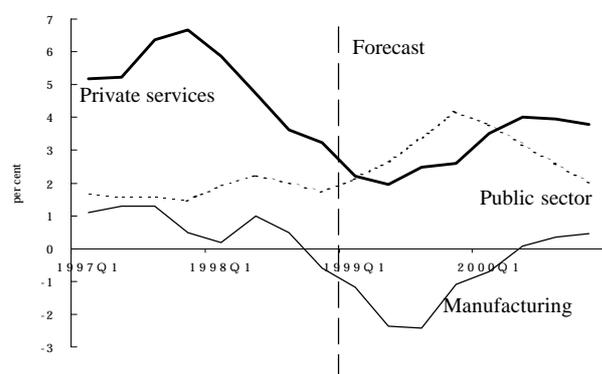

The UK economy

Martin Weale and Garry Young

- The UK economy will grow by 1.25 per cent in 1999.
- The economy will operate at two speeds with manufacturing output declining by almost 2 per cent.
- RPIX inflation will fall to 1.8 per cent by the final quarter but will edge above the government's target by the end of 2000.
- There is now little scope for further reductions in interest rates this year.
- Current policies are likely to lead to entry into EMU at an uncompetitive rate.



We have raised our forecast for GDP growth by a quarter point. This reflects the recovery in confidence that has brought business surveys more closely into line with our projection of a soft landing in 1999. By the end of the year we expect national output to be almost 2 per cent higher than at the end of 1998. The probability of a recession, with GDP ending the year no higher than it started, is less than a fifth.

However, the economic fortunes of the services and manufacturing sectors will be sharply polarised. Services will be buoyed by an expansion of domestic demand of just over 2 per cent. Household spending will be helped by a strong recovery in disposable income following last year's standstill. In addition, the sharp increases in government expenditure will be stimulatory. By contrast, manufacturing will be hit by the continued strength of the pound and adverse world trade conditions.

With inflation set to rise above the government's target by the end of 2000, there is limited room for further interest rate reductions. We now assume that rates will remain at their current level until the end of next year. While interest rates must eventually fall to euro rates for entry into EMU, we now project a different trajectory, with more of the decline occurring closer to the entry date.

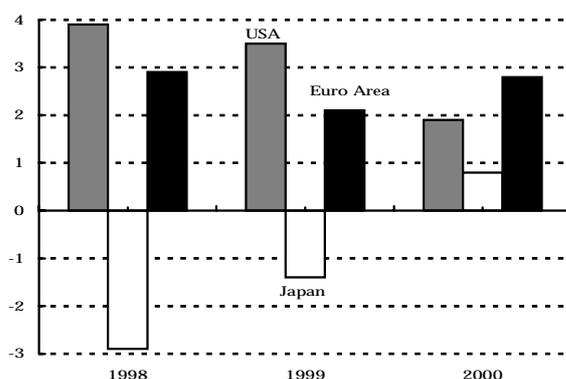
In the absence of a clear lead from the government on an entry rate into EMU, there is an increasing risk that Britain will join at an uncompetitive rate which will depress future growth. Our view is that an appropriate exchange rate in 2003 would be at most E1.33. However, current market expectations are for an entry rate of about E1.42.

The world economy

Dawn Holland, Florence Hubert, Nigel Pain, Dirk te Velde and Véronique Genre

- American growth prospects have improved: the US economy is now expected to grow by 3.5 per cent in 1999.
- The immediate outlook for the Japanese economy remains bleak with GDP set to contract by 1.4 per cent this year. Nominal GDP will be 5½ per cent lower than in 1997.
- The ECB's half point cut in interest rates will boost output in the Euro Area by 0.3 per cent over the next year. Euro Area growth is expected to rise from 2 per cent this year to 2.8 per cent in 2000.
- The overall outlook for the world economy is more encouraging, with signs that industrializing Asia has turned the corner.

Mixed fortunes
(percentage
growth of GDP)



The US is set to perform strongly in 1999 on the back of buoyant domestic demand and millennium-related expenditure. As a result, we now anticipate a half point rise in interest rates which will slow the economy down in 2000. With corporate profitability falling and consumption restrained by reduced wealth effects, GDP will rise by under 2 per cent in 2000.

US economic
situation differs
sharply from that
in Japan

Continued American strength stands in marked contrast with the Japanese economy which remains mired in recession. Even though 1998 saw the biggest fall in GDP since the war, output will decline by a further 1.4 per cent in 1999. A recovery will get under way in 2000 but growth will be less than 1 per cent. Although stock markets have been encouraged by signs of restructuring, these long overdue moves by companies to shake out excess capital and labour will intensify economic difficulties in the short term.

Euro real
effective
exchange rate
(1994=1.0)
Based on whole
economy unit
labour costs



The Euro Area's growth prospects have been improved by the ECB's unexpectedly bold half-point reduction in interest rates. The economic outlook has also been helped by the weakness of the euro. Almost 15 per cent of German GDP comes from trade with countries outside the Euro Area and the share of smaller economies is still higher. With

overall monetary conditions markedly eased both through lower interest rates and the fall in the euro, growth should pick up to almost 3 per cent in 2000.

The steps taken in the West to ease monetary policy in the last six months have restored confidence after the concern over a global recession in the autumn. After halving in 1998, world trade growth is likely to pick up in 2000. Long-term real

interest rates in the OECD remain 1 percentage point lower than prior to the onset of the emerging markets crises. This should help to support growth in the medium-term.

Inflationary pressures remain conspicuous by their absence. OECD consumer price inflation is expected to remain at 1 per cent this year, the lowest rate for 40 years. The three-speed world economy is helping to hold down price inflation, with greater competition from foreign producers in the North American economies at or above full capacity.

Employment Strategies for Europe: Lessons from Denmark and the Netherlands

Ray Barrell and Veronique Genre
(NIESR)

Labour market reform has become a central policy issue for many European countries, and there are lessons to learn for the further development of the New Deal in the UK. This article discusses reforms in Denmark and the Netherlands, and looks at their implication for employment and earnings.

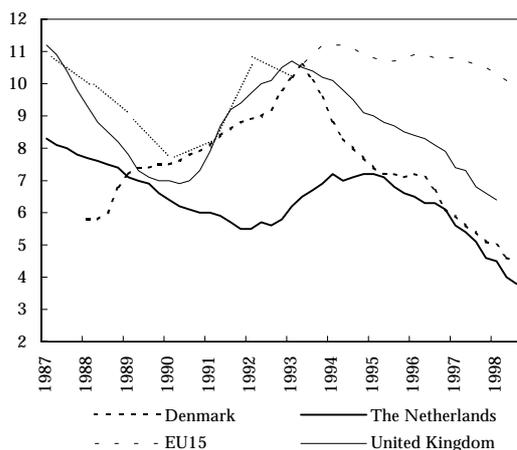
The Dutch started a sequence of reforms in the early 1980s based around 'wage moderation'. As a consequence:

- real wages per person hour rose less rapidly than elsewhere in Europe;
- employment rose more strongly.

Other reforms made the labour market more flexible, and many part time jobs were created. Subsequently, the Dutch can claim to have succeeded in improving their labour market performance.

The Danes started serious reforms in the 1990s, and individuals on social benefits have a 'right and a duty' to be activated. As a result, registered unemployment has fallen sharply as a result of these New Deal style policies. However, only some of these individuals have moved into employment.

In conclusion, increased flexibility, moderate real wage growth and active support for job-seekers all seem to help reduce unemployment and raise employment. Evidence from Denmark and the Netherlands suggests that making work relatively more rewarding helps to reduce inactivity and unemployment.



**Standardised
unemployment
rates (per cent)**
Source: OECD

Flexibility, quality and competitiveness

Bernard Casey, Ewart Keep and Ken Mayhew
(ESRC Centre on Skills, Knowledge and Organisational Performance (SKOPE),
Oxford & Warwick Universities)

Does flexibility
equal
casualisation in
the workplace?

Casey, Keep and Mayhew argue that flexibility does not necessarily have to mean the same thing as de-regulation or casualisation, but in the UK during the 1980s and early to mid-1990s this is generally how the concept came to be interpreted within the context of our national legislative framework. Moreover, how any given form of flexibility is implemented within a particular firm or work setting is dependent upon a wide range of variables. Echoing many of the debates on the effects of the introduction of new technology, how flexibility plays out in any given situation will be heavily contingent upon particular managerial policies and approaches to its use. Flexible forms of employment do not have to be used primarily as a cost-cutting device, though the evidence suggests that in many UK organisations flexibility has become synonymous with de-regulation and the opportunity to cut labour costs. This vision is different, for example, from German approaches to flexibility, though we need to be aware that across the whole of Europe some forms of flexible employment appear to result in less advantageous employment conditions for those occupying such jobs.

The danger of the UK's approach is that it is one of the factors that has served to encourage at least some organisations to follow a cost-reduction route as a source of competitive advantage. It also renders high trust, high performance models of work organisation and people management difficult to adopt and operationalise.

Flexibility can
undermine
upskilling

There are grounds for believing that, in some instances at least, the combination of the use of flexible forms of employment with a de-regulated labour market that provides little pressure on employers to adhere to more formalised and higher quality standards of people management, and which enables and supports the use of flexibility as a means of cutting labour costs, serves to undermine efforts to shift towards models of organisational design and competitive strategy that emphasise high levels of trust, security and commitment and high spec products and services. Flexibility, as it is often defined in the UK, makes it harder to upskill and move towards the production of higher spec, higher value added goods and services.

It is unclear whether this situation will remain unchanged in the face of the Labour government's attempts to introduce a limited 'floor' of employment rights and the gradual extension of EU labour law regulations and judgements which often have the effect of extending the statutory (though not the contractual) rights granted to full-time employees to various categories of workers employed on 'non-standard' contracts. It may also be that tighter labour market conditions may make it harder for employers to recruit and retain employees willing to fill the least attractive of the new flexible job opportunities. A significant proportion of those currently in temporary work are there because of the lack of permanent opportunities rather than choice and a smaller, but still significant proportion - 13 per cent according to the Spring 1996 Labour Force Survey - of part-timers have taken this work only because full-time opportunities are not available.

It is also not clear whether the government fully realises the tensions contained within the employment policies it has embarked upon. Peter Mandelson, during his time as Minister without Portfolio, commented that:

Certainly we need the flexibility without which a dynamic market cannot function well and create new jobs.....But....flexibility on its own is not enough. It is the job of government to play its part in guaranteeing “flexibility plus” -plus higher skills.....plus partnership with business to raise investment and back small firms..... plus minimum standards of fair treatment at the workplace... These are the conditions needed for economic strength and to offer the confidence and opportunity individuals require to overcome insecurity (speech to Fabian Society, 14 August 1997).

Is it possible to combine minimum employment standards with deregulation?

How the government will reconcile the competing demands of employers to be allowed to do as they please with those they employ experiencing minimal interference from and regulation by government, with efforts to impose basic minimum standards within the employment relationship remains to be seen. So too does its ability to combine the current UK models and realities of flexible employment with its avowed aim of attempting to create a high skills, knowledge-driven economy spanning the breadth of economic activity. If, as Blackler argues, “in the frenetic and often savage environment of contemporary capitalism, what is needed is an ability to communicate and experiment to achieve rapid group and organisational learning, high levels of inter-group co-operation, an appreciation of complexity and inter-relatedness, and an extended sense of community” (1996: 859-60), then flexible employment in its current form in the UK represents one of a number of major barriers to the required organisational change. The government’s balancing act might be easier to achieve in the context of a rather different and more mainstream European conception of flexibility, but recent pronouncements by the Prime Minister suggest a continued hankering after the American de-regulated version of flexibility.

Family friendly management: testing the various perspectives

Stephen Wood

(London School of Economics and Political Science)

This paper examines the nature and usage of family-friendly practices using U.S. data from the early 1990s. It shows that there is a tendency for firms to use a range of family-friendly practices in concert. Therefore those firms that have child care arrangements are also likely to have elder-care arrangements, flexible working hours, workshops on family issues, employee health and drug assistance programmes, and a full time member of staff responsible for such issues. It thus shows that a set of practices wider than simply child-care and maternity provisions tend to co-exist. The implication is that some managements are defining the issues in familial terms and not simply associating them with working mothers.

The number of firms using the full range of such practices was, nonetheless, limited.

Workplaces that have a range of practices are likely to be:

- large, and part of a wider organization which is also large;
- where top management place a high value on employees' welfare in respect to the family situation;
- top management perceive a bottom-line benefit from providing family-related benefits;
- management keep in tune with their workforce through consultation processes;
- management give a high priority to the achievement of employee commitment.

The research shows that local labour market factors and the existence of problems (e.g. absenteeism) commonly associated with employing women are not the direct impetus for family-friendly practices. Firms with a high proportion of female employees in the workforce are no more likely to be family-friendly.

The implication of much current argument about family-friendly management is that it will take a fundamental change in employers' attitudes towards diversity before family-friendly management will really spread throughout the economy. The policy implications of this research are less daunting, as they imply that making employers more aware of the importance of a balanced family-work nexus, the bottom-line benefits of family-oriented practices, and the value of employee commitment and employees' preferences should increase the extent of family-friendly management.

The Workplace Employee Relations Survey of 1998 contains data on family-friendly practices and the author will be replicating the study for the UK in the summer of this year.