

Causes of unemployment in the 1980s



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Why did mass unemployment return to Britain during the 1980's and 1990's? What were the implications for the unemployed?

Introduction

Margaret Thatcher came to power following the infamous 'winter of discontent' in 1978-9. Once in power the Tory Government's debates were largely concerned with a free market economy versus the welfare state. Margaret Thatcher was influenced by the thought of the American Charles Murray (1984) who believed that current welfare provision was untenable, it undermined the work ethic and encouraged a culture of dependency. This idea was soon taken on board by the government who had already introduced measures that would roll back the welfare state and control spending. They did this by introducing marketing concepts and business strategies into policy making. They also began an intense process of privatization because it was thought that public ownership of companies, and the public sector in general undermined market forces. Giddens (2001) says that:

...the momentum of Thatcherism in economic matters was maintained by the privatising of public companies.....(this).. is held to reintroduce healthy economic competition in place of unwieldy and ineffective public bureaucracies, reduce public expenditure and end political interference in managerial decisions (Giddens, 2001: 434).

This paper will look the post-war welfare state and the high employment levels of the 1950s and '60s. It will then look at the rising unemployment of the 1970s and the Conservative Government's introduction of market

principles, their roll-back of the welfare state, and the increased privatization of the public sector. Finally it will consider why mass unemployment returned to Britain during the 1980s and 1990s. The paper will also look at how changes in the benefits system as well as changes in employment law affected those at the lower end of society.

Post-War Welfare Reform

From the 1930s onwards governments were heavily influenced by what is known as Keynesian economics, that is an economic system based on the thought of the economist John Milton Keynes. Keynes held that the surplus that arose in times of plenty would support leaner economic times so that everyone in society benefited.

Post-War welfare reform was basically a war on poverty and was based on a vision of full employment and a social contract between the Government and the members of society each of whom had equal responsibility for their welfare. The system grew out of the thinking of the economist John Milton Keynes. This was known as universal welfare provision and it meant that the state was involved at all levels of people's lives (Moore, 2002).. National Insurance was introduced in 1908 and was intended to give aid during periods of unemployment and to provide medical treatment in return for contributions that were deducted from people's wages. Further Acts were introduced in 1945 and 1946. Beveridge argued that they gave insufficient cover and were not available to enough people so he extended them for more claimants and more conditions. The new amendments meant that National Insurance covered as many people and conditions as possible it was meant to be fully comprehensive and based on flat rate contributions, i. e.

everyone paid the same. In 1948 the Government introduced National Assistance.. National Assistance was seen as a benefit of being a UK citizen. When this was introduced Beveridge believed that payments under this scheme would be small and also that the demand for them would decrease as the health of the nation (with the instigation of the National Health Service in 1948) increased. National Assistance was based on the needs and means of individual claimants and was thus a means tested benefit (Moore, 2002). The post-war government also introduced a system of benefits for couples with children in the Family Allowances Act of 1945, this later (1975) became known as Child Benefit which replaced family allowance and tax benefits for families with children. It was payable to all families for each child.

One of the problems faced by Government after the introduction of the Health Service was that it was completely free and as people received better treatment and their health improved they required more and better health treatments. This was contrary to what government had envisioned and was proving increasingly more expensive. By the 1950s the Government were forced to introduce some charges for dentistry, spectacles and prescriptions to ease the burden this placed on the tax system (Marsh et al, 2000)..

Employment at this time was relatively high but the demands on the system had been a lot higher than the government had anticipated, and tax revenues were not sufficient to continue meeting the full cost. The Welfare state and the economic thinking behind it were seen as being able to reconcile the needs of economic growth with the needs and aspirations of the working population. Under this system it was argued that economic

activity could be managed by government borrowing and spending based on rises and dips in economic development which could be ironed out to ensure continuous high employment and economic growth.

Problems with Welfarism

As Britain rebuilt its economy after the war this seemed credible, there was lots of employment. Employment was at such a high peak that there were more jobs to go round than there were people to do them and in 1948 the Government introduced the Immigration Act to encourage people from the commonwealth to come to Britain and work.

In Post-War Britain the major political parties were in general agreement over the use of Keynesian economics this agreement involved:

A commitment to full employment and an extensive welfare programme; the existence of a mixed economy, with a significant role for the public sector; and the use of Keynesian Demand-management techniques to steer the economy...the experiences of war had been critical in cementing the collectivist consensus-it was thought that government had the capacity to realise wider social objectives on which most agreed (Hayes, 1994: 58).

During the 1950s and the early 1960s employment was high and in 1959 the then Prime Minister Harold Macmillan was telling the country that they had never had it so good. Between 1948 and 1966 the unemployment rate was estimated at 2% of the population. ^[1] This did not last and by the mid 1960's concerns about the future of full employment were aired. Harold Wilson and the Labour Governments came to power in 1964 and unemployment began to rise, by the end of their office in 1970 unemployment had reached half a

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million. Labour and Conservative governments struggled to control rising rates of unemployment during the 1970's which were now pushing the million mark. The post-war welfare state claimed to be based upon the idea of universal provision. That is to say that everyone in a certain category would receive a given benefit rather than having to prove their entitlement by means testing. In reality even in the early days of the welfare state few provisions were truly universal because most of them were means tested (Moore et al, 2002). Post-War politicians believed at the time that they could eradicate poverty. Poverty, it is argued, stems from the idea that modern society produces people who are victims, the unemployed, the disabled, and those who suffer from long term illness. The duty of the state is to look after such people (Giddens, 2001). Many commentators however are of the opinion that the welfare state failed to deliver its promises. Alcock (1994) has argued that while the post-war welfare state may not have been successful it had attempted to bring about equality in society. He maintains that the Conservative Government that was in power from 1979-1997 arguably actively pursued policies that created greater inequalities.

New Right Thinking and the Thatcher Government

In Thatcher's Government discourse revolved around the notion that the introduction of market mechanisms would result in a more equitable system benefiting all. There was a firm belief that market principles should be applied in all areas of policy making. Thus Geoffrey Howe stated that government policy was:

... built on the emerging analysis of previous decades by taking markets as the key tool for disengaging the state from its political over-strength.

Markets to determine the value of labour. Markets to determine prices and investment. Markets to allocate resources. Markets to offer incentives and rewards...markets to build prosperity . [2]

Conservative and New Right thinking does not subscribe to the victims approach but believes that each individual is largely responsible for their own welfare. This approach is not really new, it dates back to the Elizabethan Poor Laws and especially to the reforms of that law in the 1830s. It argues that state services are not efficient and that welfare should be provided through the market, the family and charity. Thatcher's Government believed in encouraging people to think for themselves. Given their views on markets the Government wanted to extend the scope of private enterprise in the economy and to introduce market principles into the public sector. Thatcher's Government saw the health service as a drain on resources. Since its inception it had lurched from one catastrophe to another (Moore, 2002). In the 1980s the Government decided it might be more efficient if the Health Services were run according to business principles. They split it into two-purchasers and providers. Local authorities had a duty to find out local health needs and to purchase those from local hospitals and community health services. This was considered the best way of allocating Government resources because free markets were considered to be self-organising and should therefore increase productivity and improve care while at the same time being cost efficient.

Benefits Under the Conservatives

The Government took a radical approach to benefit because they believed that the system had become wasteful and bureaucratic and actually

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discouraged people from working. Their aims were to cut back the bureaucracy, spend less on social security and target the most needy. This meant that under the Conservatives the eligibility criteria for social security and family credit was raised. The 1980 Act tightened existing legislation and most earnings related supplementary benefits were abolished. 1986 Social Security Act introduced Income Support, intended for those with no entitlement to unemployment benefit, later partly replaced with jobseekers allowance, family credit and the social fund. This replaced the allowances which were given to help with bills or purchasing household necessities. The social fund was distributed at the discretion of DHSS staff. It was made as a loan which had to be repaid. The Government also changed the pensions scheme and introduced pensions that were paid at different rates according to what a person had earned SERPs. Child Benefit which was introduced by Labour in 1977 was frozen in the mid 80s to save money. Housing Benefit was also reduced and means tested.

Under the Conservatives the wages of those at the lower end of the labour market began to fall at such a rate that eventually some people were earning less than they would have received had they been on benefits. This state of affairs had begun when Edward Heath was in power, and under him the Government introduced benefits such as the Family Credit system to subsidise wages (Deakin, 1994). Essentially family credit subsidized employers because it allowed them to pay lower and lower rates for the same job. This kind of policy making was reminiscent of the Poor Law where the poor were required to work for the poor relief that they received. This led to a distinction between the deserving and undeserving poor. In present day

New Right thinking the undeserving poor are those on the dole who appear not to be actively seeking work, and young single mothers. The drop in pay was exacerbated under the Thatcher which eradicated the 1946 Fair Wages Resolution and Wages Councils that were designed to wipe out low pay (Hayes, 1994). As Gennard and Judge(2002) have noted, during the years of the Thatcher Government the bargaining power of employers was increased and it became less likely that any settlement would favour the interests of employees over that of an employer (by 1991 strikes had fallen to 369) ^[3] .

Leat (2001) argues that during that time there was a reduction in legal protection for employees, less restriction on the freedom of employers, a reduction in trade union power, and thereby the interests of employees. The state under the Conservatives was operating to protect the interests of those who owned businesses, and as Marx argued these interests were protected in favour of the interests of the working class. The Conservative Government was on the side of the entrepreneurs and property owners and demonstrated their allegiance to the moneyed classes through tax incentives. For high earners income tax was reduced from 83% to 40%, corporation tax was reduced by 17% from 52 to 35% and the threshold on capital gains tax was raised. The effect of this was an increase in the balance of payments deficit and huge increases in the material inequalities in society (Hayes, 1994). This view is supported by Alcock (1994) who argues that the Conservative policies which lowered taxes and introduced changes into social care and the benefits system resulted in greater unemployment, a rise in the number of homeless people, and a general growth in social inequality.

Unemployment

The world bank and the international monetary fund were seen as forward looking institutions in the 1950s. They had no input into government policy and they had no control over a country's economic policies (George, S. 1999). By the late nineteen seventies Keynesian economic policies were no longer working largely due to the abolition of capital controls. Rising unemployment and inflation were matched by a corresponding drop in the market (Stiglitz 2002). An unfettered market and increasing privatisation results in trade and market monopolies that disadvantage the consumer. Unemployment and social suffering are the result if there are not adequate safety nets. When economic downswings or depressions occur In 1976 there was an International Monetary fund crisis which meant that monetary restrictions had been imposed on the state and Britain's welfare state was seen as problematic.

During the nineteen eighties twenty nine percent of all tax relief was obtained by one percent of the population. A single person who earned half the national average saw their taxes go up by seven percent. Those earning ten times the average salary received tax reductions of twenty nine percent (George, 1999). The Conservatives launched a huge programme of privatisation. As a result of government efforts to privatise, between 1987 and 1994 the number of people employed in the public sector went from seven million to five million most of those jobs that were eliminated were unionised jobs. Between 1971 and 1981 the number of people in blue collar occupations went from 62% to 56% for men and 43 to 36% for women. Also in 1981 there were 700, 000 fewer men in manufacturing work than there

had been ten years previously (Giddens, 2001). Between 1985 and 1986 unemployment reached a peak and in both years it was estimated that 11.8% of the population were out of work (Sweeney and Macmahon, 1998). The figures began to fall by the end of the 80s and in 1990 had dropped to 5.8% (ibid). They peaked again to 10.8% in January 1992 some of this is attributable to the increasing privatization under John Major, particularly when British Rail was privatized and sold off. It needs to be acknowledged that these statistics are not always reliable they are seasonally adjusted to take account of changes in the labour market. In some areas there was a tendency for people to be involved in informal paid work However, Pahl (1984) found that the unemployed in the Isle of Sheppey were no more likely to do this than those in formal employment.

Between 1979 and 1987 the Government changed the way in which unemployment figures were calculated no fewer than 19 times. Most of which were intended to remove people from the unemployment register. The Conservatives introduced what became known as the New Vocationalism whereby youth training schemes and work placement opportunities were introduced. These were usually low level jobs or jobs that had no future but appeared to lower the unemployment figures, at least for a time. In 1988 young people under the age of 18 were no longer eligible for benefit which resulted in 90,000 being taken off the register.

Nickell (2003) contends that since 1979 increased unemployment coupled with a rise in benefit payments and earnings that are index linked to prices rather than wages, resulted in a massive increase in the number of people in the UK who are living in relative poverty. ^[4] Between 1983 and 1990 when <https://assignbuster.com/causes-of-unemployment-in-the-1980s/>

the two studies were undertaken the number of people living in poverty rose from 7.5 million to 11 million and those living in severe poverty (lacking more than 7 essential items eg. Heat, new clothes) from 2.6 to 3.5 million (Mack and Lansley, 1992). Hills (1998) work found that between 1979 and 1995 average incomes increased by 40% for the richest tenth of the population while the poorest tenth, after housing costs had a drop of 8%/. Hills also found that more than 80% of those who earned less than half the national average were non-pensioners.

The New Right and New Labour

In 1997 the Conservative Government was voted out. New Labour came into power and its New Deal promised a *hand up not a hand out*. The introduction of market forces by the Conservatives had the effect of excluding some people from mainstream society and led to the setting up by the present Government of the Social Exclusion Unit in 1997. The New Deal was designed to get people off welfare and back into work, often, regardless of their circumstances.

The present Government have continued to build on the policies introduced by the Conservatives and it is here that theorists maintain there is a new consensus. Means testing has not only continued but increased Job seekers allowance is dependent on a person actively seeking work and Job Centres now have the powers to stop a person's benefits if they are not seen to be pro-active in finding a job.

Conclusion

During the late 1990s there has been a further shift in employment. Marx saw the spread of factories and the concentration of the working class within those factories, in the second half of the twentieth century, however, he had not envisaged vast changes in the occupational structures of western society. While the proportion of manual workers has declined from 75% of the workforce to well below 50% there has also been a corresponding 25% growth in the number of non-manual and service workers. Since the advent of New Labour we have also witnessed a large increase in the number of private sector service jobs (Holborn and Langley, 2002). ^[5] There has also been a rise in the number of professionals in the workforce, during the 1990s this rose to 10% of the whole workforce, a number of these are married women who may have returned to their profession after a period away (Abbott and Wallace, 1997). Reeves argues that what Thatcher wanted to do was to alter social attitudes towards work and welfare and in this she succeeded (Reeves, 2004). ^[6]

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Footnotes

[1] Haralambos and Holborn 2000

[2] Geoffrey Howe *The Guardian* 1989 quoted in Hayes 1994: 63

[3] Gennard and Judge *ibid.*

[4] <http://cep.lse.ac.uk/pubs/download/dp0579.pdf> Nickell, S. RES conference paper April 2003

[5] Figures adapted from p. 8 2002

[6] Reeves *New Statesman* 27/9/04