - to promote regional investment strengths and identify and assemble available land for development purposes.
- Facilitating technology transfer and cooperation between local small businesses and higher education institutions in marketing, research and development.
- Taking initiatives to develop new regional sources of finance and harnessing the investment powers of local authorities, enabling local savings to be used to finance new and expanding local and regional ventures through regional equity, loan and banking systems.

Many of these activities are explained at more length in regard to urban areas in Policy Paper 2, *Reclaiming the City* (1994).

4.4.4 We envisage RDAs only as interim structures until elected regional authorities are established. Once this was achieved, RDAs would be absorbed as economic development departments of the regional governments.

4.5 Local Action

4.5.1 Local initiatives and resources must be mobilised to create effective employment and training initiatives, creating high quality jobs and increasing local employability. To this end, local authorities should be given statutory responsibility for coordinating the framework for local economic development, delivered in partnership with the private and voluntary sectors and with restructured TECs (see 3.3). Programmes should be delivered at the lowest effective level with maximum local flexibility.

4.5.2 Within this framework, the primary objectives of local employment policies should be to:

- Create a strategic partnership forum in which the public, private and voluntary sectors can jointly decide economic strategies and implement proposals.
- Raise the skill levels of the local workforce, with close cooperation between TECs, local authorities, schools, colleges and employers.
- Enhance the ability of local small and medium sized businesses to develop, market and export their goods and services.
- Focus assistance on areas of greatest local need, generating new employment opportunities and supporting those most affected by unemployment and deprivation; this includes administering community employment schemes for the long term unemployed (see 5.2.4).
- Assist and empower local communities and voluntary bodies to develop their own employment initiatives - such as community businesses or Local Exchange and Trading Schemes - and regeneration schemes.

- Provide location advice and facilities, including where possible access to land and premises, for developers coming into the locality to create employment.

4.6 Small Firms

4.6.1 Local employment initiatives will be far more effective in bringing down unemployment if they are associated with national measures to help small and medium sized enterprises. Small firms generate three quarters of all new jobs in the UK. Firms employing 25 people or less account for 31% of private sector employment, while a further 38% are in firms with between 25 and 200. The number of self employed, many of whom start small firms as they take on employees, has been growing rapidly.

4.6.2 The small firms sector is dynamic but volatile; some, though not enough, grow to become new medium sized businesses, playing a key role in regional economic growth as well as acting as suppliers of larger firms and sources of innovation. Many small firms develop as niche providers of goods or services; in Japan, for example, two thirds of jobs are in small firms that provide inputs to larger ones. Small firms inject competition into the market while providing a base for economic growth; one of the elements which attracts new large firms into an area is the existence of small firms capable of supplying them. Where they do not exist, a larger firm may even develop a strategy to create them, as has Nissan in North East England. The smallest of small firms, the self-employed, have the advantage of individuality and flexibility.

4.6.3 Small firms do, however, suffer from a number of problems which their larger counterparts do not. Government regulations, for example, impose a relatively greater burden on small businesses. Small firms have much greater difficulty with access to capital and finance; with little market power, they are at the mercy of the banks, their customers, and their suppliers. They suffer particularly from the problems of late payment of debt. The various government schemes designed to help small businesses have in general failed to have much, if any, impact. We would act to tackle these problems.

4.6.4 For many small firms, the administrative burdens of PAYE, national insurance contributions, statutory sick pay and maternity pay provisions are often seen as reasons not to employ further workers. Our proposed integration of income tax and employees' NICs (see Policy Paper 7, *Opportunity and Independence for All* (1994)) would help reduce the administrative burden. The administration of statutory sick pay and maternity pay should be removed from firms with 25 employees or less.

4.6.5 The VAT system is a major barrier to growth for small firms, since once the threshold is crossed VAT becomes payable on all turnover, including that previously below the threshold. We would therefore examine the feasibility of a small firms basis for calculating VAT, whereby a small business would be able to retain a proportion of net VAT. Where VAT is paid late, Customs & Excise should charge interest at no more than commercial rates.

4.6.6 We would legislate to make interest payable on overdue payments owed to companies and require such payments to be published in annual reports. In addition, company accounts should include figures on disputed bills, which are often a way of delaying payment. The Unfair Contract Terms Act, which enables customers to challenge unfair terms imposed by the suppliers of goods or services, should be extended to protect small businesses dealing with large ones.

4.6.7 New sources of finance are needed to enable small businesses to survive and thrive. We would encourage banks to grant loans against the security of future returns, and investigate new ways of providing equity. Mutual guarantee schemes, in which businesses form consortia to guarantee each other's loans, are common in continental Europe but rare in the UK; we would provide assistance and advice in forming them.

4.6.8 Research shows that only a small proportion of small firms currently generate

significant numbers of new jobs. Efforts need to be made to identify and dismantle the barriers to growth. Recent research suggests that the best time to encourage the growth of small businesses is two to three years after start-up, when they are seeking to expand premises, appoint new staff and look for new marketing opportunities; we would aim to target intervention to this period. A further concept worthy of support is 'personal business advisers' trained in diagnostic techniques to look at a business and identify the barriers to growth.

4.6.9 TECs have an important role to play in encouraging small businesses. Many are developing 'Business Links', often in association with local Chambers of Commerce and Local Enterprise Agencies, to provide advice, training and other services to local business. We have long favoured the 'one-stop shop' concept and welcome this belated move towards the strengthening and simplification of local business support services. In some areas, there may also be a role for Community Enterprise Agencies, concentrating on assisting a wider range of enterprise opportunities - such as helping local people set up cooperatives or community enterprises, for example, and targeting support on minority ethnic businesses.

4.6.10 Government, both local and national, is a large consumer of both goods and services and can strongly influence the market by this means. In the USA, 10% of purchases by government bodies must be from small firms. We believe this is a model worth following; public bodies should be required to publish details of the firms winning tenders and, where less than 10% of the purchases are accounted for by small local firms, an independent assessor should be required to examine the way in which tenders are put together, as well as the criteria for various levels of tender. This would ensure that public authorities do not create artificial barriers to small firms trying to compete for their business, and would help to keep money in local areas, sustaining local jobs.

Increasing Flexibility - New Hope for the Unemployed

5.0.1 European economies tend, in general, to be less *flexible* than that of the United States. The US economy produces far more new jobs than the EU, and Americans who become unemployed face, on average, much shorter spells out of work. This has been achieved, however, at the price of much greater levels of inequality. Pay differentials are much wider in the USA, and welfare benefits are less generous and are withdrawn more quickly than in Europe. Unemployment is kept down only at the cost of poverty and insecurity.

5.0.2 The approach of the present Government appears to be to try to deregulate the labour market ever further, on the assumption that people can 'price themselves back into work' if real wages and non-wage costs are lowered. But without much higher levels of investment in education and training, the result is likely to be a widening divide between those in well-paid full-time work and those in poorly-paid, ill-protected and precarious employment. Any new jobs created are likely to be part-time and temporary.

5.0.3 Moreover, this approach is self-defeating; the costs of Britain's social infrastructure - including employment protection, social security, and health care - are so much higher than those of the newly industrialising countries of South East Asia that labour costs cannot realistically be driven down far enough to allow for real competition. Nor would this create a society in which most people would wish to live. As the 1994 *OECD Jobs Study* stated, "*new jobs, particularly in tradable goods industries, will increasingly have high knowledge requirements. In a globalised world, OECD countries cannot cling to low-wage-labour products in the face of competition from low wage countries. The main*

way to job creation in OECD countries must be through improved productivity in firms that have a solid capacity to innovate and use technology effectively."

5.0.4 This, in essence, is the Liberal Democrat approach. We explain in Chapter Three how we aim to create a highly skilled workforce able to produce high value-added products. As well as promoting *employability*, however, education and training also increase the *flexibility* of the labour market: they create a workforce capable of responding positively and rapidly to change and innovation, and individual employees who are able to change jobs and even careers in response to changing conditions.

5.0.5 Labour market flexibility also needs to be increased through:

- Removing obstacles to employment and job mobility - primarily those resulting from the tax and benefits systems.
- Providing mechanisms to bring the long term unemployed back to the labour market.
- Ensuring a social and economic environment in which people can switch jobs without fear of protracted unemployment.
- Encouraging flexible patterns of work, including work sharing and distance working.
- Providing a framework of basic employment rights which reassures people that greater flexibility does not mean increased exploitation (see Chapter Seven).
- Encouraging the decentralisation of wage bargaining, subject to appropriate protection for the low paid (see Chapter Eight).

5.1 Tax and Benefits Policy: Creating Opportunities

5.1.1 The tax and benefits system is in need of comprehensive reform, not least to reflect the structure of today's labour market. The system currently tends to create dependency rather than encourage independence. High marginal tax rates and benefit tapers for individuals and families living on benefits positively discourage them from taking paid jobs, especially part-time work. Liberal Democrats propose to reform the tax and benefits system to help people back into jobs and to remove the disincentive to working. Our proposals are set out in full in Policy Paper 7, *Opportunity and Independence* (1994).

5.1.2 Benefit entitlement should be assessed on a more flexible basis, so that people with casual jobs would be able to claim benefit more easily for periods when they do not earn anything. We propose to replace Income Support and Family Credit by a single Low Income Benefit, withdrawn at a taper of 70% of net income. We would end the so-called '21 hour rule', which currently leads to withdrawal of benefits from anyone studying or being trained for more than 21 hours a week while unemployed.

5.1.3 The cost of child care is a major barrier to taking employment. It can make work financially unrewarding, particularly for lone parents, trapping many women in unemployment. We therefore give a high priority to helping parents meet the costs of child care. We would:

- Apply to Low Income Benefit the child care disregard which the Government has allowed in calculating Family Credit entitlement.
- Extend the present tax relief on workplace nurseries to other forms of child care should employers wish to offer help in this way.
- Dependent upon resources, extend this principle further to offer child care vouchers to all employees, allowing them to claim tax

relief on the costs of child care by an approved nursery or childminder.

5.1.4 Flexibility would be encouraged further by the introduction of a flexible 'decade of retirement' to enable older people to start drawing a pension at any time between the ages of 60 and 70, receiving a higher pension the later they started to draw it. We would also ensure that employees changing jobs did so without fear of reduction in pension rights. (See Federal Green Paper 31, *Retirement with Dignity* (1993)).

5.1.5 Tax systems also discourage employment. Employers' national insurance contributions (NICs) are a tax on jobs which has become proportionately heavier over the last 20 years compared with income tax. We would simplify the NIC structure, replacing the current complex pattern of thresholds with a simple percentage payment of payroll. This would remove the incentive to employers to keep their staff on very low wages (below £57 per week). It would also reduce the administrative burden on employers, as they would simply have to remit a percentage of their total payroll instead of computing a contribution for each employee.

5.1.6 In the longer run, we would shift the burden of taxation from employment to resource depletion and pollution. In general throughout the last two decades, Western economies have raised taxation on employment and lowered, or failed to raise, taxation on resource use. Yet unemployment is far too high and incentives to reduce pollution and resource depletion far too low. We therefore propose that taxation of employment - specifically, the level of employers' NICs - should be reduced, counterbalanced by the introduction of an EU-wide energy/carbon tax to ensure that energy users bear the costs of the pollution they cause. (See Policy Paper 8, *Agenda for Sustainability* (1994).)

5.2 Working Benefits

5.2.1 The worst social and economic damage is caused by long term unemployment. Skills and work habits are lost, confidence destroyed and

dependency increased. At the same time the long term unemployed are at a disadvantage in the labour market because employers believe that someone out of work for so long is a bad risk; the process feeds upon itself. Furthermore, their effective exclusion from the labour market means that labour shortages - and inflation - can reappear very quickly with recovery from recession, even with high levels of unemployment.

5.2.2 As a means of reversing this process, Liberal Democrats advocate the introduction of a Benefit Transfer Programme, based on a proposal originally devised by Professor Dennis Snower. Social security benefits payable to the long term unemployed (those out of work for more than six months) would be converted to vouchers payable to employers who took them on. Based on 1993 figures, the maximum initial value of the voucher would be £150 per week, reducing by £1.50 for each week of employment, thereby avoiding an open-ended commitment. The cost to the state would be negligible, and always less than the total of benefit and tax revenue foregone (an average of £173 per week). Rather than paying people to stay on the dole, the programme pays them to work.

5.2.3 To benefit from the scheme, employers would have to pay wages at least equal to the value of the voucher. They would only be eligible if they proved that the new employees were genuine additions to their workforce, to avoid displacement of existing workers. A crucial requirement of the scheme is that employers would also be required to provide training for the new employees, who may have been so long out of the jobs market that working habits had been lost. Careful monitoring of the scheme would be essential.

5.2.4 Although primarily aimed at the private and voluntary sectors, the voucher would also be applied to jobs on community programmes, such as the current Restart and Community Action schemes. Additional funds could be provided to raise wages above benefit levels, with the scheme being run by local authorities and public and voluntary agencies, with central government providing finance. As above, the provision of

training is essential. The operation of the schemes themselves would benefit from a partnership approach with the private sector, with employers involving themselves in design and management, so as to better prepare participants for eventual jobs in private firms.

5.2.5 The key objective of the Benefit Transfer Programme is to take positive action to give the long term unemployed an advantage in the labour market and increase their long term employability. Even if some displacement of existing workers were to occur, the restoration of hope, confidence and working capacity to individuals who would otherwise be almost permanently excluded from the workforce makes it worthwhile, increasing both employability and employment. The Government's half-hearted experiment with the idea, in the Workstart pilot schemes introduced in March 1993, is much too limited, fails to require training, and offers a voucher of too low a value. (In fact, on one of the pilots where the eligibility rules were relaxed, the results were much more positive.)

5.3 Increasing Mobility

5.3.1 Employment services, both public and private, have an important role to play in increasing the flexibility of the labour market. Advice and guidance should be available both to people changing jobs and to those who are unemployed. Everyone who has not found a job within one month of becoming unemployed should have their own named counsellor, whom they should be able to consult regularly. Adequate funding should be provided to ensure that the burgeoning adult guidance networks, developed by TECs through the *Gateways to Learning* initiative, can deliver a high quality service to all parts of Britain.

5.3.2 An inflexible housing market, with a paucity of rented and council housing, throws up obstacles to labour mobility and thereby employment. Our proposals for the reform of housing benefit and mortgage interest relief, set out in Policy Paper 7, *Opportunity and Independence* (1994), and for support for partnership housing, described in English Green Paper 6, *A Place to Live* (1993), will help to

break down these barriers and enable people to move more easily to the places where jobs are available.

5.4 Flexible Working Patterns

5.4.1 Today's employees adopt a much greater diversity of patterns of employment and work than do their predecessors. Indeed, Britain exhibits a greater range of working patterns than any other EU country. Only 10% of British employees work the once-standard 40 hours a week, compared to 72% of Spanish workers.

5.4.2 However, record levels of overtime (paid and unpaid) are still being worked by those in secure employment and there is considerable scope for new initiatives to reorganise working time to create new jobs, improve productivity and assist individual employees. Flexi-time, career breaks, job sharing, annualised hours and other kinds of flexible working patterns should be encouraged: they help individuals to live their lives in the way they choose, and enable employers to experiment with different, and more productive, methods of working.

5.4.3 The potential of work sharing is attracting increasing interest. In Germany, Volkswagen recently introduced a four-day week along with a 10% pay cut; no new jobs were created, but the company claimed it had saved 31,000 jobs that would otherwise have been eliminated. In France, a subsidiary of the computer company Hewlett Packard introduced a more flexible four-day week for workers and started to run the plant seven days a week round the clock rather than in shifts. Production tripled, employment rose by 20% and earnings remained unchanged.

5.4.4 There are good reasons for encouraging reductions and increased flexibility in working time. Work sharing can create new jobs, though only if unit costs are contained; and there may be productivity gains from changing working methods. Many full-time employees would prefer to work shorter hours at different times in their lives, particularly when they have caring

responsibilities - such as mothers with small children. We would therefore directly encourage more flexible patterns, job sharing and family-friendly employment practices in the public sector. In the private sector, we would establish the right of employees approaching retirement age, or with responsibilities for young children, to negotiate a reduction in hours worked or a career break.

5.4.4 Flexibility should also be encouraged in the *place* of work. The rapid development of information and telecommunications technology now allows up to a million people to 'telework' from home or from a neighbourhood centre full- or part-time, and a further half a million to telecommute, taking work home occasionally. The potential for such 'distance working' is increasingly being realised: many business and financial services sector jobs could be carried on in this way, together with administrative and clerical jobs; 10% of employers currently use teleworkers. The scope is international; workers in Ireland currently process insurance claims from the western USA, operating overnight by US time. The potential for expanding education, particularly distance learning for adults, is obvious.

5.4.5 Distance working offers both opportunities and problems. The opportunities include substantial environmental and social benefits from the reduction of time and fuel spent on commuting, and encouragement for the growth of communities where people live and work in the same area. Problems include possible health and safety risks and reduced social contact. The practical difficulties of working from home and looking after children at the same time are often overlooked. Distance working can often be more manageable if it forms only a part of a job or if instead of working from home the distance worker uses a neighbourhood centre (or 'telecottage'). Government should therefore encourage the development both of the necessary telecommunications networks, and of local 'telecottage' centres providing equipment and facilities, and training in their use.

Citizen's Service

6.0.1 Liberal Democrats proposed the establishment of a community volunteer scheme in 1993 (in the paper *Facing Up to the Future*). Its aim was to break down social barriers, encourage more citizen involvement in public service, promote the development of social skills and a sense of responsibility and help unemployed people learn skills and boost their self-esteem. It was particularly targeted at young people.

6.0.2 The new US national community service scheme, introduced by the Clinton administration, has succeeded in building a partnership with the private sector to recruit high school leavers and young graduates, as well as young unemployed people from inner cities, and to help meet the costs involved. In some areas the number of volunteers exceeds the number of places available.

6.0.3 Our proposed Citizen's Service would give the opportunity for any individual, but especially young people, to give one or two years' community service for environmental projects, housing renovation, crime prevention or social services - supplementing, not replacing, existing jobs. It would be promoted and funded by central government, where possible in

partnership with the private sector; local authorities and voluntary organisations would organise the scheme. Training would be an important element, as an essential complement to our proposals to promote employability and flexibility.

6.0.4 Volunteers would receive a basic allowance whilst on Citizen's Service. Those who successfully completed a full two years would receive financial help with education or training courses of their choice, over and above their existing entitlements; the experience gained on the scheme would also count towards various skills requirements. In due course we would expect the scheme to be widely taken up, and the experience gained to be valued by employees and employers alike.

6.0.5 A recent Community Service Volunteers report estimated that the gross costs of a scheme involving 250,000 young people a year (excluding post-scheme benefits) would be £773m pa; but taking into account savings from increased employment following involvement, and reduced crime, the net costs fell to only £300m. Such an investment, we believe, is both worthwhile and necessary.

Citizens at Work

7.0.1 Employability, flexibility and employment are all underpinned by the creation of a work environment in which people feel fulfilled in fairly rewarded, satisfying jobs that maximise their potential. We therefore aim to build a framework of employment rights and responsibilities which provides access to consultation, participation and, where appropriate, ownership, for all members of the workforce.

7.0.2 Not only will this approach help to liberate individuals' talents, it will also contribute to improving economic performance, employability and adaptability. The most successful companies are those which know how to involve and motivate their employees by ensuring that they have a real say in decision-making, a share in the ownership of their enterprise and in the profits they help to create. We aim to create a climate in which management and employees come to share a common interest in the future of their enterprise and a joint commitment to success.

7.0.3 This climate is also necessary to underpin our proposals for increasing flexibility (see Chapter Five). In the name of flexibility, some employers have abused their rights by pressuring employees to switch from a permanent pensionable job to a short-term contract, for example, or by offering only a series of contracts just under the qualifying period for protection against unfair dismissal. The framework of employment rights we aim to create would encourage *flexibility* without allowing *exploitation*.

7.0.4 This requires a positive legal framework which encourages and rewards companies which take a long-term view of their profitability; which have regard to all their stakeholders; and which invest in their workforces as a positive asset. We seek to create an industrial climate in which employees are motivated to work flexibly

and cooperatively to meet the challenges of competitive markets.

7.0.5 We would codify the laws relating to both employers and employees. Our proposed legal framework would empower employees within the workforce, giving them both negative, or protective, rights enforceable by law, and positive rights to information, participation and training. It would encourage employees to take responsibility for the environment in which they work. It applies equally to the public and voluntary as to the private sectors (with obvious exceptions, such as employee share ownership). For Liberal Democrats, this is part of a new industrial settlement which is as vital for economic competitiveness as it is for individual fulfilment.

7.1 Rights and Responsibilities

7.1.1 Employees' rights, including the right to a written contract of employment, should exist for all types of employment: full-time, part-time, casual, temporary, home work etc, where appropriate on a *pro rata* basis. In a world in which collective bargaining is becoming less and less the norm, individual rights must be the foundation on which employment protection rests. We welcome the recent House of Lords ruling that longer qualifying periods for certain employment rights in the case of part timers working for less than 16 hours a week constitute indirect discrimination. Legislation embodying this decision should be introduced as soon as possible. The right to training of adequate quality should be an express term of employment (see 3.1.5), with a matching obligation on employees to take up opportunities so provided.

7.1.2 Dismissal without proper notice should only be lawful on the grounds of gross or persistent misconduct. Reasons for dismissal should be stated by the employer in writing and

due notice given after compliance with appropriate disciplinary procedures, including proper employee representation. The qualifying period of service for claims for unfair dismissal should be reduced from two years to one.

7.1.3 Continuing efforts must be made to reduce the number of people killed or injured at work and to improve the health of the work environment. In particular, companies and individuals breaching health and safety laws must have penalties imposed on them commensurate with the gravity of the offence, including imprisonment. Employees should be empowered to exercise responsibility for monitoring and improving working conditions; but they should also be able to resign from unsafe work without suffering social security penalties, as at present. Young workers may need special health and other safeguards. The Health & Safety Executive should be properly staffed and funded in both a policing and an advisory role.

7.1.4 The current system of redundancy payments is in need of reform. It may be preferable to provide a proportion of the payment in the form of assistance with education and training, which would help the employee find another job more quickly. Similarly, payments to those starting a new business could be higher. This is a complex area but one worthy of investigation.

7.1.5 It is not enough to detail employees' rights; they must also be effectively enforced. Industrial tribunals must be given sufficient resources to act speedily and effectively. In the longer term we would consider establishing a new Industrial Court to deal with the whole area of industrial disputes, replacing the present Employment Appeal Tribunal and headed by a senior High Court judge who would be advised by expert industrial members. This would build on the experience of specialist Labour Courts in other parts of Europe which have a conciliatory, as well as an enforcement, role. Meanwhile we would provide additional resources for the Advisory, Conciliatory and Arbitration Service (ACAS), which has recently been forced to cut back its vital advisory work.

7.1.6 Many of the rights we propose would be an automatic entitlement if the UK supported the European Community Charter of Fundamental Social Rights and its developing Action Programme (the 'Social Charter'). The UK Government has blocked EU directives in a number of important areas, including employee participation, information and consultation, protection of part-time and temporary workers, parental leave and leave for family reasons, maximum working hours, and protection for young workers, on the grounds that they would conflict with its deregulatory policies.

7.1.7 Liberal Democrats believe that the Conservative Government was wrong to opt out of the Social Protocol of the Maastricht Treaty (commonly known as the 'Social Chapter'). By so doing, it surrendered UK influence on its development. Any British company which employs significant numbers of workers overseas will have to abide by its terms in any case, and in fact most of Britain's leading companies already do so. There is no evidence whatsoever that adherence to the Social Chapter would deter inward investment; indeed, the OECD's recent *Employment Outlook 1994* flatly contradicts the Conservatives' view that high labour standards destroy jobs. We would reverse Britain's opt-out from the Social Chapter.

7.1.8 We also wish to improve the protection of workers outside the EU. The International Labour Organisation has worked for 75 years to promote effective standards of labour protection. The present Government has given little support to its work or to the USA's proposals to include minimum labour standards in trade liberalisation. We would reverse this attitude; we will cover this topic in depth in our forthcoming policy paper on International Trade.

7.2 Discrimination in Employment

7.2.1 No-one should be denied access to employment or be hindered in their working lives because of matters which are irrelevant to their ability to carry out their work. In particular, we

assert the right of people not to suffer discrimination when seeking work in other member states of the EU. People are also discriminated against by employers and fellow employees for reasons which are not relevant to the job in question. This is not only both unjust and debilitating for the victim but also economically inefficient.

7.2.2 Discrimination must be tackled in all areas of life. We agree with the Commission for Racial Equality's statement that "*on its own, the law cannot create good race relations or change people's minds. But without good law there will be no change*". The UK currently has legislation against discrimination in employment on the basis of gender, race, disability, religion and trade union membership and non-membership. However, these laws are limited: the Fair Employment Act (religious discrimination), for example, only applies to Northern Ireland, while quotas for people with disabilities are not enforced. Denmark has comprehensive legislation on sexual orientation and the USA on disabilities. France has some legislation against age discrimination. The EU has required its members to adopt a uniform level of protection against discrimination on the basis of gender but there has been little movement towards a comprehensive approach to other forms of discrimination.

7.2.3 Comprehensive legislation is therefore needed in the UK, banning discrimination for reasons unrelated to the job: gender; race; religion; age; sexual orientation; disability; trade union membership or non-membership; spent criminal convictions (except for specific posts); and political beliefs. The Sex Discrimination Act, the Race Relations Act and the Fair Employment Act all have the same basic structure and approach, but the last, suitably updated, is the best model for anti-discrimination legislation in the UK. We endorse the CRE's proposals for strengthening the other two Acts to bring them into line, particularly in widening the scope of the concept of indirect discrimination, obliging employers to adopt ethnic monitoring of their workforces and encouraging local authorities to enforce contract compliance.

7.2.4 With the comprehensive approach suggested above, enforcement, advisory and monitoring duties would be given to our proposed Human Rights Commission (see Federal White Paper 6, *Here We Stand* (1993)). The approach needed for some problems unique to particular forms of discrimination would be dealt with by specialist sections within the Commission, which would gradually subsume the CRE and the EOC.

7.2.5 We would press for the same approach to be applied throughout the EU. The European Commission has attempted to make a start on race discrimination legislation but the UK Government, amongst others, has been hostile. The UK has a higher than average proportion of visible ethnic minorities, the main victims of cross-border discrimination, and has a special duty to press for appropriate laws.

7.2.6 Discrimination on the basis of disability needs a wider approach. We support legislation similar to the 1990 American law, such as the private member's bill which recently failed to pass the House of Commons. Perceived disability - such as HIV infection - should also be covered by legislation.

7.2.7 Liberal Democrats will continue to call for legislation to promote the above principles. In the meantime, there is much that can be done to promote and spread good practice amongst employers. In particular, Liberal Democrat councillors should encourage local authorities to carry out a full review of their equal opportunities policies to ensure they cover all the forms of discrimination discussed above.

7.3 Consultation and Participation

7.3.1 As we have stated in Chapter Two, the Liberal Democrat approach centres on ensuring that all individuals possess the opportunity to discover and develop their own potential. The workplace is one of the most important areas in which individuals develop their talents, and the way in which it is organised must therefore be as open and participatory as possible. Not only is

this beneficial to the individual; it is good for the company too, as firms which fully involve, consult and empower their employees are almost invariably more successful. Recent studies from the European Foundation for the Improvement of Living and Working Conditions show the positive relationship between participation and business performance, and its value in particular in the processes of restructuring and introducing new technology.

7.3.2 We referred in Chapter One to the far-reaching changes in the nature of work over the last couple of decades. With the development of new technology, and with a greater emphasis upon customer service and quality, companies need to be far more innovative and flexible in response to greater competitive pressures. Companies which innovate successfully must use effectively the abilities of employees at all levels - which requires full consultation and participation on their part. Most employees have a real commitment to making their companies work, and many sound ideas, which sadly are often ignored by more traditional managements.

7.3.3 UK law at present affords employees few formal rights of consultation or participation, even on matters which directly affect their working lives. In Germany, by contrast, employees have such formal rights. Large companies possess supervisory boards, including employee representatives, which make strategic decisions; this works well not least because it means that the onus is on management to promote consensus. All but the smallest companies have works councils, through which employees can contribute to decisions about more detailed issues. The European Commission has proposed a draft Directive which sets out requirements for the establishment of statutory works councils and other participatory mechanisms for transnational companies. This is in the process of adoption by the other 11 member states of the EU through the Social Protocol. It will inevitably impinge on transnational companies headquartered in the UK, and it is interesting that the CBI, through its European counterpart UNICE, has sought to influence its contents.

7.3.4 We believe in an enabling approach, developing the individual rights of the employee. We would therefore introduce legislation to set out each individual's entitlements, including, where appropriate, access to:

- Information.
- Consultation.
- Participation in strategic decisions.
- Participation in day-to-day decisions.
- Profit sharing.
- Share ownership.

It is this combination of consultation, participation and ownership that will best enable employees to articulate and exercise their rights as citizens at work, and offers companies the best way to realise the potential and commitment of all their employees.

We aim to build a framework of employment rights and responsibilities which provides access to consultation, participation and, where appropriate, ownership, for all members of the workforce.

7.3.5 We do not believe that government should impose a detailed single model for a participative structure as regards either decision-making or profit sharing. Industries and companies possess huge varieties of different activities, traditions and attitudes. The legislation should instead guarantee the basic rights of an individual employee in each of these areas, and establish a mechanism by which employees' demands could be satisfied in a

manner most appropriate to their employing organisation.

7.3.6 The heart of this mechanism would be an Industrial Partnership Agency, established by statute either as a separate body or as an extension of ACAS. Employees could apply to the Agency if they were dissatisfied with existing arrangements for share ownership, participation, consultation and so on. The IPA would assist and advise employers in drawing up, together with their workforces, appropriate schemes to fulfil the rights set out above.

7.3.7 The IPA would examine the proposed schemes against the criteria established in the legislation. It would exercise a substantial degree of flexibility in approving proposed structures, taking account of the practicalities of assuring employee rights within a particular organisation given its size and characteristics, and the changing patterns of work and responsibility which we identified above in Chapter One. As experience in the area developed, we would hope to see appropriate systems extended to more and more organisations, whatever their size or circumstances. Schemes would have to be agreed by management and employees; in the event of deadlock the IPA would arbitrate. Ultimate failure to comply would enable the IPA to impose a structure on the organisation.

Employee share ownership can improve economic performance where it is accompanied by greater participation.

7.3.8 As stated above (7.1.7), Liberal Democrats believe that the UK should opt in to the provisions of the EU's Social Protocol. The structures for consultation and participation agreed under the IPA procedure would therefore need to conform with EU legislation. Once opted in, however, the UK would be able to argue for the further development of the non-prescriptive rights-based approach we advocate here.

7.3.9 Co-operative enterprises offer considerable potential for member and employee involvement and are an important part of a modern mixed economy. We see a much enhanced role for a relaunched and well-resourced Co-operative Development Agency, operating on a regional basis to stimulate the establishment of new co-operative enterprises. Community Enterprise Agencies and Business Links should encourage the establishment of small locally-based co-ops, which assist retention of capital in the local economy and stronger commitment to job retention as well as fuller participation. Credit unions revive the co-operative spirit and social functions of the old Trustee Savings Bank movement, helping less financially strong communities to manage their finances collectively; we would encourage their establishment regionally and locally.

7.4 Profit Sharing and Employee Share Ownership

7.4.1 Liberal Democrats have always supported payment of profit-related cash benefits, provided that all employees are eligible and payments are not made in lieu of a basic wage. A good profit sharing scheme can increase employees' sense of identification, raise cost awareness, provide tax relief, help to attract staff, reduce the attraction of industrial action and reward employees without raising costs. We would raise the present restriction on tax exemption for profit-related pay and consider exempting payments made under a profit-sharing scheme from employers' NICs.

7.4.2 The concept of employees owning a stake in the company which employs them is an important extension of the principle of participation. There is now a wide consensus that this is a desirable objective, and that it should be given assistance by favourable tax treatment. Much credit in this area is due to the farsightedness of the Liberal Party, starting with the 1929 Yellow Book, and of pioneering

employers such as the John Lewis Partnership and the Scott Bader Commonwealth. The most significant recent advance in the UK came from a Liberal initiative during the Lib-Lab Pact, when the 1978 Finance Act introduced tax relief for approved employee share ownership schemes. The number of all-employee share schemes approved by the Inland Revenue is now just over 2,400 (July 1994), with a further 5,800 executive share option schemes for the exclusive or primary benefit of management.

7.4.3 Recent studies have shown that the benefits of employee share ownership schemes can be quite substantial. In one survey, profit-sharing firms as a group outperformed their non-profit sharing counterparts over a range of nine performance indicators. However, such studies, along with others in the US, also show that schemes only improve a company's performance where they are accompanied by greater involvement of the workforce; American companies that simultaneously instituted participation plans grew three or four times faster than companies that did not.

7.4.4 Our proposals are therefore aimed at two targets: increasing the numbers of employee shareholders *and* increasing employee participation. Participation is covered in Section 7.3; our proposals to increase employee share ownership are set out here.

7.4.5 The limits on the value of shares which may be made available to an employee in any year under an employee share ownership scheme should be increased from £3,000 to £5,000 or 10% of salary (whichever is the higher); the cut-off point should remain at £8,000.

7.4.6 Changes should be made to the present guidelines of institutional investors which prevent more than 5% of pre-tax profits per annum going into employee shares, and share dilution exceeding 1% a year. We would not permit the Stock Exchange to continue to impose its present requirement that broadly-based employee share schemes must have shareholder approval, and we would thereby remove the power of institutional investors to inhibit such schemes.

7.4.7 Executive share option schemes are designed as an incentive for senior management; they do not involve the same spread of share ownership as all-employee schemes, and in fact contribute to the increasing divergence of earnings. We regret the fact that their operation and concomitant tax reliefs were not made conditional on a company either operating them on a broad basis, or also operating one of the broadly-based schemes, particularly as five of these executive schemes have been approved for every two broadly-based schemes. We would change the law to include this requirement.

7.4.8 We also see a useful role for employee share ownership trusts. This is particularly so when there is a significant change in the ownership of an unquoted company (whether or not it involves flotation), and it is desired to vest ownership of the share in a vehicle which benefits employees generally. We would add to the existing tax incentives by encouraging owners to transfer businesses to their employees, rather than selling them on the market. This will be assisted by our proposal (in Policy Paper 7, *Opportunity and Independence for All* (1994)) to replace inheritance tax duty with an accessions tax on the beneficiaries, thus encouraging the wider distribution of assets. We would also, in appropriate circumstances (eg a management buy-out), encourage the spreading of ownership among the general body of employees rather than management alone.

7.5 The Role of Trade Unions

7.5.1 We believe that the proposals put forward in this paper to promote consultation, participation and ownership will act effectively for the protection of the rights of every employee. At the same time, Liberal Democrats believe firmly in the right of free association.

7.5.2 Employees must therefore have the right to join, or not to join, an independent trade union of their choice. No prospective employee should be refused employment because that employee does, or does not, belong to a particular union; nor any actual employee be dismissed or otherwise discriminated against by virtue of such membership or non-membership.

7.5.3 We have consistently opposed the Government's 1984 decision to forbid workers at GCHQ the right to organise in a trade union of their choice; under our proposals, this action would have been unlawful. The recently-introduced right of employers to distinguish between union activists and others when making dismissal decisions is contrary to the principle of freedom of association and under our proposals for tackling discrimination (see 7.2.3) would be outlawed. The practice in some companies of offering monetary inducements for non-membership of unions should similarly be made unlawful, and it should also be unlawful for employers to discriminate against union members in pay agreements, as permitted under the Government's 1993 Act.

7.5.4 Whereas recognised trade unions currently possess some rights, eg of consultation over redundancy, there is at present no requirement on employers to grant recognition even where the workforce wishes it. We would restore to ACAS the power to deal with recognition claims and to organise employee ballots. Where a simple majority of all employees in a workplace elect by secret ballot to be represented by an independent trade union, the employer should be legally obliged to recognise that union.

7.5.5 The value of trade unions is best assessed by those who are eligible to join them; and the better the service the unions provide, the greater the number of members they will attract. Unions should have an important role to play in many areas of employment, including, for example, monitoring training (see Chapter Three), and providing legal advice and representation and individual services to members.

7.5.6 Trade unions must be fully democratic institutions, under the control of their members. While a framework of law is necessary to this end, the present legislation has become far too specific and onerous, taking over matters which should be decided by an active union membership. We would aim to replace detailed

legislation stipulating various internal union practices with a simpler system in which a union would have to comply with basic criteria on internal democracy (such as holding elections for executive committees), in addition to existing criteria on other matters, before it could be certified as an independent trade union. We would immediately repeal the recent requirement for regular reauthorisation of the deduction at source of trade union subscriptions ('check-off').

7.5.7 The principle that trade unions should be responsible for their actions, to the public in general as well as to their members and the businesses in which those members work, has a necessary place. Not even lip service was paid to it during the heyday of union power in the 1970s. However, the present Conservative Government has gone too far the other way in making trade unions responsible for unauthorised action, including unofficial strikes, while limiting their ability to impose discipline. In general terms, internal discipline is part of the necessary working of a trade union and a matter for internal decision. We would review this aspect of the law on industrial action in consultation with the TUC and employers' representatives; but we would do so in the context of upholding the key requirement of prior approval by the members concerned in a postal ballot.

7.5.8 All trade unions, either collectively through the TUC or individually, should be able to express their opinions on matters of concern to their members. Their internal structures should be such that members play a full part in the formulation of those expressions of opinion. In that sense, trades unions are involved in the general political process and their members expect them to be able to advise all parties and to pursue their aspirations at both national and international levels. Hitherto, unions have been too exclusively linked with one party. Liberal Democrats welcome the new approach favoured by the TUC in entering into discussion with all political parties, and are happy to play a full part in this process.

Pay

8.0.1 In a competitive market economy, pay is largely determined by market forces, reflecting the demand for labour and the supply available to meet it in different labour markets. In general, there is no case for government interference. But the market does not always work effectively and there are many instances of market failure. Even where there are not, market outcomes may not always meet our objectives of fairness and social justice.

8.0.2 Several features appear unfair in the existing distribution of earned incomes, especially:

- The growing gap between the incomes of the lowest paid and those of the highest paid; between 1979 and 1993, average earnings for the poorest 10% of workers in full-time employment rose by 7% in real terms, whereas those for the highest paid 10% rose by 48%.
- Twenty years after the Equal Pay Act, women's average earnings remain well below those of men, demonstrating continuing inequality in the labour market.
- In many cases, workers whose jobs are broadly comparable in terms of responsibility, skill or risk receive widely different rewards.

8.0.3 Public action can help to remedy market failures stemming from lack of information in the labour market, or inequalities arising from lack of access to training; see our proposals above in Chapters Five and Three. Historically, incomes policies have sometimes been used to promote a fairer distribution of pay, but we do not believe these would be either feasible or desirable in present circumstances. In the main, acceptable standards of pay have to be worked

out in each company or sector, and we welcome the general trend towards decentralisation of pay bargaining. Action by government, however, is needed in three areas:

- Low pay, together with other cases where statutory protection may be needed.
- Public sector pay, where government is the employer or paymaster.
- More widely, the creation of a climate in which pay relativities can be considered constructively by employers and employees with a better understanding of underlying factors and general economic effects.

8.1 Low Pay

“It is a serious national evil that any class of His Majesty’s subjects receive less than a living wage in return for their utmost exertions. It was formerly supposed that the workings of supply and demand would naturally regulate or eliminate that evil But where you have no organisation, no parity of bargaining, the good employer is undercut by the bad and the bad is undercut by the worst”

Winston Churchill MP,
President of the Board of Trade, April 1909

8.1.1 Liberal Democrats can take pride in the achievement of Churchill, and the Liberal Government in which he served, in introducing a comprehensive system of wage protection. The bodies he created, the Wages Councils, included employers’ and union representatives together with independent members, and set minimum rates of pay in a range of low paid or poorly organised industries. The Councils were backed by a central government inspectorate.

8.1.2 The Wages Councils operated successfully for over 70 years, but were whittled

down during the 1980s, and then in 1993 abolished (with the exception, at least temporarily, of the Agricultural Wages Board), by the Conservative Government. At that point, the Councils' prescribed minimum rates varied between £2.70 and £3.20 per hour for adults over 21 - rather less than half the median rate of hourly earnings for all adult workers. They covered two million employees, mostly in shops, catering and textiles; a further estimated half a million low paid workers in occupations such as care assistants, cleaners, laundry workers or security guards were not covered by the system. Latterly government had so reduced the numbers of Wages Inspectors that the law went largely unenforced.

8.1.3 There is no doubt that low pay is one of the main causes of poverty in the UK today, and cases of extreme exploitation remain. In April 1993, almost half a million workers were paid less than £3 per hour. The great majority of workers in low paid jobs are women and a substantial proportion are from the ethnic minorities - groups which are for various reasons in a vulnerable and disadvantaged position in the labour market. Liberal Democrats believe that employees deserve protection from acute exploitation of this kind, and employers should be prevented from relying on state benefits to replace wages. Low pay also harms overall economic performance. The position of good employers can be undermined by competition from firms using very badly paid labour. Very low wages lead to rapid movement of labour (high frictional unemployment), and there is no incentive for either employer or employee to train for skills.

8.1.4 Our earlier policy (in Federal Green Paper 16, *Citizens at Work* (1990)) was to support the reinforcement and extension of the Wages Councils system. This proposal predated their abolition, however, and it is necessary now to consider what arrangements would best meet present needs. This paper presents two options for decision by Conference. Both propose the establishment of a Low Pay Commission, as a division of our proposed Industrial Partnership Agency or ACAS (see Chapter Seven). Option A involves setting a regional minimum hourly rate

of pay (MHR) across the whole economy. Option B builds on the Wages Council approach by using the Low Pay Commission to tackle low pay and exploitation in particular sectors or companies where the need for it is identified.

Option A

8.1.5A After research and consultation with representatives of employers and employees, the Low Pay Commission would recommend a regionally-varied minimum hourly rate applicable to all adults in paid employment, with a separate (and lower) rate for those under 18. The Commission would base its initial recommendations on the average level of former Wages Council minimum rates, updated as appropriate. The MHR would then be reviewed annually against inflation, with periodic reviews at less frequent intervals in the light of general economic trends. US experience suggests that, provided the rate is set at a realistic level (the US minimum rate is about one third the average for manufacturing jobs), it is unlikely to lead either to significant unemployment through higher labour costs, or to higher inflation.

Option B

8.1.5B This option builds on our traditional support for the Wages Councils, updating and streamlining it. The Low Pay Commission would have powers to investigate any industrial sector or firm in which it believed, on the evidence presented to it, that there was exploitation due to low pay. It would then recommend action, including the imposition of a minimum hourly rate for pay levels in that sector or firm, varied regionally where appropriate. The prospect of a Low Pay Commission investigation could, we believe, act as an incentive to employers to raise unacceptably low wages. The reports of the Commission would be submitted directly to and debated by Parliament. If the Government wished to oppose their acceptance, the Minister could not do so without the agreement of Parliament on a specific resolution.

8.1.6 Option A would have the advantage of comprehensive coverage, and it would avoid

uncertainty about employees in borderline activities. However, it might have little or no application in wide sectors of the economy, unduly extending the scope of legislation. Option B would be in line with the Wages Council tradition of careful investigation of the circumstances of different sectors, varying the provision accordingly. However, administration might be complicated by borderline questions.

Provisions Common to Both Options

8.1.7 Whichever option is chosen, account must be taken of regional labour markets. There are significant regional differences in living costs and economic conditions. In the short run, the Low Pay Commission should be able to recommend regionally varied rates after consultation with RDAs and regional representatives of employers, employees and local authorities. Once Scottish, Welsh and English Regional governments were established, it would be open to them to decide their own rates, subject to nationally-agreed minima.

8.1.8 As regards enforcement, the regional MHR would become an implied term of any employment contract where a lower hourly rate currently applied and would thus be deemed to be substituted for it. Any employee or group of employees paid below the regional MHR would be able to apply to an Industrial Tribunal to be paid at that level. Pending the hearing of such an application those applying would be automatically protected against unfair dismissal. Provisions of this kind, together with extensive publicity, should be sufficiently effective to make an official inspectorate unnecessary.

8.1.9 By helping to prevent extreme exploitation, this approach enables employees to see a flexible labour market more as an opportunity and less as a threat, while providing a method of tackling poverty amongst the employed, and particularly amongst women. Just as importantly, it provides some protection from unfair competition for good employers, who pay reasonable rates and provide proper training. Equally, a minimum rate is likely to provide a spur to firms to employ workers more effectively, countering the trend for Britain to

become a low wage, low skill economy. Coupled with our policy proposals to improve the flexibility of the labour market, to boost employability through raising standards of education and training and to end discrimination in employment, we are confident that this approach will help to counter exploitation in work.

8.2 Other Issues for Legislation

Transfer of Undertakings (Protection of Employment) Regulations (TUPE)

8.2.1 European law requires that, if there is a takeover or other change of ownership of a business, employees keep their existing pay and conditions of employment unless and until their contracts are properly renegotiated, and must be fully consulted over the transfer. We welcome the European Court of Justice decision (June 1994) that this extends to employees whose employing authority is privatised or their work is contracted out, and that the UK Government was wrong not to enforce it in this way. We believe that employees, both in the private and public sectors, should not be worse off simply because of the transfer of a business to a new owner.

Fair Wages Clause in Public Authority Contracts

8.2.2 From 1916 to 1988, public authorities were required to include, in every contract for building works, a clause requiring the contractor to pay rates at least equal to those negotiated in the industry or (in default of a negotiated agreement) the rates prevailing in that industry in the locality. Since 1988, however, public authorities have not been allowed to include such a clause in contracts even if they wish to do so. We believe that local authorities should be allowed this option both in building and other contracts.

Equal Pay

8.2.3 Since the original legislation was passed in the 1970s, progress towards equal pay has

been disappointingly slow. Regulations were introduced in the early 1980s under pressure from the European Community to facilitate claims based on 'work of equal value' but they are unnecessarily complex, expensive and time-consuming to invoke, so that frequently several years pass before judgements are obtained.

8.2.4 We would review these procedures with the aim of simplifying them and speeding up their operation. As many jobs performed by women are relatively low paid, our proposals in Section 8.1 would also help to raise rates of pay for many women, especially in part time and casual work, and thus reduce the gap between their earnings and those of men.

8.3 Public Sector Pay

8.3.1 The pay of employees in public services, whether in central or local government or in other bodies dependent on public funding, will always remain the ultimate responsibility of government as employer and paymaster. Pay decisions do not have to be taken centrally, however; local pay bargaining may well be appropriate for agencies, especially if the service is one in which competition and genuine performance measures can properly be introduced. Decentralised bargaining could also be a consequence of home rule and decentralised government.

8.3.2 Most of the public sector will continue to consist of large groups of people with broadly comparable grading and standards of entry (doctors and dentists, nurses, teachers and others). We favour the present system of negotiations guided by the work of pay review bodies. To improve their effectiveness, we would link them together more closely and provide a common research capacity able to survey pay movements and changes in pay structure across the whole economy. Successive governments have often compromised the process by ignoring or phasing the recommendations of review bodies. This is deplorable: an effective and well motivated public service is essential to the achievement of most policy goals.

8.3.3 Whilst various forms of performance related pay have operated successfully in private

companies, where measures such as sales targets are readily available, its hasty introduction to parts of the public sector has been handled insensitively and has tended to be counterproductive and divisive. Inappropriate targets, and the difficulty of capturing the quality of the service provided, have sometimes impaired service quality (for example, traffic wardens issuing tickets before parking times expire to meet their performance targets). Performance in the public sector may often be improved more effectively by better standards of management, training, communications and job design. Where performance-related pay operates, it must be applied on a fair, open and consistent basis and be accompanied by training in performance management skills.

8.3.4 Public service pay and management need to be seen as a coherent operation in which the benefits of good standards of pay and conditions are justified by effective procedures for performance appraisal and discipline. It is also essential that arrangements for consultation and participation in the public sector should as far as possible match our proposals for the private sector (see Chapter Seven).

8.4 Pay and the Public Interest

8.4.1 Outside the publicly funded sector, pay is essentially a matter for determination between employers and employees. The decentralisation of pay bargaining and increased labour market flexibility have reduced, though not eliminated, the inherent tendency of the UK economy towards wage-push inflation. Nevertheless, as the economy moves out of recession, there is a need for employers and employees to take account of the inflationary consequences of pay settlements which are not justified by productivity gains.

8.4.2 Pay issues need to be discussed as part of a wider debate on employment, economic development, taxation and public expenditure, taking place in, among other bodies, a reconstituted National Economic Development Council (see Federal White Paper 4, *Economics*

for the Future (1991)). This would be underpinned by a government-sponsored programme of regular research into pay trends, income distribution and related matters, commissioned from independent research institutes, economic and pay research bodies and carried out in conjunction with public sector pay research and periodic reviews of the MHR.

8.4.3 We share the widespread public concern over growing inequality in the distribution of earned incomes. Our proposals for low pay would improve the position of the very lowest paid but would not affect the current pattern of very high salaries paid to chairmen and senior executives of many major companies (including privatised undertakings), usually accompanied by substantial additional benefits. In 1993, top directors' pay rose by 25%, nearly seven times the rate of increase for all earnings. This has

attracted criticism even from the Prime Minister, who has called for restraint on 'excessive salaries' on several occasions but disclaimed any intention of doing anything about it.

8.4.4 Liberal Democrats do not share his approach. Taxation policy should be applied more progressively, with higher top rates of income tax (see Policy Paper 7, *Opportunity and Independence for All* (1994)). In addition, Companies Act requirements should be extended to provide for the publication of much more comprehensive pay and benefits information in respect of directors and senior executives. This should be accompanied by publication of the lowest hourly rate applicable in the company. Salary and other contract terms for directors and senior executives should be subject to approval by company general meetings.

This Paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats and the Welsh Liberal Democrats determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party.

Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

Working Group on Employment Policy

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Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every section or every proposal in this Paper.

The Working Group would like to record its thanks for the contributions and comments received from the wide range of individuals and organisations involved in business, employment, training, education, research and the voluntary sector who talked to and gave presentations to the Group, both in London and in a series of 'listening days' organised in the regions and nations of Britain.

Comments on the paper are welcome and should be addressed to:

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