Big shifts: lessons from the 1980s for the labour market after COVID-19

*The economy-wide restructuring that set in after the crisis of the 1970s has some important lessons for the post-COVID world, **Bob Hancké (LSE)** argues. Many industrial sectors that provided working class families with stable incomes disappeared, taking the life chances of those left behind with them. But that did not happen everywhere, and understanding the origins and consequences of the different adjustment paths can help avoid a second generation of losers from economic restructuring.*

The post-COVID world is a place that has little in common with the economy eight months ago. In many countries, large parts of the small-company, often unproductive, service sectors are kept alive solely through subsidies, cheap loans and grants that are almost certain to disappear when the market takes over again. Employees and managers in the service sector have discovered the virtues of telecommuting (although some managers see only vices, and a lot can and should be done to adapt workplaces to these new forms of self-management, as I have argued elsewhere).

And even sophisticated manufacturing operations such as the engine producer Rolls-Royce in the UK and MAN trucks in Germany have announced massive redundancies as a result of projected drops in demand. Allowing adjustment to the post-COVID world to run its 'natural' course, risks producing a second generation with lower life chances than their parents, a dramatic deterioration of economic opportunities (with all the social despair that this entails), a collapse of citizenship as a result, and a further erosion of the political systems of the advanced capitalist democracies.

The social cost of restructuring

My colleague Nick Barr has offered some useful thoughts on how a successful furlough scheme could be the basis for a more sustained labour market adjustment strategy that equips the workforce with skills for the future. Yet because history is not written in abstract textbook language but in concrete situations, adapting broad labour market policies to the world in which we live may face significant obstacles. Without solid institutional underpinnings that incentivise employers to (re-)train instead of fire old skills and hire new ones, chances of a social bloodbath are high. And, often ignored, constructing such institutions does not come without costs: some countries start from a better place than others in their ability to resolve the collective action problems associated with these second-order institutions that govern the externalities associated with training.

The crisis of the 1970s

We have – by definition if indeed it is a repeat – been here before. The first post-war deregulation and globalisation wave following the turbulent 1970s also produced the first lost generation, working class communities that collapsed, young people without the prospect of a stable job for several years with a lifetime unemployment scar as a result, and generally a dramatic worsening of stable labour markets with a significant fall in current and lifetime income as a result.

Burlington Road, Sheffield, during the 1980s. Photo: via a CC BY SA 2.0 licence

When steel plants and coal mines all over Europe closed, and car factories restructured, often by closing their gates or reducing their workforces by half or more, the local economies disintegrated. The people from somewhere, in David Goodhart's words, suddenly had nowhere to go, and thus turned inward. Neglected for decades, pushed to the brink by a dearth of new chances and exposed to austerity policies after the financial crisis that hollowed out the little social resilience left, they turned to Brexit in the UK, and Trump and opioid addictions in the US.

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The not-so 'left behind'

But not everywhere went nowhere. In Germany, Belgium and the Netherlands, restructuring in the steel and coal industries, though painful as well, always included a large package of 'reconversion' measures: regional development, social plans including early retirement, future-oriented training programmes, meaningful jobs for older workers (turning mines into recreation areas, for example, staffed by former miners), and a shift in the local economic infrastructure from old basic manufacturing to knowledge-based service industries.

A stroll through Düsseldorf (Germany), Maastricht (Netherlands) or Hasselt (Belgium) leaves little doubt that industrial restructuring can be accompanied by social revival: you will find vibrant, clean inner cities, booming universities and colleges, R&D centres and conference venues. Even northern France, possibly the least successful case of adjustment on the continent, did a lot better than large patches of Yorkshire in the UK and West Virginia or Detroit in the US. Whilst industrial readjustment is always painful, it does not always have to lead to mass unemployment, opioid overdoses or political Brexit illusions.

History never truly repeats itself, and the COVID response will take a different shape, no doubt, than the 1980s wave of restructuring. But if there is one thing to be learned from that decade, out of which Germany and its economic satellites emerged in pretty good shape and the UK with an ever-increasing trade deficit, a parasitic financial sector and a politically alienated, disenfranchised working class, it is that such large waves of restructuring are best not left to the market. It offers short-term solutions when you need long-term thinking and destroys viable livelihoods without alternatives as a result. Without supporting institutions in place, the market is simply too thin a framework for coordinating economic action.

The role of government

The furlough schemes that many governments in Europe and beyond introduced at the start of the pandemic were therefore a step in the right direction. In countries where companies and social partners have dense arrangements for labour market governance, the private sector can be left more or less on its own to think about the labour markets of the future, perhaps helped by a little nudge from governments.

When these underlying conditions are absent, however, government's role becomes all the more important, financially as well as organisationally. The UK government got the first act right; but sadly, in contrast to other countries, where governments are keeping the tap open until the worst of the crisis is behind us, it is on track to repeat the mistakes of the 1980s. COVID has already hit the left behind communities hard; it would be a folly to kick them economically now that they are down. We know now where that can lead.

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