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JOB FOR EUROPE

Michael Portillo

The Right Honourable Michael Portillo, London (1953), was educated at Harrow County School for Boys and at Peterhouse, Cambridge, from where he graduated with a First Class Honours Degree in History. After two years at Ocean Transport and Trading Co., he moved to the Conservative Party Research Department in 1976. 1983

Michael Portillo embarked upon in his political career: 1987-1988 Parliamentary Under-Secretary, Department of Health & Social Security, 1988-1990 Minister of State for Transport, 1990-1992 Minister of State for Local Government, 1992-1994 Chief Secretary of the Treasury, 1994-1995 Secretary of State for Employment, 1995-1997 Secretary of State of Defence.

During substantial periods of this century the lives of millions of people in Europe have been blighted by unemployment. The natural urge of most people is to want to work. It enables them to enjoy the dignity of supporting themselves and their families. Unemployment, on the other hand, leads to a loss of dignity, motivation and morale. It divides a nation between «haves» and «have-nots». Large numbers of people out of work also represents a terrible waste in economic terms, and the economy will underperform, leading to a general lowering of living standards even amongst those in work.

Not surprisingly, governments have always been worried about unemployment, and have generally been anxious to be seen to be doing something about it. But very often their interventions have been ineffective or counter-productive. This is an area where the right thing to do is often contrary to intuition, and even when that has been repeatedly shown to be the case, governments often prefer to do the thing that fits intuition, or will be popular with the press and public, rather than do the right thing that will actually help more people to have work. The most obvious example is that where a government sees that a plant is threatened with closure, the «obvious» thing is to «save» the jobs by paying the company a subsidy. But that is often exactly the wrong thing to do. The company postpones the day when it must re-structure or close, and in order to pay the subsidy, the government has to take away more money in taxes from successful businesses and from the public, who are the potential customers of those businesses, thus risking more jobs.

That is just one example. Much of what governments in Europe have done in the name of protecting jobs has served merely to blunt the impact of market forces, and so render business less competitive; and often when they have acted supposedly to improve conditions at work, they have instead introduced rigidities that have also made companies less successful, and therefore less willing to give jobs to people.

Things have changed

Jobs can be created and sustained only where the things that people work to make

or supply are in demand from customers. Those demands change, and the rate of change increases with the speed of technological advance. From generation to generation the same phenomenon occurs as people lose jobs in companies that supplied the needs of yesterday, and in time move to jobs with those who have identified the demands of the new age. What has occurred during the digital revolution is no different in kind from what has happened during previous eras. It has just happened faster. Those who argued and believed that the nature of work had undergone a fundamental change which meant that we could never again hope to see anything close to full employment have already been proved wrong. They failed to recognise that in reality what was occurring during the period of high unemployment was a failure in a number of economies to respond fast enough to such rapid change. But as certain countries have recovered, it is evident that the vast gains in productivity made possible by information technology are matched by huge increases in demand for new sorts of product and service. We can, after all, look forward to a future in which most people have a job or jobs.

Education and learning which continues through life are more important than ever. People can expect to move job more often than in the past, and if the economy is not working smoothly they may be out of work between one job and another. People will work differently from in the past and differently from one another. They will vary their hours, they may do some work from home, more people than before may be self-employed and larger numbers

will have more than one job. Governments need to clear away any debris in their economies that might impede the process of adaptation.

A number of European governments have clung to the idea that they can play a direct role in job-creation. Meanwhile, some other countries have taken the view that government's chief role is a facilitator: creating conditions in which others can create jobs by supplying goods and services that people want to buy. Those policies have been especially evident in the United States, New Zealand and Britain, and I shall therefore call it the Anglo-Saxon approach for shorthand, although in fact other countries, for example, Denmark have also followed the path.

Job Creation in the USA

There has been a marked difference between the performance of the United States in creating jobs and Europe's. Taking the twenty years from 1974 to 1994, the USA created 36 million new jobs in civilian employment, of which 31 million were in the private sector. In the same period only 5 million new jobs were created within the 12 member states of the European Union, of which just one million were in the private sector.

Every minister of labour should have a sign above his or her desk reading: «*A job is created when one person says to another: come and work for me and I will pay you money. Every time government intervenes, we make that simple transaction more difficult:*»

At this point, there is a risk of misunderstanding. I am not saying that there is no place at all for regulation in the workplace. Of course, employees have to be guaranteed clean and safe conditions of work, for example. Certainly we must guard against exploitation and child labour, as other examples. But in areas such as hours of work, conditions of contract, guarantees of employment, terms of redundancy, social benefits etc., too much regulation will lead to fewer jobs. Employers will be wary of taking on new employees, and that means that potentially large numbers will be left with the meagre social benefits of the unemployed. On the other hand, where the labour market is left

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flexible, employment levels will rise. That means that an employer will have to compete to attract employees. He does that by offering better benefits and conditions. But they are structured in such a way as to fit in with the business and so maintain its competitiveness.

We are faced with these paradoxes. Efforts to protect jobs can often actually destroy employment opportunities. An over-zealous policy of improving conditions at work can lead to more people living on welfare. But flexible labour market policies, because they produce more jobs, create competition for labour and so, over time, higher standards of provision in the workplace.

Although Europe as a whole has done less well than the United States in creating jobs, within our continent there has been a considerable variation in performance. In recent years, Spain, Germany, France and Italy have experienced high levels of unemployment. Looking at it the other way round, the proportion of people in work shows a similar picture. But the positions of the four countries show significant differences. Notably, France's and Spain's record on youth unemployment is bad but Germany's good, probably because there young workers earn markedly less than adults. But each of the four demonstrate rigidities in their labour markets. When you measure things such as the tendency of workers to work shifts, nights, overtime or weekends, each of the four is towards the lower end of the European graph. These are also amongst the states whose governments impose the highest social costs on employers which they have to pay for on top of wages, making it expensive to offer people jobs. There seems to be a strong correlation between such factors and the numbers of people out of work. These figures also demonstrate that Ireland, Luxembourg and Denmark feature at the low end of the table.

Britain's Success

That in itself helps to deal with a canard that is sometimes heard. There are those in Europe, perhaps presiding over large numbers of unemployed in their own countries, who have claimed that Britain's success in reducing the number out of work

has been achieved at the cost of returning to conditions and practices of the nineteenth century. It simply is not so. The net disposable income of British workers compares favourably with their neighbours in other countries, not least because they pay lower taxes. Britain is highly regulated and still has many inflexibilities. For example, the earnings of our young workers do not show much of a differential with adult rates, which may explain why our youth unemployment is higher than Germany's.

The most productive employers in Britain offer good holidays and short working weeks, but they have designed those packages for themselves, not in response to government directives. Employers do have greater freedom than in many other countries to dismiss their employees, but the result of that is that they are much less fearful of taking people on. We therefore have one of the highest proportions of our people in work amongst European nations, and only tiny numbers on temporary contracts. In countries where so-called employment protection measures are most strict, employers evade the system by offering only temporary positions. In Spain, 36 per cent of workers find themselves denied the protections and benefits which have been designed for them, because they have been forced, if they want work, to be temporary employees. In Britain the figure is very small.

It is true that in Britain there are fewer restrictions than elsewhere on the hours that can be worked in the week, but the result is not that British workers work longer, merely that there is a huge variety in the hours that they choose to work. In Germany, Italy and France very large numbers of workers work the same number of hours, producing a spiky look to their graphs. That suggests that the hours worked are determined more by government regulation than by the choices of employers and employees. In Britain, the graph shows a pretty even spread; there is no norm and so no spike. In each place of work, different arrangements are made. Such flexibility is of benefit not only to the employer, but also to the employee, who may be balancing the hours and times of work against family commitments, or time spent in education, or other work.



Mario Comensoli
«Mann in Blau», 1958,
90 x 70 cm. Aus: Mario
Comensoli, Ausstellung
im Kunsthaus Zürich,
Katalog, 5. August
bis 1. Oktober 1989,
Benteli Verlag, Bern
1989.

The net
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But in any case flexibility is about much more than just conditions of employment. The reforms undertaken in Britain during the 1980s involved removing the privileged position of trade unions which they had used to disrupt production and delay the introduction of more effective ways of production. It was important to reform benefits for the unemployed, so as to offer those out of work for long periods counselling or training to ensure that their job search was conscientious and effective. Sharp reductions in the marginal rates of income tax helped to increase incentives, and changes to the controls on the rented housing market improved labour mobility. The privatisation of major businesses, especially those providing universal services such as electricity and telephones, helped to improve overall economic efficiency and led to the elimination of government subsidies. The encouragement of inward investment, notably from Asia-Pacific, introduced to Britain highly efficient management and working practices, which had a strong influence on business in general, offering to British management a clear example of how much they needed to change.

in order to achieve global standards of excellence. Taken together, these measures have enabled Britain in the 1990s to enjoy non-inflationary growth with a steady fall in the numbers out of work.

The EU and the Dogma of Protectionism

There are certain threats to that happy state of affairs. The first is the decision by the new British government to sign the social chapter of the Maastricht treaty. We find ourselves in a curious state of affairs. The Labour government accepts the success of flexible labour markets, and indeed extols to other governments the virtues of the Anglo-Saxon approach. It perhaps hopes to convert them before the social chapter is used to inflict damage on Britain's flexibility. But I fear they will not succeed in convincing the others, and that by majority voting, a number of the rigidities that have contributed to unemployment elsewhere, will be introduced to Britain.

Two powerful forces drive the social chapter. First, governments across Europe have realised that they cannot put up taxes any more. People and capital are mobile and move away if governments overburden them. The social chapter provides politicians with the means to give people more benefits, longer holidays and shorter working weeks at no direct cost to the taxpayer. The cost is borne by businesses, but since they become more wary of creating jobs, the cost is borne ultimately by people unable to find work.

Second, it is a firmly held piece of European Union dogma that it is morally wrong for one member state to have lower social costs than another. A country that charges less national insurance than others, or which gives employment protection rights only to people who have been two years in their job, is regarded as practising social dumping.

According to this dogma, the more provision and protection the better. For this reason there is a real danger that the social chapter will be used to increase all our costs (and the disincentive to job creation) to the highest level in Europe, which is generally Germany's. Of course this is as much a danger to Denmark, Ireland and Luxembourg as it is to Britain.

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It is no consolation that very few measures have been enacted under the social chapter thus far. In its infancy, and while Britain was excluded from its effects, our partners saw the downside of pressing ahead too ambitiously, with the risk that Britain could sharpen its competitive edge. *Jacques Delors* spoke of his fear that Britain would become a paradise for inward investors. We saw that as an opportunity that could be open to all of Europe. But the European Commission has other ideas for the future. Since it considers it immoral for a member state to enjoy any competitive advantage that derives from its lower social costs, it follows that they have a moral duty to eliminate it. I, on the other hand, think it immoral to legislate for more benefits for those in work if they can be bought only at the expense of those without jobs. If the Commission can convince enough countries to do so, changes can be imposed on member states like Britain by qualified majority voting.

The Dangers of the Single Currency

The second danger is posed by the single currency. It is evident that Europe does not have a single labour market. There are many barriers that make it difficult for people to move from one country to another and compete for jobs on equal terms. One can imagine over a long period of time eliminating some of these, by harmonising qualifications, for example. But obstacles of language, culture and prejudice cannot be so easily swept away. It was difficult enough in the United States for people to move from one region to another in search of work, but in Europe for most people it will be almost impossible to achieve. The European Union, at least in some ways, is actually trying to make it more difficult. Labour ministers recently enacted a so-called «posted workers directive» to make it impossible for employers to post workers to a richer member unless they offer them precisely the same pay and conditions as those available to local workers.

While such relative immobility persists, it is important for regions within Europe to be able to adjust their exchange rates to cope with differences between their cyclical economic performance and their

neighbours'. States which are doing relatively poorly tend to experience a depreciation of their currency, which mitigates the impact of recession by making their imports dearer and their exports cheaper. If you remove that flexibility from the system, the strain of recession which is presently borne partly on the exchange rate, will fall more heavily on unemployment. The European Union has apparently recognised that by allowing for transfers of subsidies from the better-off nations to those experiencing economic difficulties. But the policy is not credible. European taxpayers are already in revolt and will not, I think, be willing to pay up for the economic failures of other member states.

The principal attractions of a single currency as it was originally conceived have, in any case, faded with experience. Europe believed that only Germany with its reliable hard Mark had discovered the means to achieve low unemployment without inflation. Now other countries offer better examples of that happy combination. And as the struggle has continued to bend the criteria for membership to fit the inadequate economic performance of the aspirant participants in the currency, so the Euro seems more likely to be weak, inflationary and subject to political manipulation. That in turn leads me to fear that with a single currency we will continue to be dogged by a lack of confidence in economic management and bouts of austerity, both of which will tend to keep European unemployment high.

The dangers may be particularly acute for those members of the currency who are at the physical edges of Europe. The value of the currency is most likely to reflect economic conditions in the heart of the

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Union. Inward investors who currently invest in countries like Britain know that they have access to the whole European market, but are protected against local recessions by the flexibility of the exchange rate. But if we were part of a single currency, they might conclude that it was best to invest where local economic conditions most closely matched the exchange rate, and transfer their investment to the heartland.

While so much energy is devoted to the single currency, the critical factors that will influence levels of employment in Europe in coming years are quite different and are largely being neglected. We should be concentrating on further developing flexibility in the labour markets, and on creating strong multinational companies on a scale that can compete with global giants. Progress on both is slow. Awareness of the need to free up the constraints on job-creation is spreading but has a long way to go. National governments continue to obstruct cross-boundary mergers because they may involve plant closures. The governments may alternatively impose restrictions on such mergers, such as requiring that so much work be done in country A or that the headquarters be in country B, conditions which are nationalistic rather than commercial. Even now, governments are pursuing policies which they perceive to be popular at home, and shying away from decisions that would actually offer the best hopes of near-full employment in the future.

Sadly, this means that unemployment, the blight of the twentieth century, will still leave its mark on millions of Europeans as we move into the new millennium. ♦

SPLITTER

Overall job loss frequency and duration is related to economy-wide conditions which are beyond the individual's control. But there are social habits and attitudes that render unemployment more or less likely and frequent under all macroeconomic conditions. Societies do develop or destroy virtues and policies that render the spread of unemployment more or less likely.

*in: JÖRG BAUMBERGER, Social consequences of unemployment,
Keynote statement, Symposium 7./8. November 1997.*