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Occasional Paper

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The Future of Work in the City

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Problem Definition and Methodology

The future of work is a central topic of the social debate. On the one hand, Germany, in comparison with other countries, has high unemployment, tending to rise in the long run. On the other hand, social security systems and the safeguarding of the individual's livelihood and personal dignity depend heavily on participation in the labour force. Far-reaching economic and social change has a substantial impact on the development of the working world.

- Technological change has been one such development, engendering ever higher productivity. Technological progress in microelectronics has been the trigger, which drives developments in information processing and communication. This yields new organisational and production concepts for the production and sale of goods and services. Not only have telecommunications been improved: material transportation systems have also become better, and – most significantly – faster. This has "shrunk" the world, cutting the cost of overcoming distance.
- Political change has resulted in the democratic transformation of Eastern-bloc countries and their entry into the world market. Moreover, steps taken in many other countries to eliminate trade barriers and deregulate the economy has prepared the ground for change. They include international agreements promoting free trade, providing political and legal protection for economic cooperation, and thus world-wide integration. International institutions like the European Union (EU), the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the World Trade Organisation (WTO) and international treaties should be mentioned in this context.
- These technological and political developments have raised globalisation of the economy – to some extent a steady process – to new levels and lent it a hitherto unknown impetus. This has spurred world economic integration and the international division of labour; market opportunities have increased, but competition is growing, too. Indirectly, areas of the economy with a purely local or regional orientation also face stronger competition, for global players and local enterprise compete for the same labour in the marketplace.

On some points there is general consensus about the significance of these

changes for the future of work; on others opinions diverge. The following propositions are relatively uncontroversial:

- We are on the road to a service and knowledge society, in which information and knowledge become the crucial economic resources (much more so than now).
- Education and vocational training will become even more important than today. Higher qualifications will be required. At the same time, since the "moral" obsolescence of knowledge will increase still further (i.e., the half-life of knowledge will steadily decline), continuing education will become a permanent component in the individual life cycle.
- So-called standard employment is eroding. Fewer and fewer people have a permanent job with clearly defined hours and time frame (usually about eight hours a day five days a week). All possible forms of discontinuity and flexibility in working hours and working conditions are becoming common – in relation to both short periods like a day or a week and to an entire life cycle.

There is much less agreement on what this will mean for integration in the active labour force. While some predict the demise of the working society ("society without work") and a (necessary) transition to an "activity society", others place their hopes in new dimensions of growth with a substantial increase in employment, which (in conjunction with changes to the regulatory system) could provide work for everyone. However, it remains unclear how growth in the economy and productivity relate to employment levels and the demand for labour.

For a number of reasons, cities play a particularly important role in this context.

- The majority of the population lives in cities.
- Cities have always been the source of social and technical innovation, they are the focus of change.
- Any correlation between the quality of life in the city and the dynamics and prosperity of companies in an urban setting is apparently being lost. Even if companies are doing well, this does not necessarily mean that the city and its residents benefit. On the other hand, the city has to deal with the "remains" sloughed off by industry.
- Because municipalities are particularly strongly affected by changes in work, they have to take action – regardless of whether they are formally responsible for labour market policy, or whether they are qualified to act or have the tools and funds to do so.

These could quite plausibly offer cities in particular great opportunities, especially in strengthening economic resources. But considerable risks are involved, because growing social and spatial polarisation calls in question the integrative function of the city.

The project is primarily concerned with the options open to municipal governments in shaping the changes taking place in the world of work. To provide a useful definition and answer to questions of local government scope for action, an account is needed of what general trends are apparent in work and what fundamental possibilities there are to intervene. Chapter 5 deals with

the particular impact of general developments on the city and chapter 6 with the scope and approach for municipal intervention. But the study first provides an overview of the following issues:

- The future of gainful employment. Taking the changes in the general technological, political, and economic environment as its starting point, this account addresses their consequences for the factor labour (including rationalisation potential, changes in company structures, the regulatory system, labour costs, labour demand supply, different forms of work, spatial development trends).
- The (in-)effectuality of economic and labour-market policy. The scope for action is limited by a range of paradoxes, blocks, and dilemmas.
- Options for action and prospects. International comparison plays an important role. The policy approaches in a number of selected countries are described in the respective context.

From a methodological point of view, the study sets out at various levels. Firstly, an exhaustive evaluation of existing studies was undertaken, secondly (in cooperation with the Centre for European Economic Research in Mannheim) comprehensive secondary statistical analyses were carried out (analysis of generally accessible statistics and special analyses of the micro-censuses and the Centre company and foundation panel). In addition, exhaustive interviews were conducted with experts from politics, industry, professional associations, labour-market projects, etc. in the context of case studies in five major cities (Berlin, Hamburg, Munich, Stuttgart, and Vienna). Finally, a two-day workshop was organised in each of the five cities. The purpose of workshops was first to introduce and discuss the particular situation in the respective city and to exchange experience on the subject, and, second, to discuss specific aspects of "the future of work" in depth (with the participation of external experts), as well as to examine interim results of project work.

This approach meant that municipal scope for action on the future of work was dealt with in very broad terms. This broad approach, an attempt to place all the important local government policy areas relevant to the labour market in context, necessarily led to a lack of depth in the treatment of specific aspects.

The Future of Gainful Employment

Ideas about jobs and their time structures are still very much determined by the industrial society with its mass production, its mass employment, and its relatively inflexible and homogeneous hours. They are embodied in the so-called standard job: permanent, full-time employment with regular weekly working hours – between 35 and 40 – put in during the day from Monday to Friday. This is also the stock idea behind the concept of a full-time employment society and the basis for all social security systems. Regardless of how broadly or narrowly standard employment is defined, it has declined markedly over the years.

That work has changed is also evident from the fact that, after long phases of full employment, especially in the sixties and seventies, unemployment rates

have been rising for some time now with every economic upswing, now reaching an average of about eleven per cent in Germany. Unemployment produces a high stock of involuntarily idle human capital (and working time); to this extent it can be interpreted as an involuntary redistribution of work to the detriment of the unemployed. There is much evidence that the full-employment model is no longer valid as a target for the present and the foreseeable future. Existing mass unemployment is an enduring problem that has to be tackled in the long term; and no solution is in sight. To be realistic, Germany and Europe are unlikely to experience growth rates in the medium term that could eliminate joblessness.

The changes in employment and working hours confronting us are very numerous. Many are caused by corporate reorganisation. Lean concepts not only cost jobs, they also spawn the "breathing company", which draws a distinction between a limited core workforce, carefully selected, forming the know-how nucleus, and a peripheral workforce, augmented or reduced as dictated by the economic situation and the order-book position. Ultimately, it is "just-in-time" work, contingent on the level of orders.

As to the flexibilisation of employment and working hours, we are probably seeing the beginning rather than the end of the process. In general, growing instability can be expected in labour markets; continuity in employment careers will become more rare. Phases of employment will alternate with phases of unemployment, so that working lives will be a patchwork. In the long term this will also change the definition of unemployment. Changes in the forms of work will also impact pay. People will be paid less and less on the basis of time worked – as they still are to a large extent today – and more on the basis of defined performance, as under a contract for work and services. In effect pay differentials will increase on the basis of individual, but also group-related differences in productivity.

Mixed forms of employment will accordingly become more widespread. A continuum of differing organisational forms of work is emerging, ranging from dependent employment to entrepreneurship, from full-time to part-time, from permanent to short-term, project-related work. These radical changes trigger three developments: individual, short-term performance counts more than before; most people thus have a less secure working life than before; the individual can and must make far more independent decisions than under the industrial society paradigm. A trend towards an entrepreneurial knowledge-society is becoming apparent. The successful individual can reap the fruits of his success more and more easily alone; social solidarity suffers, social polarisation increases. On the other hand, "manpower entrepreneurship" blurs the boundaries between the world of work and private life ("stand-by mode" as a style of work). Although we are still very far from such an entrepreneurial culture, the trend is there. Other societies, especially in the English-speaking world, are further down the road. Even if it is assumed that societies, including German society, that are traditionally based on redistribution, will experience these trends to some degree, the context-dependence of developments and the differences in traditions will prevent complete alignment.

Although changes in work will be profound, there can be no question of an end to the working society for the foreseeable future. There is little indication that

the importance of gainful employment is declining. On the contrary, the trends towards individualisation, towards the erosion of traditional social security "nets", and the changes in the classical gender-related division of labour (with greater women's participation in the labour force) suggest that gainful employment is becoming more important, because it is the prime factor in securing a person's economic and social place in society. Social security systems are still constructed on the basis of gainful employment. Reorganising these systems and the social re-evaluation of work is likely at best to be a very long-term affair.

The ageing of German society means that the potential active labour force will be declining from the middle of the coming decade, even if steady immigration rates and rising employment among women are assumed. Demographic developments alone could thus produce at least quantitative relief for labour markets if this effect is not overcompensated by stepped-up productivity or rationalisation.

Economic and Labour-Market Policy – Manoeuvring a Tanker

A large number of actors are involved in labour markets at both the international and national levels. They range from international organisations like the WTO to multinational companies and investors, from the national government to unions and management and local government. How they interrelate and what impact their activities have is not easy to assess. It is clear only that local government is only one of many actors, generally the last in the chain. Since local government cannot influence general underlying conditions, the only option it seems to have is "end-of-the-pipe" measures, using the limited array of tools at its disposal to deal with the local consequences of global processes.

A number of things can be said about how politics tackles mass unemployment and the changes in the working world:

- There are no common views on the phenomena, on the causes, or the cures.
- Limit standpoints prevail, so that far-reaching conclusions are drawn on the basis of a single factor without taking the systemic background or context into account.
- The discourse on change is marked by various blocks – in perception, in thought, in action and in implementation – which prevent reforms.
- There are reverse trends, paradoxes, dilemmas that have to be taken into consideration in analysing opportunities for action.

In the (public) debate on the development of labour markets and possible reforms, comparisons are constantly being made with labour market performance and regulatory conditions in other countries. Such comparisons often engender very far-reaching conclusions about the changes that need to be made in Germany. However, closer analysis shows that international comparisons have to be used with great caution:

- One crucial problem is the often poor international comparability of

statistics and indicators, with the major risk of hasty conclusions.

- The reference level in comparisons (single indicators, single measures, overall performance of labour markets) must be taken into very careful account.
- National cultures and regulatory conditions – contextual conditions – play an important role, so that comparisons can permit direct conclusions on the transferability of measures only to a limited degree.

Despite all differences in detail, there is a large measure of agreement that changes and reshaping are needed in many areas.

- Population trends must be taken more seriously into account; this includes revising policy on immigration and integration.
- Changes in the regulation of work in the sense of further liberalisation is needed. This means that regulation that has become counterproductive must be eliminated.
- With the growing importance of human resources, more effective steps must be taken to safeguard and enhance work force skill levels.
- Since levels of growth necessary to create work for all who want it are not in sight, new ways of distributing work and income will play an important role.
- As labour costs are among the highest factor costs, and there are substantial differences between gross labour costs and net pay (which creates incentives for growth of the underground economy), labour costs, especially nonwage labour costs need to be reduced.
- Because nonwage labour costs depend essentially on social security contributions, which in their turn are driven up by the changing demographic structure of the population, fundamental reform is required in this area, too.
- Growing job instability and the growing risk of becoming jobless – at least for a time – means that both flexibility and social security aspects ("flexicurity") must be taken into account. Appropriate steps would be to promote transitional labour markets and to facilitate transfer between labour markets
- In providing compensation for the disintegrating social security nets and offering opportunities for employment and integration, an important conceptual role will be played by civil society self-organisation, the so-called third sector.
- The interlinking of the different aspects requires standpoints and concepts to be far more closely integrated than has been the case in the past.

In view of all these necessary reforms it should be remembered that there is no royal way to resolving the labour-market dilemma. Every change has side-effects. Addressing the problem of labour-market development and changes in labour-market policy therefore requires a balance to be achieved between risks and opportunities, improvements and new departures.

In general it can be assumed that there are no "major", simple solutions like mere economic growth or collective reduction of working hours (e.g., the "30-hour week") to handle existing and future problems in the labour market. Only a combination of different, coordinated approaches can be successful. It is essential to lower nonwage labour costs, because levels of *gross pay* affect

the demand for labour. In this connection, reform of direct taxes on labour and of the social security systems should be given priority. Stagnation in gainful employment levels can be countered with moderate redistribution tools (promotion of part-time work, industry or plant-specific reductions in working hours). The expansion of activities in the service sector could be encouraged by further differentiation of pay structures. The "American" tool of negative income tax to compensate growing income differentials would be useful.

However necessary social security is, it is also clear that, in the long term, the State cannot provide indefinite levels of financial compensation for negative developments. This means that the effectiveness of government measures will have to be assessed much more closely in accordance with the criteria "integration into the labour market" and "prevention of social divisions". In view of mass unemployment, the task must be seen as a long-term commitment.

Municipal Government Approaches

Although many municipalities have engaged in labour-market and employment policy for more than a decade, for a long time it was commonplace for this policy area to be regarded – not least of all by the German Association of Municipal Corporations (*Deutscher Städtetag*) – as outside the purview of local government. Unemployment and the concentration of the problems it engenders at the local level, i.e., the actual demands on the spot, have meant that cities and towns have not been able to walk away from this task. Labour-market and employment policy will therefore remain within the scope of municipal government action in the long run – not only in the "pioneering communities" – and will become more rather than less important at this level. More and more cities are reacting by institutionalising and integrating economic, employment, and labour-market policy in the form of a municipal department, division, or office.

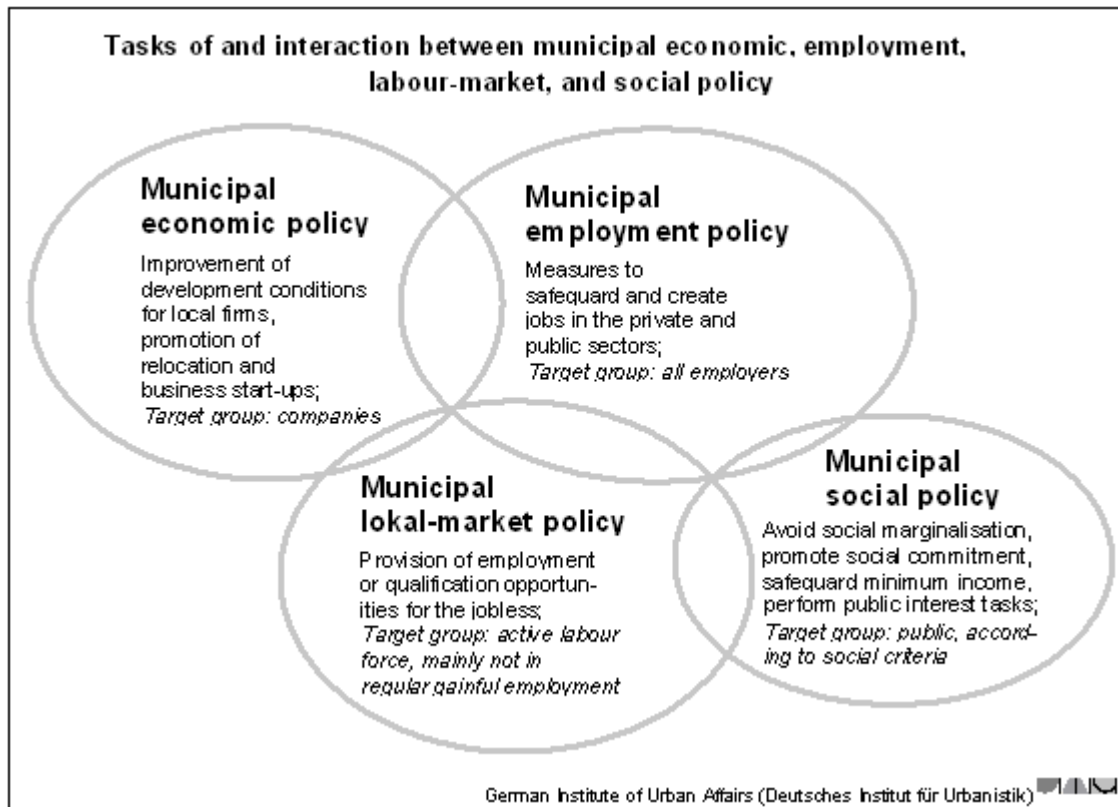
In seeking to define the scope for local government action with regard to the future of work in the city, it should be remembered that municipalities are only one of many actors in the field. It should also be remembered that local government is not a homogeneous actor. It is differentiated into a multiplicity of departments and agencies pursuing different aims, which often makes integrated and coordinated policy difficult. Moreover, municipal governments can neither decisively influence the causes of unemployment, nor can they change them. For this reason, the objective at the local level can and may not be exclusively to reduce unemployment but rather to cope with it, which is more than a semantic nicety.

The main policy areas dealing with labour-market development must be looked at separately and in detail because approaches, tools, and impacts differ strongly (cf. figure). Not until the reach and limitations of the different policies, as well as their impact on the labour market are known, can responsible local government policy be drawn up.

Apart from the policy areas shown in the figure – economic, employment, labour-market, and social policy – spatial planning must also be included. It provides the spatial environment for economic activity (or not, as the case may

be). Spatial planning is a necessary but not a sufficient condition for economic development. The availability of land does not guarantee that it will be used. Spatial planning is a precondition, but cannot directly generate jobs.

The main areas to be distinguished are municipal economic policy, employment policy, and labour-market policy.



Municipal economic policy addresses industry. It is concerned with creating and improving the general setting for the settlement and development of firms in the area. The main municipal economic policy measures include:

- Promoting centrality. Essentially, this means safeguarding locational conditions by maintaining and expanding centrality (accessibility) – in both transport and telecommunications networks.
- The promotion of certain segments of the city economy. This means efforts, for example, to focus attention on areas of the economy with particularly strong locational ties (locally oriented manufacturing and services, but also knowledge-intensive production).
- Promotion of business start-ups. New firms are very important for the dynamics of a city and for the opportunity they offer to renew the economic base and participate in new developments.
- The fostering of clusters, innovative milieus, networks. If structural development makes knowledge a decisive resource, policies that seek to promote the concentration of knowledge cultures become more important.
- Preventive economic policy. In this connection soft tools tend to be used to improve information bases, to intensify communication between the

actors in the city, to promote and intensify corporate networks by means of municipal mediation.

The problem with all economic measures at the local government level is that they tend to be long-term, and to aim at improving the general setting for industry. Their impact on employment is not clear: in the short term they can have a positive effect, but to some extent the impact may be negative, even if local competitiveness is secured, thus achieving a positive long-run impact. Furthermore, any effect on employment is difficult to attribute to economic policy. Despite the long-term nature of the task and the ambiguity of the impact on employment, no municipality can afford to neglect this policy area.

Municipal employment policy aims to create and preserve jobs (on the primary labour market), and accordingly targets all employers. The main measures are:

- Performing the tasks of the municipality as employer. In most cities, the municipality is among the biggest employers. Since local authorities, too, are under considerable pressure to rationalise, they could lead the way in intelligent job cutting (employment pacts, redistribution approaches).
- The creation of demand through investment and procurement. With their investment and procurement expenditures, municipalities are among the greatest demanders. They could use this means purposefully (in so far as legally permitted and economically useful) to safeguard local employment.
- Subsidising work. Employment policy related support for work aims primarily to open up new fields of production or services and to improve technology transfer. Innovation assistants (university graduates) in small and medium-size firms are a typical example of such measures.
- Preventive employment policy. This aims to preserve employment and requalify employees before unemployment strikes but rationalisation or difficulties in the firms are already looming. The work foundations developed in Austria are typical examples for this approach. But local alliances for work are also to be counted among preventive employment policy measures.

Employment policy seeks above all to preserve jobs rather than to expand employment. One difficulty of current local government modes of action is that municipalities could potentially exert strong positive impact on employment through their policies, but, owing to the manner of implementation, they tend to achieve the opposite, namely to place a still heavier burden on the labour markets.

Municipal labour-market policy addresses employable people excluded from the labour market, seeking to create the preconditions for (re-)integration.

Main measures are:

- Job creation schemes. They provide publicly-sponsored employment, which has to be supplementary. In essence they offer subsidised jobs for people who would otherwise not find work. Job creation is less successful in integrating people in the primary labour market. To this extent it is to be judged in terms of its social integration impact and its effect on labour-market dynamics. Cuts in the funding of job creation

schemes has markedly reduced the relief impact on the labour market.

- **Employment companies.** Such firms serve to provide work for the jobless and welfare recipients. They differ in market proximity, that is in the (required) contribution to be earned by the firms. Many such enterprises permit local authorities to provide people on social assistance with temporary employment so that they once again qualify for unemployment benefit, and are thus no longer a financial burden on the municipality ("revolving door effect", "marshalling yard"). Employment companies, too, can seldom achieve lasting integration in the primary labour market.
- **Federal Social Assistance Act schemes.** With programmes pursuant to the Act, increasing efforts are also being made to provide employable welfare recipients with work.
- **Labour cost subsidies.** Wage subsidies paid to the employer help make the factor labour more attractive by lowering costs. In effect, the various models are very difficult to assess, because although subsidies narrow the gap between gross costs and net pay, a major incentive for moonlighting, the band-wagon effect is considerable and experience has shown that for certain groups of employees not even large subsidies suffice.
- **Job qualification.** In the face of growing demand, job qualification measures are to be seen as indispensable. However, they are only a necessary, not sufficient condition for enhancing employment opportunities. Without growth in jobs, qualification measures enhance the dynamics of the labour market.
- **Job placement.** Local government labour-market policy has shown a recent trend towards intensifying job placement efforts by founding local authority employment agencies and job leasing institutions or by outsourcing to commercial enterprises. To some extent, this permits labour-market reserves to be discovered (because small and medium-size firms in particular are spared the cost of looking for staff).

Municipal labour-market policy thus starts with the people who have already fallen out of the labour market. It offers certain opportunities for re-integration in the primary labour market through job placement services. Otherwise it is important above all as a social-policy component and in creating "social value added" both to enhance the dynamics of the labour market and to redistribute risks. Without growth in employment, however, it can do nothing or little towards permanently lowering the unemployment rate.

Approaches directed primarily towards social goals and the common good, which thus, in the sense of municipal social policy, lie beyond the spectrum so far described, serve above all to further social integration, to stabilise neighbourhoods, and to improve the residential environment. They include measures ranging from the promotion of barter clubs and do-it-yourself work to promoting the local economy and the spatial integration of labour-market, training, and reconstruction programmes with a view to increasing public participation (neighbourhood management).

All in all, it can be said that cities are particularly strongly affected by the radical changes occurring in the world of work. However, there are considerable differences – whether in relation to unemployment as a whole, to the problem groups involved, or to the direction taken by developments in work and employment. The scope for municipal action is limited by the fact

that the municipality is only one actor among many and unable to influence the key underlying conditions. In particular, it can make only a modest contribution towards reducing unemployment. Thus, local government's major concern is to cope with unemployment. In the narrower sense, this means that the city has little power to solve labour-market problems. This question is how clear conclusions are to be drawn at the local level when perplexity prevails at the macro-level. The cynical observer might remark that local authorities are becoming a repair service for the shortcomings of higher levels.

Even if there is little that municipal government can do, it has to face up to the problems and try to do everything within its means to solve them. It is important to concentrate on the principal problem groups in the respective local labour markets. Among the options open to the city is to use the opportunities afforded by local proximity to interlink policy areas and activities. In other words, municipalities are particularly well qualified to couple local economic development issues, labour-market problems, social matters, and questions of the common good. These competencies must be developed and deployed. Overall, the importance of municipal policy directed at the labour market will grow.

City government has three major options:

- long-term municipal economic policy that seeks to shape the general setting for economic development and to make cities fit for stronger competition – with uncertain impact on employment;
- employment policy that seeks to maintain employment levels, is more strongly preventive in nature, and takes systematic account of the potential of municipalities as employers and investors;
- labour-market policy that seeks to socially stabilise and integrate people who have already been excluded from the primary labour market (using "end-of-the-pipe" measures).

The tasks of the municipality are becoming more complex. It faces new demands, because, for example, preventive approaches make greater claims on the city as mediator and coordinator of processes. Many municipalities are already active in these fields, but the need for action is still urgent and growing, making heavy strategic, conceptual, instrumental, and organisational demands on local authorities.

Developments on labour markets will, in the medium term, produce greater polarisation. Population groups with low vocational qualifications will have great employment problems. Local government can and must work to counteract the threatening division of the labour market and, potentially, of the local population.

Society will face the fundamental question of how willing it is to accept inequality, to what extent deregulation prepares the way for a low-wage sector, that is to say, how acceptable Anglo-American conditions are. The issue is what society can and wants to afford in not pursuing this course to its radical end. A discussion about the future of the welfare state and levels of redistribution is thus on the agenda.

In view of the "third industrial revolution" and the associated analytical

uncertainties, it is not surprising that the future of work is a subject that raises such emotion and so many fears. Many will lose much, especially their wanted security. We will not be spared this venture into uncertainty with its many risks – and opportunities. It will be difficult to arouse enthusiasm for such a course, precisely because many have so much to lose, and especially if people delude themselves that everything can and must remain the way it has been, and this stance determines public policy.

Despite all these dangers, major cities have a chance of being among the beneficiaries of such changes. Although the problems will also grow and the need to take action will increase, cities (in the sense of urban regions) will also be the spaces in which new employment potential arises, because in the service and knowledge society, the large and diversified cities can offer the best conditions for the production of knowledge. Moreover, cities are often innovators, in other words, city government can make a vital contribution to the further development of the employment society. Experience has shown that far-reaching reforms grow from small local innovations, and are not developed centrally as great, uniform designs. The future of work remains difficult, for in the foreseeable future – regardless of how successfully the current structural changes can be mastered – it will not be possible to reconcile the demand for labour in the private and public sectors and the supply of labour in society – at least as measured in full-time equivalence.