

# Social questions for the new economy

Consistently high unemployment rates in the US may propel the country towards further economic negativity, says **Govind Sankaranarayanan**, as he creates a case for exploring new forms of social contracts in a capitalistic economy

It is somewhat surprising that such an extraordinary amount of mindshare among the intelligentsia has been devoted to fixing problems within the financial sector. What appears to be less visible in the storm caused by the financial crisis is the fact that employment creation in the world's largest economy has virtually ground to a stop. Even more worrisome is the fact that this has been the situation for many years now; unemployment has only been worsened by the banking implosion.

According to the *Wall Street Journal* less than 65 per cent of working age Americans are now in the labour force. The jobless rate, which includes people who have stopped looking for work, is over 17 per cent. And somewhat disappointingly, nearly 40 per cent of jobless Americans have been unemployed for over six months.

No great nation would normally want to see large numbers of its citizens, particularly the young and educated, without productive outlets for their genius. This scenario, typically associated

with the socialist nations of the past, is now plaguing the world's most innovative and entrepreneurial economy.

Since the 1980s there has been a veritable breakup of the social contract between company and employee, to the point that it has become a badge of management efficiency to operate with the lowest employee cost. The tyranny of quarterly reports is further fuelled by the disproportionate stock compensation that vests with senior management; all the power of the US economy is slanted towards pushing companies towards lower employment.

## Temporary solutions

Thanks to two downturns, both fuelled partially by the excesses of investment banks, namely the dot com boom and the current banking crisis, this trend to reduce manpower has gained currency. Reducing manpower takes its path of least resistance when companies substitute permanent with temporary employees. This has led, in one fell swoop, to a change in the balance of power between corporations and their employees.

The figure for long-term job creation in the US since 2000 has been so low as to not make a difference. Employees who tend to be bound together within a company have somewhat greater levels of ability to negotiate for themselves. This no longer holds true when the threat of becoming a temp looms large. As a consequence of this trend, many employees are denied basic benefits such as some level of confirmed health care, sick leave and permanent spaces.

Temporary workers appear to suit the requirements of many companies, at least in the short run, because it is possible to hire and fire them at will,



pay them by the hour and not have to allocate fixed space costs to them.

It is no surprise therefore that the pay for lower and middle management in real terms is about 10 per cent below what it used to be 30 years ago.

While no one suggests that companies should indulge in the mindless employee-related excesses that some companies did when they offered unviable retriement benefits which ultimately led to their ruination, it is also true that the current model of employment has various social and business implications.

### Youth take a hit

Young Americans now find it very difficult to get jobs because their older cohorts are available to take their jobs at very attractive wages. Perhaps a third of educated graduates below 25 find no suitable role for themselves (see table).

For the youth of an ebullient country like the US to be unemployed to this extent runs the risk that the US ethos built on indefatigable optimism, entrepreneurship and risk-taking may change. There is now increasing evidence that workers who undertake temporary jobs simply have much higher rates of depression as well as other health problems.

As managers we need to grapple with business ramifications. The current construct of the large organisation is based on the premise of employee creativity, passion and total commitment. Senior management and consultants expend enormous energy in building up high levels of employee engagement, that is believed to be a factor that differentiates the best from the rest.

It is going to be increasingly hard for companies to expect their employees to demonstrate this level of commitment if there is no reciprocation from the

**Table:** Unemployment rates for people aged under 25 (%)

Country	Percentage
Belgium	22.6
Spain	44.5
France	25.2
Italy	26.2
UK	19
Sweden	26.9
Finland	23.5
US	20



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**Govind Sankaranarayanan**

organisations. In order to continue to be an engine to great company creation, this culture of minimising workforce may need to change in the US.

As things continue, as they undoubtedly might, given the depth of the current recession which is longer and deeper than any the US has faced, there is going to be pressure on politicians to change the existing social contract. Some form of a new deal is going to be asked for, which might ultimately culminate in European-style state-funded social services.

A step in this direction — towards a more egalitarian sharing of national wealth — may have been the recent healthcare bill passed by the US Congress. Whether such a trend is necessarily the best thing for the US — a country whose optimism and get-go has been unrivalled in history — is a deep social question which only Americans can answer. Answers such as these will undoubtedly resonate around the world. ●

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