

Skills-based Full Employment: the Latest Philosopher's Stone

Colin Crouch

Article by an MPIfG researcher

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1. Introduction

The acquisition of knowledge and skills is increasingly seen as both the main challenge and the central opportunity for achieving a return to full employment. It is considered a challenge because it is feared that people without appropriate knowledge and skills will in future be unable to find work. There are two main reasons for this. First, most though by no means all the jobs that have been destroyed through technological progress in recent years have been low-skilled ones, and the educational levels demanded for most occupations seem to be rising; in nearly all societies unemployment is highest among those with low levels of education (OECD 1994: ch. 6). Second, it is generally assumed in the existing advanced countries that the challenges posed by the rise of new low-cost producers in other parts of the world can be met only if labour in the former countries has high levels of skill which will differentiate it from the capacities of workers in the newly industrializing countries.

More positively, knowledge and skills are seen as presenting opportunities: individuals who acquire advanced levels of education are more likely to secure prosperous futures for themselves. At its most ambitious, this perspective refers to the utopian vision of the 'learning society', a society almost without unskilled, low-productivity people, in which all mindless and physically damaging jobs have been robotized; everyone in the work-force has a source of occupational pride in their skills and knowledge; income differentials are compressed through the market-compatible device of reducing the relative scarcity of high skills. In such a society, the number of those remaining who could not attain a high skill level would be so small that the rest of the community would be able to subsidize the wages earned by their low-productivity labour, ensuring that their standard of living would not fall too far behind the rest.

While this vision is utopian, it is a utopia towards which there has been real progress. In many countries two particular forms of low-skilled work — back-breaking rural labour and domestic service jobs, which combined personal subservience with hard work and long hours — declined massively

Colin Crouch is at the University of Oxford and the European University Institute, Florence

during the process of industrialization. The globalization of many activities continues to produce an increasing shift to high-skill production in the advanced countries: technological advance mainly replaces unskilled work.¹ Also, populations in the advanced countries take increasing advantage of educational opportunities in order to improve their employment chances. There is a constant upward shift in the skill profile of the working population.

Policies to encourage continued up-skilling are almost certainly *necessary* to both social and economic advance. Many, especially in the political world, also hope that these policies will also be *sufficient* for such an advance: that the abolition of low-skilled work will reduce to a minimum the need for social policy. As the British Labour Party expressed the point in its successful 1997 general election campaign (Labour Party 1997), resources should be shifted from welfare to equipping the population with competitive skills. This is seen as a supply-side collective action successor to a Keynesian demand management strategy and a welfare state that are no longer regarded as viable. High expectations have therefore been invested in education in general and vocational education and training (VET) in particular. The purpose of this paper is to raise certain critical questions concerning the viability of this strong form of the skills strategy.

First, only a minority of the working population is involved in producing internationally traded goods and services. Indeed, if competitive niches are gained through the increased productivity of highly skilled labour, the size of work-force required for a given unit of output will continue to decline. Very large increases in production and sales are needed to secure significant advances in employment. This imparts a quality of, at best, 'two steps forward, one step back' to any attempt at improving employment opportunities by means of educational advances.

A few clearly high-skill export sectors can be identified: information technology, pharmaceuticals and some other branches of chemicals, aircraft manufacture (Crouch *et al.* 1998: ch. 3). No country has been able to base more than a small amount of its export activity on these. Even if skills increase in the areas of medium-high skills, such as various areas of machine tool production, they are (especially as productivity advances) unlikely to employ large numbers of people. Some important service industries employ highly skilled workers and are internationally traded, especially some aspects of finance and insurance. The range of these will expand as trade barriers are reduced, especially within groups of nations like the European Union. However, given the direct nature of much service delivery, many services need to have large numbers of their staff employed in (and usually from) the countries where the service is being delivered, even if ownership and top management are located in the home country.

Ironically, as world trade grows, the proportion of a high-productivity nation's work-force (as opposed to capital) that is engaged in internationally traded activity probably declines (Deutsches Institut für Wirtschaftsforschung 1996). Sectors that provide employment and those that provide

advantages in international trade are by no means identical. In most countries the biggest single employers of highly educated labour have been the health, education and welfare sectors, which are only marginally involved in international trade and usually mainly in public ownership (Crouch 1998: ch. 4).

Second, by no means all new employment opportunities require high skills; jobs that require low or even reduced skills might be smaller in number within an advanced economy than those that require higher skills, but they are usually easier to create and they more readily address the situation of the hard-to-employ. If one were to be given a large sum of money and told to use it to create some employment for the young unemployed as quickly as possible, it would be better to open outlets for selling imported T-shirts than to launch a software laboratory.

Third, at least in the short run, the fact that the educationally successful tend to be occupationally successful is the result of a competitive process; if everyone becomes educationally successful according to some existing criteria, then those criteria shift to a higher level. Improving education can be an individual solution because it assists one in the competitive process, but that very characteristic means that it cannot be a general or a collective solution. If education standards are generally rising, then the educational level of the persons engaged in any particular occupation will be seen to rise. It does not necessarily follow from this that the skill level of the work has risen. In the long run, it is possible and often likely that employers will notice the increased capacities among their work-force and start to make use of them in new activities: this is the assumption on which the whole up-skilling strategy rests. However, the long term might be very long, with considerable disillusion being experienced meanwhile among those who find that their increased education has served only to submit them to increased competition for jobs.

Fourth, since in almost all countries new, secure jobs making use of advanced skills are not expanding fast enough to absorb those liberated from low-skilled agricultural, factory and menial service work, running parallel to enskilling strategies have been those creating jobs of the opposite kind: low-productivity, menial work in poor conditions. This strategy advocates the deregulation of labour markets — in particular in order to make it easier for employers to dispose of employees — and a reduction in living standards to ensure the avoidance of unemployment among those who fail to improve their productivity (OECD 1994).

A deregulation approach and an enskilling one tend to embody opposing logics. In the former case all emphasis is on ease of disposal; for the latter it is important that employers regard employees as a long-term investment resource, since a high rate of inter-firm labour mobility usually makes employers reluctant to carry out much training. The problem is solved by a growing segmentation of labour markets and a divergence in the occupational fates of different sections of the working population. However, the fact that many succeed in the competition for attractive employment makes

it particularly tough for those who fail, whether because they are outsiders in the sense of being unemployed, or because they remain in poor, marginal jobs which are available to them only because they accept low wages and highly insecure and uncongenial conditions. The two countries in which this form of employment has expanded most — the UK and the USA — have experienced an extraordinary polarization in their income distributions in recent years, with the bottom 10 per cent of the *working* population in the USA now being absolutely poorer than they were at the end of the 1970s (OECD 1996). Job creation of this kind has to be very sensitive to costs, and is likely to take place only if security, protective measures and social insurance costs as well as wages are reduced.

Finally, while the pursuit of a high level of vocational skills for a society is a collective goal, it is increasingly found that the principal sources of these skills are individual firms, and governments have to defer to firms for judgements about what skills should be provided and through what means. This is one of the major changes caused by the move away from the Fordist mass-production economy, a move that itself creates the main opportunities for the learning society. The most innovative corporations today are those that try to shape a distinctive whole-firm strategy both for the way in which they produce their output and in the content of the output itself. This point is intensified in the case of services, which account for an increasing proportion of economic output, since there is not the same distinction between production process and product as in agriculture or manufacturing: the process is the product. These factors make it increasingly important that skills suit the specific needs of companies. There are therefore severe limits to what governments or any other collective actors can do alone to engineer appropriate improvements in vocational training.

Business firms are equipped to maximize, not collective objectives, but their own profitability. In doing this they will certainly provide training and retraining for large numbers of employees; there is however no reason why company decisions and market forces should maximize the level of vocational ability for a whole society except through a largely serendipitous fall-out. There is therefore a dilemma: achievement of what is coming to be defined as the main collective goal of economic policy depends increasingly on actions by private actors who have no necessary incentive to achieve that goal.

While all these problems of a skills strategy are important, many recent developments in approaches and policy have been particularly concerned with this last one, of the implications for public policy of the growing importance of the individual firm. It therefore merits particular attention.

2. The paradox of collective action in a firm-dominated economy

At the heart of the paradox that policy-makers increasingly look to individual profit-maximizing firms for solutions to collective problems lies a

second one: the same processes that are taking the decisive actions 'down' into individual companies are also taking them 'up' into global levels. In a world of rapidly changing and highly competitive markets, considerable reliance is placed on individual firms finding new niches; there is little confidence that public policy can make an autonomous contribution. Trust in firms' ability to achieve their goals is increased by the growing size of transnational corporations, who are able to make strategic alliances with each other for certain shared purposes, making possible action on a global scale. Achieving a capacity for collective action at a cross-national public level is slow and painful, as the stilted progress of Western European integration shows. *Private* collective action by firms, in contrast, can be achieved quickly and flexibly. Therefore, the apparent move down from national government policy to the firm is often also a move up to the global level. Both the firm and the global economy are levels that escape the reach of public collective action.

Dilemmas of Apprenticeship

The most constructive response that one finds to this conundrum is the return to apprenticeship models of VET in several countries, including France, Italy and Sweden, which in earlier decades had abandoned the model as a medieval survival in favour of more state-directed approaches (Crouch *et al.* 1998: ch. 5; Rault 1994). Apprenticeship, by systematically linking firms and the state education system in a partnership for the initial training of young people, preserves the collective good component and also makes VET sensitive to both individual firms' needs and rapid changes in skill needs as reflected in process and product development within the market-place. Even then, the apprenticeship model has flourished fully only in contexts like the German one, where powerful representative organizations of firms play a further part in linking the individual company to the collective good of skill production and in committing firms and teaching institutions to maintaining standards of proficiency and the quality of curricula (Backes-Gellner 1996; Streeck 1987).

There are however problems even with this approach. Systems maintained by representative organizations can be slow to adapt to change because a large number of interests have to be consulted before a major adjustment can be undertaken. The German system is currently having difficulty adapting to the needs for social skills and to a more service- rather than manufacturing-oriented economy (Backes-Gellner 1996; Regini 1996).

Since the German economy is undergoing problems of competitiveness, resulting mainly from the costs of the unification of East and West Germany in 1991, many firms are arguing that they cannot afford the costs of sustaining the apprenticeship system and the representative organizations (the *Kammern*²) that sustain it. The *Kammern*, although part of the business community, are seen as embodying collective concerns, sometimes also

government concerns, and thus can be criticized by firms as imparting cost burdens which weaken the international competitiveness of German firms compared with those from countries where there are no such obligations.

It is unlikely that German business will destroy a VET system that has given it so many competitive advantages. It is however likely that current problems will prevent the system from developing as it now logically should. One implication of rapidly changing skills and technologies is that workers need frequent retraining and up-skilling. The German and indeed all other apprenticeship systems are heavily weighted towards the initial training of young people, and should probably now be considering ways in which elements of the co-ordination mechanisms used for this VET could be extended to further training. However, German employers are arguing that, precisely because they bear such a burden of collective action at the apprenticeship stage, they should be left completely free to act autonomously over further training (Crouch *et al.* 1998: ch. 5). Adaptations *could* be made to the German apprenticeship system. It has changed much in the past, and in principle the dual system could be extended to further VET. If these changes do not happen, it will be because firms do not want external intervention in their affairs, not because apprenticeship and interest associations are inherently incapable of adaptation.

A further problem is that, in a period of uncertainty, young people face a difficult dilemma in choosing between applied courses of the apprenticeship type and a general, academic education. For those who succeed at it, the latter offers more prestige and is potentially more flexible in terms of the job opportunities it offers. On the other hand, for those who pursue it unsuccessfully, general education is far more likely to lead to dead-end and low-skilled employment than specific skills training. *Ceteris paribus*, for the individual there must be a bias in favour of conserving the possibility of aiming high, and therefore of taking more general courses. However, for the many who will not be among the more successful, this will turn out to be a poor choice.

Business Expectations

Related to this problem is a frequent inconsistency in the business sector's expectations of the education system. There are some difficulties in establishing firms' preferences here. On the one hand, they increasingly want good general standards of education rather than highly specific skills. This is a reflection of two major changes taking place in the character of work: the frequency of change itself (i.e. of change in the skills required to perform a job) and the need for flexibility and adaptability; and the growing importance, even in the manufacturing sector, of service skills, skills of personal communication. These changes lead employers to seek in new recruits an ability to learn and what they usually call 'social skills' (Regini 1996), which might mean anything from an ability to co-ordinate and secure co-operation, through an ability to communicate effectively, to a simple

willingness to obey orders. With the exception of the last mentioned, these are the kinds of abilities that general education is best at providing. On the other hand, firms are often very critical of general education systems, saying that they want an education that is more closely geared to the world of employment. Their position is not necessarily contradictory. This may be a matter of different employers, or employers of different types of labour, having different requirements; firms may be seeking a general education but of a different kind from that being provided by educational institutions; or firms may want people with the adaptability that a general education can give, but articulated according to a specific corporate culture.

Firms can resolve the dilemma of the relationship of their specific needs to employees' general educational background in three contexts. The first is a system of apprenticeship, provided this can respond sufficiently rapidly to employers' needs. The second, which corresponds to the position in the USA or, to some extent, the UK, is a general education system which provides a vast, unstructured diversity of opportunities, some of which will be wasted and misguided, but others of which will hit the target of providing employers with what they require. Third is the Japanese large-firm model, which represents a particular combination of the other two: general educational provision of a US kind, but within a more 'German' context of a clear indication of the likely successful routes.

The second form may well be preferred by many employers, in Germany and Japan as much as in the USA, as it meets some of their current preoccupations. On the one hand, little is required from firms in terms of interaction with governments, agencies, schools or even business associations or *Kammern*, interactions which might add to firms' costs and slow responses at a time when labour costs and speed of response are a priority. The model also assumes a large supply of potential labour from which some can be selected and many rejected—a characteristic that would not commend itself to employers at a time of consistently high employment as in the 1950s and 1960s, but would be quite acceptable in a prolonged period of slack labour markets.

If we view the situation through the eyes of a young person on the other side of the market, such a system may look less attractive. Suppliers of own labour power differ from suppliers in most other markets. Especially if we take the position of young potential suppliers of labour, deciding on what courses to take in order to appear attractive on the market, they suffer from a number of disadvantages. Virtually by definition, they are poorly informed and unable to appraise the variety of courses knowledgeably. They must however make decisions that will not be easily reversed but which must predict accurately the state of labour market opportunities in a future time period—the period after they have completed their educational preparation. They must also make extensive investments of time, energy and possibly money. Also, they cannot afford to make mistakes, since when all one is taking to market is one's own labour, one is offering only one item for sale, and one that has taken a lengthy period of preparation.

In many circumstances there are no reasons why firms, left to themselves, should not engage in a large amount of vocational training, especially the increasingly important reskilling of existing workers—although the new emphasis on dissolving the employment contract into labour subcontracting and a shortening of the length of time that workers spend with a particular firm contradicts the idea of a growing emphasis on further VET for an existing work-force. Company-led VET is likely to be exceptionally adaptable and seems to be associated, at least in the strong if different cases of Japan and the USA, with high performance in particularly highly skilled and innovative areas. However, it remains doubtful whether, by itself, an approach of reliance on firms can in any way produce the frequently stipulated requirement of an up-skilling of most of a working population—even where, as in the USA, that reliance is linked to a public policy and a general cultural bias in favour of extensive general education. It cannot be claimed that, in any country relying primarily on autonomous company initiative, the majority of firms is operating at this standard. Even where firms do make a major contribution to training and retraining their employees, the evidence suggests that all except true leading-edge firms with a strategy of incorporating all their employees within their corporate concept do so for only a minority of their staff members, and limit further training to firm-specific skills which do not contribute to labour market flexibility.³ Similar problems are reported of firm-level further VET in Germany, where as we have noted the collective co-operation of initial VET system is not carried over into further training.

The current period is one of uncertain product markets and intensified global competition in which firms need to reduce their costs wherever possible, but in which a combination of rising educational standards and high unemployment are making skilled labour a plentiful commodity. In this context firms have strong incentives to move from a 'voice' to an 'exit' approach in their labour market behaviour,⁴ stressing the need for complete ease and freedom in hiring and firing policy while reducing their engagement in all institutions that require interaction and communication. In this environment, the pursuit of the learning society as a general collective goal or object of public policy cannot be delegated entirely to firms. The growing paradox of the simultaneous demand by firms for both higher general education and VET to provide greater adaptation to the milieu of the individual firm requires change from all forms of VET system: greater adaptability on the part of apprenticeship systems; far more effective advice to young people facing the deceptively helpful diversity of so-called free market systems; and some fundamental reconsideration of systems that provide rather narrow, public VET schemes with little contact with industry itself.

Company Cultures or the End of the Employment Relationship?

Further ambiguities in firms' definitions of their needs are embedded in an issue that has already been mentioned above: the tension between

employers saying that they want on the one hand to engage employees for long-term commitment and skill development, and on the other to make labour more easily disposable. When firms say they want a general, educated adaptability, but one defined and articulated according to a specific corporate culture so that new employees will identify with the firm and its goals, they are probably prepared to provide such an acculturation themselves, avoiding the usual collective action problems. However, while employers increasingly stress the specificity of their cultures and their desire to inculcate their employees in them, they also increasingly stress the need for greater ease of hiring and firing and tell employees that they must expect to change jobs more frequently than was common in the past. The short, and declining, length of time spent with a particular employer by the average US employee today is often seen as a mark of the superiority of that country's employment system (OECD 1994)—even if there is evidence that some of the very brief periods that young people spend with employers are not so much examples of flexibility of employment as inefficient job matching caused by failures of communication between general education and vocational needs. A decline in employment length is meanwhile being recorded in Japan, Germany and other nations which in the past had lengthy average employment periods (OECD 1994).

Even more challenging to the company culture idea is the trend towards ending the concept of employment altogether and replacing it by a series of contracts between a customer firm and a mass of small labour-contracting firms, temporary agencies or, in extreme cases, individual providers of labour services. These may be accompanied by the growth of supplier communities as in Japan, in which case they are compatible with a corporate culture model. However, if, as is often the case, they are advocated as cost-cutting and commitment-reducing strategies, this is unlikely to occur. This will be particularly the case if, as in the UK, subcontracting and franchising are not really examples of small-firm formation but rather of self-employment without infrastructural support.

It is often likely that these paradoxes are resolved by segmentation, with firms retaining a long-serving group of key staff who are inculcated into a culture and a larger number of other, marginalized kinds of employees (part-time, temporary, casual), franchisees, subcontractors and suppliers of independent labour services who are outside that circle. However, it is also possible that, in the present context of intensified competitiveness, some firms are seeking to discover how far they can proceed with a policy of 'eating one's cake and having it': seeking strong but *unreciprocated* commitment and loyalty from staff. Anxieties about the constant pressure to demonstrate to shareholders adequate achievements in down-sizing and delayering lead managers to do this, these managers themselves being vulnerable to redundancy through these processes. There will be those who respond positively to this situation: people confident in the scarcity of their skills and of their chances of gaining new employment once the current contract ends. This will be common among people with particularly rare

skills, who are able to charge sufficiently high fees of their services to provide them with security during any temporary periods of unemployment. Many modern technological occupations embody elements of this, but these are hardly majority cases. Such people are most likely to be found at the sharp edges of new technology or science-based innovation, where the high morale produced by being involved in exciting innovation can provide that combination of total dedication to the task in hand with willingness to accept a high level of insecurity, which for contemporary employers makes the ideal worker.

However, even these qualities may have collective and institutional components. It will be easier for a highly skilled person to accept insecure employment in one firm if that enterprise is part of a network of similar firms whose managers and staff know each other well, since there will be a reasonable chance that the end of a contract at one firm will be quickly replaced by one at another with whom the worker may already be in contact. It will be very different for employees of isolated companies not so mutually connected. These are among the advantages of industrial districts, including those in the USA of high-tech firms.

The Loss of Confidence of Government Agencies

A further consequence of the lead passing to firms is that government agencies are trying increasingly to work close to firms' needs. This can resolve some of the problems of remoteness and rigidity that have often characterized the bureaucratic mode of public economic intervention, producing some new creativity in relations between government and business, especially at local level. However, some of the circumstances that have accompanied the move have produced a kind of crisis of self-confidence in public agencies which limits their competence to make a contribution. In general, the state, even the French state, is losing its claim to be able to guide firms that have not found dynamic new paths for themselves into appropriate courses of action (Crouch *et al.* 1998: ch. 4).

Are any institutions today in a position to carry out such a task? As recent responses of Swedish employers have made clear, even when business leaders share the objectives of improving skills, they do not want this to proceed at a pace any faster than, or under a direction other than, those of individual companies (*ibid.*; Sweden 1992). On the other hand, governments cannot pursue skill maximization strategies unless they are in close touch with business interpretations of what this means in practice. Once their officials and professionals retreat to a role of deregulating in order to leave space for company autonomy, and to the residual role of caring for social casualties, they cease to be plausible participants in the development of a high-skill economy and lose the possibility of acquiring and maintaining the expertise necessary to function as well informed participants in the provision of advanced skills. They also thereby lose the capacity to improve the skill positions of their populations beyond the extent to which the

companies operating within the borders of their states find to be in their own interests.

Government action then tends to become associated primarily with the care of social casualties and with failure. This raises very difficult questions. Governments retain responsibility for the hard-to-employ, and develop special schemes to equip unemployed young people as well as the long-term adult unemployed with skills that will improve their job chances. In virtually all countries, this is the biggest single role for government in the VET field. Should this work be kept in special agencies set apart from the rest of VET strategy? Or should it be integrated with measures to advance 'state-of-the-art' skills? If the former route is followed, work with the unemployed becomes restricted to a clearly labelled ghetto, the training institutions involved will be stigmatized as dealing with failures, and they will be quite cut off from all areas of advance.

Probably for this reason, most governments have integrated work with the unemployed with strategies for advanced VET. However, this is often unrealistic as the two sets of activities are very different. There is then a danger that the stigma attached to remedial VET extends to the whole public policy component and that government agencies are simply not taken seriously within advanced areas. They then become cut off from important developments and lose both confidence and eventually real competence. This then harmonizes with the prejudices towards most kinds of government action of current neo-liberal orthodoxy in a self-reinforcing way: the state's role, having been residualized to one of a safety net for the welfare casualties of the economy, is then residualized further because it has become associated with such tasks and is therefore seen as inimical to innovation.

3. Policy implications

Growing dependence on the individual enterprise rather than general public policy as the source of major initiatives in work skills raises a major paradox. The acquisition of skill has become a fundamental public policy issue, almost a requirement for future guarantees of effective citizenship if the price of poor or inappropriate educational preparation for work is likely to be a low-paid job in a low-productivity sector with diminished security. For its provision, however, we are increasingly dependent on the private sphere of the individual firm which can have no responsibility for general needs. In conclusion, it is possible to point to certain possible policy responses to these trends and concerns.

Reasserting the Role of Public Agencies for Pursuing High Skills

Public agencies (including business associations) must be able to play an effective part in trying to maximize the role of advanced skills in the economy if we are to transcend this dependence on individual firms. To do

this they will have to be equipped with appropriate and rapidly changing knowledge. This does not lead to the increasingly fashionable solution of public agencies working with companies through a mode of 'market' provision of advice like any other consultancy, since this merely follows firms' existing perceptions. Public VET bodies must certainly work far closer with firms than in the classic mode of, say, French or Italian state provision; but they must do so from positions of authority, based partly on their being channels of funds allocated authoritatively, and partly on the fact that their decisions are rooted in extensive knowledge, so that they will win the respect of firms. They must therefore be well resourced and well staffed with professional experts with long-term commitments to this field of work. The model of short-term employee contracts, with agencies fighting for their own survival and more worried about possible bankruptcy than about becoming major sources of expertise on skill requirements, that has been imposed on British Training and Enterprise Councils (TECs)—following the rather unsuccessful model of British small firms in general—is not a helpful guide (Crouch *et al.* 1998: ch. 7). A neo-liberal residualized concept of public service, in which all attractive activities have been hived off to private consultancies, leaving public policy in the hands of a rump agency with poor quality staff, scant resources and low prestige, cannot provide the basis for an authoritative service.

In particular, the role required will not be achieved by agencies whose principal responsibility is seen as catering for the unemployed, especially where responsibility for placing the unemployed in jobs linked to that for disciplining them and requiring them to accept work offers. When these strategies are adopted, the public service cannot then become associated in employers' minds with advanced developments in VET. King (1995) has recently described how, during the 1970s, employment placement services in many countries adopted a path of moving up-market, delivering high-quality services from High Street premises and extending their appeal to a wide range of potential employees. This was part of an upgrading of public labour market policy in order to help people maximize their career opportunities. A central aspect of this task was the complete separation of this career guidance service from that of paying unemployment benefit and checking on the job searches of those registered as unemployed.

King then describes how this strategy has been completely reversed since the late 1980s, initially in the UK and the USA but through a policy that has now become central to the employment strategy of the Organization for Economic Co-operation and Development (OECD) and recommended to all member countries (OECD 1994). There are two reasons for this. First, job placement services are being privatized as part of the general contemporary strategy of stripping back public activities. Clearly, private job placement agencies want to take over the task of advising and placing those for whom it is easy to find employment. The remaining state service therefore becomes again a residual one, the staff of which will not gain experience in tracking high-quality labour needs. Second, in order more

closely to monitor the behaviour of the unemployed, services of benefit payment, job search and policing are all concentrated in the one residual employment department.

The story is an interesting case of how perceptions of the employment problem among government departments in a number of countries have changed, away from trying to ratchet up the skill needs and practices of firms and towards finding low-wage jobs which the unemployed can be encouraged to take up. TECs in the UK have had a similar experience affecting not job placement services, but agencies designed originally to be the spearhead of Britain's challenge to German and Japanese skill levels.

It is legitimate to conclude from this that public agencies in this field need to be able:

1. to relate closely to individual firms; but
2. to advise firms on the basis of an authority based on constantly updated knowledge, so that competences can be ratcheted up and so that educational institutions and relevant government departments can be kept in touch with what is required; and
3. to be able to influence firms' further VET efforts as well as their participation in initial training.

This has a number of implications for the design of policy and policy agencies. Such agencies must be well resourced and able to develop high-quality expertise so that they can become associated with success. They will probably be best equipped to operate authoritatively if working closely with business networks and neo-corporatist associations, and the state must be endowed with sufficient authority to counter cartelistic tendencies within these networks. Such requirements could be embodied in a number of different institutional forms, depending on what most suits local political cultures, although care needs to be taken with the precise design—departments of central government, provided they are capable of responding genuinely with local initiative; less formally structured agencies, provided they are not compelled to act in a passively responsive market mode; chambers of commerce or similar representative bodies of business, provided they are free to support innovation and new industries; community colleges linked with local economic development agencies; etc. It is particularly important that, however the training is provided, a public agency has responsibility for standard-setting and monitoring.

Such policy instruments need to be kept separate from the task of dealing with mass unemployment. Their role is necessary to competitiveness in any business community that does not seek to find its market niches by stripping down its labour and other social standards to the point where it can compete with the new industrializers; and if they are successful they will and do produce employment opportunities of good quality. Even a country like the UK, which has had as a self-proclaimed policy that of trying to compete by reducing labour standards, finds its export successes at the top end of the market. If the UK were to improve its international performance, it would

be by increasing the number of firms capable of competing in this way, not by entering new low-quality markets.

Reasserting Publicly Funded General Education

The current trend towards low taxation and concomitant reduced public services that has become near-universal in the advanced world has unavoidable implications for skills and employment. In virtually all countries there are major inputs of public spending into education, usually concentrated on the young. There are strong public-goods aspects of education, which make it impossible to treat it like just another consumption good or even an investment good. A commitment to a learning society requires more and constantly improving education at all levels, and it is difficult to see how this can occur without concomitant increases in educational spending. Individuals might be expected to make some contribution to the costs of their own education, but the scope for this is limited.

At younger age levels the expenditure is that of parents rather than individuals themselves. Since children can rarely be expected to repay their parents' expenditures on them, such spending does not take the form of rational investment expenditure in anticipation of individual gains on the part of the investor. It is far more likely to be determined by parents' current income and wealth. A shift towards increased parental contributions to educational spending would therefore produce a strong shift in the take-up of educational opportunities towards that by young people from wealthy families. Such a development would ease the problems of governments based on political parties drawing much of their support from such families, as their voters would feel less anxious than at present that their children will face competition from others for what promises to be a declining proportion of well rewarded secure positions in the economy of the future. However, it would not only be incompatible with the promise of equality of opportunity, which remains a universally accepted educational slogan among all shades of political opinion in most societies, but it would also be incompatible with the concept of a learning society. This requires a maximization of the use of human intellectual abilities, not their restriction to those from wealthy families.

At older ages greater use can be made of individuals' willingness to invest in their own skills, as the US model shows. However, scope here is also limited. First, the inequality effect of differential parental wealth still operates. If young people from the bulk of the population are to finance their own advanced education, they have to do so by working part-time during their studies. Large numbers do this in the USA, the Netherlands, Denmark, the UK and elsewhere (OECD 1996). In many ways this can be a useful development, giving people work experience and providing a supply of workers who do not seek security or full-time work while able to bring to the routine tasks they perform, mainly in the retail and catering sectors, a

level of alertness and ability that would not otherwise be available to employers in those fields. Beyond a certain point, however, simultaneous study and paid work will affect academic performance and therefore lower the quality of the educational enterprise.

Alternatively, firms might be expected to make more of a contribution to subsidizing general education, as many of them are doing in such countries as Sweden, the UK and the USA. But again the scope is limited. If there is a free-rider problem about firms providing vocational education, leading virtually all countries to develop policies for encouraging them to do this, it will be that much more difficult to persuade more than a few of them to assume a growing share of the task of funding general education. If one reason for trying to move to a low-tax economy is to reduce the cost burden on companies that must compete globally with countries that impose few costs on firms, there is little to be gained from replacing taxes by direct contributions from firms to fund the same services.

It is difficult to see any major democratic alternative to a prolonged and intensified commitment by governments to publicly funded education at most levels as part of the learning society strategy.

Reasserting the Role of Public-service Employment

However, it follows from many of the foregoing arguments that an important minority of the work-force will be unable to participate in the employment provided by the learning society; even specific skill-upgrading agencies will not be the route through which the majority of the unemployed will find work. Indeed, in their work for further VET they will be helping those already in employment, not even labour-market entrants; and, as we have seen at a number of points, involvement with work for the mass of unemployed diminishes at least the image and probably the substance of agencies' attempts to operate at the top end of the skills range. This challenges the position of those who posit improvements in VET as an alternative to the growth of low-productivity jobs, and also of those who claim that deregulating labour markets and leaving firms free within the market will both reduce unemployment and encourage improvements in quality in VET and elsewhere.

For many years to come, many members of the work-force will be unable, as a result of both demand and supply factors, to gain high-quality places in the labour market. It should not be pretended that, if only they showed adequate initiative and responded to the educational opportunities available, most of them would be able to do so. Many will be forced to compete for the low-productivity opportunities that will not require high levels of education except as the filtering device through which, by definition, many will not pass. Either people in this position will have to face low wages and high insecurity by competing for jobs in deregulated private services as their long-term prospect; or an expansion of public services will provide them with secure but still low paid work.

Such choices are beyond the scope of this article, but in any event consideration needs to be given to the future of public services as sources of employment. The primarily public social and community services sector of the economy has been the principal employer of highly educated labour in all countries (Crouch 1998: ch. 4). (Even where, as in the USA, a large part of the sector is counted as private, that includes a good deal of charitable and publicly subsidized provision; the amount of pure market activity in this area is limited.) That sector and the services it supplies, some of which make a central if indirect contribution to competitiveness, have therefore been a fundamental component of the high-skill economy. A concentration of public policy preoccupation on reducing the size of the public service would not of course lead to a complete loss of all occupations and services currently being performed there; some would thrive under privatization and marketization. There would however be a large net loss: to take only the example closest to our current concerns, a complete marketization of education would lead to a decline in its up-take by poor and moderate-income families, with a large loss in both high-skill teaching jobs themselves and in the economic contribution that results from an educated work-force.

At the same time, public services have been important sources of employment for low-skilled workers too, as several services with a public-goods component require only low-skilled labour (Crouch 1998: ch. 4). One thinks immediately of the whole range of environmental cleaning services—refuse collection, street-cleaning, maintenance of public spaces—and also of elementary child care and some hospital employment. These services have often made a distinctive contribution to the structure of employment available in advanced societies: work that requires little skill, pays rather low wages, but offers security of employment and (because of the commitment of most public employers to concepts of ‘the good employer’) freedom from the brutalization often associated with low-skilled and low-paid work. The anxiety to reduce the size of public employment and taxation has recently led most national and local governments to make working conditions for this kind of employment more closely resemble those to be found at the low end of the private sector, either by privatizing it or changing its regime through marketization within the public service.

If we must accept that a sizeable number of people are destined to remain in low-skilled employment, the former public service model will require rehabilitation. A dilemma currently preoccupying the OECD is that, while wages should fall at the lower end of the skill range in order to increase the supply of jobs, poor and insecure working conditions and frequent job changes have a demoralizing effect (OECD 1996: xx). The public service model of low pay combined with decent conditions, which it is difficult to achieve in the down-market private sector, can square that circle, and did so for many years in most countries. It may well be possible to achieve efficiency savings from a committed, permanent work-force even at these low skill levels, but overall it must probably be conceded that this is not the cheapest form of public service: at the lowest skill levels where there is little

to be gained from 'investing in people', that can be best achieved through harsh conditions and frequent dismissals in order to find ever cheaper workers.

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Notes

1. The so-called Heckscher–Ohlin effect (Ohlin 1967).
2. In full, *Industrie- und Handelskammern*. Although this translates as 'chambers of industry and commerce', the German institutions are quite different from British chambers of commerce, in that they have a formal status in law which both requires firms to belong to them and accords them specific rights to participate in certain areas of policy.
3. Becker (1964) argued that skills could be divided between the general (which would be financed by students themselves or a public education system) and the firm-specific (which firms would provide without fear of poaching because other firms could not make use of them). Therefore, he claimed, the often discussed collective action problems of providing VET did not really exist. However, Stevens (1995) has pointed to the existence of 'transferable skills' which are too specific to be provided easily by general education but which can be used by a number of different enterprises.
4. In the sense of that distinction developed by Hirschman (1970).

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Discussion

Francis Green

The notion that there is a new international division of labour characterizing the present era was first given prominence in the 1970s. The idea that there is something special about technological change has a very long lineage, but in recent years it has acquired prominence among economists as one response to the discovery that wages in many countries are becoming seriously more skewed. Whatever stance has been taken on the relative magnitudes of technological and global economy changes, there is a widespread view that the solution in the economies of the West is for all to become highly skilled, thereby enabling all to respond to the possibilities of the new technologies, keep ahead of the Chinese and other low-wage producers, and locate themselves cosily in the global division of labour for the foreseeable future. Americans are going to go 'thinking for a living', Australia is going to become the 'clever country', while the citizens of Britain are encouraged to 'learn to compete'. An apparent consensus has been constructed across a considerable range of the political spectrum in favour of education and training. Crouch's paper, a welcome antidote to such euphoria, aims to dissect the material basis for this consensus and the coalitions that it supports. In my discussion I will focus first on some underlying assumptions, and then consider some key policy issues.

There are several approaches that could be taken to understanding skill formation systems. These include that of the educationist, whose concern is typically with the institutional architecture and with the content of education. Then there is the human capital approach of the economist, whose concern is with incentives and rates of return. There are alternative approaches which, in contrast to human capital theory, stress the social context in which skills are formed: these include the internal labour markets approach associated with Japanese scholars (Koike and Inoki 1990), the corporatist approach advocated, for example by Streeck (1989), the 'business systems' approach developed for example by Whitley (1992), the similar 'societal' approach articulated by Maurice *et al.* 1986, and the political science driven approach associated with Finegold (1992). What all these approaches have in common is the search for a successful resolution to the problems of skill formation, under the assumption that such a resolution is necessary for the successful development of capitalism in the advanced industrialized countries. What the best of these approaches also stress is

Francis Green is Professor of Economics at the University of Leeds.

that, while necessary, it is not sufficient for economic success. Crouch's paper is to be commended for its emphasis on this point.

Is the assumption correct? The answer depends on the notion of 'successful development'. If one means a capitalism in which economic growth is stable and shared among the population, the assumption is easily justified. To take the 'high road', with high and increasing real wages for workers as a whole, then not only those in the high-tech and traded sectors but also those providing non-traded services must become more skilled, so as to provide those services with price increases low enough to keep real wages rising. If, however, one means a capitalism (or a regime of accumulation) in which the profitability of capital is sustained or expanded over the medium term of a decade or two, then the assumption that high levels of skill formation are necessary is far from proven. It is of course quite feasible to have an economic regime that provides a profitable location for business but a less than congenial environment for workers and citizens. Such a scenario is common across large swathes of the low-wage sectors of advanced capitalism. Forms of de-skilling technology are far from extinct, while neo-Taylorist and neo-Fordist forms of production continue to flourish in many places. Increased 'flexibility' of employment is the familiar adjunct. Much of the debate about skill formation systems appears to proceed on the assumption that this type of advanced country capitalism must be on the way out—either because it cannot compete with the vastly inferior conditions in the Third World, or because it is less efficient than more humane forms of capitalism. But the evidence in favour of this empirical proposition is far from convincing. Although there is an undoubted shift of work-force composition in favour of higher-level occupations, evidence about skill requirements within occupations remains mixed. It is sometimes assumed that businesses will determine their location in the advanced countries on the basis of available high-level skills—but the evidence that this may be happening is sparse. And this is hardly surprising: labour costs are only one of the factors determining location strategy.

In short, I would seek to modify the underlying assumption of Crouch's and other approaches, and suggest that a resolution of the skill formation problem is necessary for a successful *inclusive* development of capitalism, that is, one that includes the whole population in the potential gains. Put this way, the urge towards skill formation will probably not command universal support. As Crouch shows, for many people the importance of education lies in its exclusivity. It is not hard to see how a common viewpoint may be constructed across substantial sections of the population in favour of education, especially if that consensus is linked to a mode of economic growth that incorporates all. Hence we have the political coalition supporting education in the current era. But coalition is not consensus: there remain conflicting interests in respect of education and training which embody many of the wider conflicts within society.

What, then, are the determining factors for a high-level skill formation system? Together with David Ashton, I have suggested elsewhere, on the

basis of comparative and historical evidence as well as theory, that there are several related features necessary to support widespread high-skill formation in an economy (Ashton and Green 1996), including the following.

First, the ruling political class must be committed to this objective. (It helps if their *raison d'être*, their prime basis of legitimacy, is linked to economic growth, as arguably is the case in the developmental states of East Asia.) Second, this class must be able to deliver a universal education system that produces a work-force widely equipped to undertake work-based skill formation. Third, employers must themselves be predominantly committed to competing on the basis of high value added products and processes and high-skilled labour. Fourth, there must be some form of regulation and accountability in the process of skill formation at the workplace. Fifth, there must be some means through which employees themselves will become committed to the goal of skill formation.

But the devil, of course, is in the detail: how are these commitments to be sustained? Ultimately only a historical, in conjunction with a socio-economic, perspective can provide the answers.

The employer issue is crucial, since needs for skill formation cannot be met without the commitment of the employers. For reasons frequently rehearsed, unregulated individual employers will opt to provide and fund a less than socially desirable amount of training. A collective solution is called for, but this need occurs in the era of neoliberal ascendance which militates against intervention in firms. Crouch elevates this conjuncture to the status of a fundamental paradox. Perhaps, however, it would be better to see it as a contradictory tendency, since both the socialization of skills and neoliberalism are key features of the modern regime of accumulation, and their conjuncture contains the seeds of instability. Crouch's policy response is logical: to recreate a collective presence in firm-based skill formation by means of knowledgeable, authoritative and well-resourced public agencies.

An interesting aspect of the analysis is the implicitly Marshallian distinction between the short and the long term. Suppose we could successfully raise the supply of at least some types of skill. Then in the short term, with given products and processes of production, skills will be in excess of supply and their price may fall. How will employers respond? Crouch's presumption is that in the long term they will alter their productive systems to make use of the easily recruited (because temporarily oversupplied) skilled workers. Nevertheless, he recognizes that this adjustment mechanism is weak, just as others have argued cogently that the problem is frequently on the demand side rather than the supply side. Meanwhile, there is no let-up in the rush for more education, a positional commodity which each individual or family hankers after but wants others to have less of. Alternative nightmare scenarios of excess competition for scarce educational places ('examination hell', as it is called in the Asia Pacific region) or disillusionment with education could be considered.

Despite the centrality of the short-term/long-term distinction in Crouch's analysis, his policy discussion does not address the distinction. Is this

because there is no solution to it? It is perhaps too early to draw that conclusion. It is one thing to dismiss the possibility of a return to Keynesian-style full-employment policies based on demand management; it is another to rest silent on the possibilities of some form of industrial policy. The experience of the newly industrialized economies in the Far East may be of some relevance here. It has now become common currency that part of the reason for the successful growth performance of these countries is their initial investments, back in the 1950s and 1960s, in high levels of enrolment in primary and secondary education. It is also coming to be realized that these economies were far from the neoliberal paradises that some neoclassical commentators had made them out to be. What is less commonly understood, however, is the extent to which skill formation policies in these countries have to varying extents been driven by their successive economic and industrial policies. Their institutional configurations have been such as to achieve a relatively close match between skill needs and skill supplies—this over a period of a hardly credible rapid change in social and economic structure. Now that South Korea, Singapore and Taiwan have become modern industrialized countries, one might take the view that they will face the same complex paradoxes that the West has had to deal with, and that the ability to influence both the demand for and the supply of skills will be severely curtailed by global economic forces. But that might, alternatively, be wishful thinking for the West. It remains the case that these countries are still expecting to effect such a match, and to provide strategic thinking about skill formation from the centre.

Could such an approach be developed in the West? Obviously not, if it is assumed that neoliberalism is sure to sweep all before it. But I do not subscribe to the view that there is no influence to be had from national governments.

Consideration ought to be given to the possibilities of a skills-oriented form of industrial policy, one that would give substantive incentives to companies to adopt skills-oriented strategies, and would create an appropriate culture of expectations. For example, one could link policies to attract foreign capital with skill-formation conditions. The extent to which multinational corporations settle in one country rather than another because of the supposed superior skills of the work-force is often wildly exaggerated; the evidence is simply not there. But it would be possible to use the argument the other way round, by taking the opportunity of that investment to push forward the process of skill formation. A second example would be the cultivation of something like the British Investors in People standard, designing it to ensure not only that personal development and training are open to all employees, but also that the newly acquired skills are genuinely used in production. The standard could be used strategically, for example by pushing it strongly in certain industries, and/or by making it a requirement for companies bidding for government procurement contracts.

In the context of a skills-oriented industrial policy, a training levy–subsidy system could be used as a device for the efficient organization of skills supply

—those places that can most efficiently provide training facilities would have the incentive to do so. In most cases, training levy systems have broken down under the twin pressures of insufficient employer commitment to training (hence ‘levy’ is seen as ‘tax’) and inadequate accountability for subsidies. But it is quite possible to conceive how, within an industrial policy, an appropriate culture of expectations among employers could support a levy–subsidy system. It remains an interesting conundrum in comparative analysis as to why France stands out as an exception among industrialized countries in having sustained a training levy–subsidy scheme for the best part of three decades.

These examples of forms of industrial policies are given not because any of them would on its own solve the problems, but to suggest that there is scope for imaginative policies to influence the direction of firms’ investment in both physical and human capital. Such policies fall short of the ‘picking winners’ policy said to be impossible in a complex advanced economy (though policy-makers in the newly industrialized Asian economies would not necessarily agree with this). One is struck by the absence in most industrialized countries of strategic institutions to co-ordinate skill formation and economic policy, institutions that might be expected to devise and promote policies for skills supply *and* demand. Typically, industry and trade ministries are not linked with employment or education ministries. If they were, might we not expect more skills-oriented policies to emerge? Such policies might address the weak link between the short term and the long term, about which Crouch is otherwise rightly pessimistic.

My second policy comment concerns the trade unions. Crouch gives only limited space to their current predicaments and possible contributions but, I believe, underestimates their potential. It is not just at the bargaining table that they can make their push towards higher levels of skill formation within companies. Nor is it just at the higher echelons of policy-making institutions that they can have an input. They can have a major role in the regulation of training. This could constitute a direct response to the paradox that Crouch has referred to: the necessity of relying on firms themselves for skill formation, but the disjuncture between their individual and collective objectives. Indeed, unions could be an important collaborator with the authoritative and well resourced public agencies that he proposes. In particular, unions have a direct interest in ensuring the quality of training provided. This function goes beyond that of somehow redistributing training budgets from managers towards their members.

Unless it is to be assumed that trade unions are simply out of the equation, in the midst of the neoliberal tide, it would seem to be an important adjunct of skill formation policy to re-empower the trade unions with this emphasis. It should be evident that this would hardly be rejected by the unions themselves. In corporatist Germany the unions are already intimately involved as far as the training for apprentices is concerned. In Britain and elsewhere, unions also sometimes play an informal role in discussing training matters with employers. This pattern could be relatively easily

extended and if necessary formalized. Another important plant-level role would be to encourage members to take up training opportunities.

Third, I want to support wholeheartedly Crouch's contention that improved general education must come ultimately at some expense to the Treasury. Other sources of funding, and supposed efficiency savings, are bounded. Take away the commitment and power of the political classes to deliver a more highly skilled work-force (conditions 1 and 2, above), and the prospects for a learning society are dim. An intriguing question concerns whether there is any material basis for the neoliberal stance favouring education. Crouch gives us two possible answers: in the affirmative, in that education may enable a reduction in welfare expenditures; or in the negative, in that the stance is mainly rhetoric with no substance.

Let us accept that money and teacher inputs are not all there is to successful education. (Individual and social commitments are of course also important.) Yet an examination of the objective facts on funding may help one to look behind the rhetoric of educational politics. A somewhat depressing picture emerges from taking this simple approach for Britain, which gels with Crouch's more pessimistic scenarios. In the two decades since the mid-1970s, there has been substantial institutional and political change, and education participation by those over 16 has expanded. However, the average amount spent on the education of each pupil in state schools, when deflated by the average earnings of the British work-force, has marginally decreased. During this time the pupil-staff ratio was reduced marginally (from 20 to 19). These changes contrast sharply with the resources devoted to education of pupils in independent schools. There, the pupil-staff ratio started off more favourable than in the state sector and improved much more (from 14 to 9). This contrast is entirely consistent with Crouch's argument about the exclusive objectives of individuals for education coupled with collective unwillingness to fund through taxation a more general upskilling—a case of what Galbraith has called the 'culture of contentment'.

Finally, if, as Crouch contends, raising skill levels is not in itself going to raise employment, at least in the short term, what alternative policies are available to reduce unemployment? The proposed answer—to rely on an expansion of public employment—has its attractions, but it must be recognized as a political rather than a technical solution. It is a political solution if only because it has largely egalitarian features which would not be universally accepted. Nevertheless, what one can agree about wholeheartedly is that it is a mistake to confuse or conflate employment policy with a general upskilling strategy. One reading of the life and times of Britain's Manpower Services Commission illustrates what can happen. Here was a semi-autonomous agency that might have made a substantial contribution to upskilling the work-force in the 1970s and 1980s—but its energies were diverted to the pressing task of dealing with crisis levels of youth unemployment. Of course, training needs to be made available for displaced workers. Yet if policies and agencies are allowed to concentrate only on that objective, the likely result is a dilution or negation of the upskilling process.

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