CHAPTER 4

Economic and social efficiency

The case for inverting the principle of productivity in public services

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Abstract Productivity has been the benchmark of economic efficiency. Through better organization and innovation, including the use of new technologies, enterprises in an efficient economy produce more with either the same or less labor so that output per employee rises. Productivity criteria also have been typical of the New Public Management introduced in the UK and the USA since the 1970s. Yet in the sphere of production, higher productivity may outcome in structural unemployment in society as a whole. In the social domain, such as seeking more output per health worker, social worker or teacher, it also may lower the quality of service. This chapter distinguishes economic from social efficiency. It submits that an efficient society will invert the principle of economic productivity by employing more people in education, health and public and social services with smaller class sizes, shorter waiting lists for hospital admissions and more personalized services for those in need, not least in societies with aging populations. Drawing on evidence from the USA, Europe and Japan, it suggests that this has implications for redressing technological unemployment and increasing welfare within a social and economic paradigm of lean production.

> Conventional notions of productivity are pretty hopeless when it comes to describing what doctors, teachers and social workers actually do. Consider a classroom with a sensible number of pupils. Want to increase that teacher's productivity? Add 30 per cent more kids. What about those hospitals that take so long to get patients well and return them to the community? Speed it up, for goodness sake! Get them out of bed and back on the streets if you want to hit that productivity target – in the UK's case, that of waiting times. And, while you are at it, fix revolving doors to the front of the building so they can get back in quicker when they fall ill again. (Stefan Stern, It is time to end our unproductive fixation with productivity. The Financial Times, 11 April 2006)

> His arguments that gains from flexible production should be shared both between management and labour and within society is of the first importance to who benefits in what way from both an efficient economy and an efficient

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> society. (Jacques Delors, Foreword to Stuart Holland, *The European Imperative: Economic and Social Cohesion in the 1990s*, 1993)

4.1 Introduction

Economic productivity has been the benchmark of efficiency not only since Adam Smith illustrated the division of labor in pin making in his *Wealth of Nations* (1776) but especially since Henry Ford combined mass production with a Taylorist ultra division of labor [1]. An efficient economy produces more with either the same or less labor so that productivity rises. By contrast, however, as proposed in this chapter, social efficiency in the sense of more labor-intensive and personalized public services inverts economic productivity. No one ranks a primary or secondary school or university as better than another because it has bigger classes and less personalized teaching. No one prefers a hospital or health clinic because its doctors or health workers treat more patients than another. An efficient society will employ more people in education, health and public and social services with smaller class sizes in teaching, shorter waiting lists for hospitals and more personalized and swifter social services for those in need, not least in societies with aging populations.

It has tended to be assumed that social welfare can be afforded only if an economy first becomes more competitive, that is, that competitiveness must precede welfare. Yet the implicit logic of this is flawed in that it fails to recognize the circularity of expenditure and income. More health workers, teachers and carers spend more than fewer. As their jobs are created, they both raise the level of employment and increase effective demand. They pay not only indirect taxes from their expenditures but also direct taxes on their income since public services are in the "overground" economy [2].

Milton Friedman [3] asserted that markets are always more efficient than governments. This has been challenged by the speculation in toxic financial derivatives that gave rise to the subprime crisis and the greatest crash of markets in Western economies since 1929. It also has been challenged not only by how state intervention resolved the 1930s Great Depression, as with the US New Deal [2], but by evidence that the state not only can provide the conditions for markets to flourish, but also create markets directly. As with computers, since Alan Turing did in breaking the German Enigma codes in World War II [4], their development thereafter by US Defense Department funding, the World Wide Web, as well as US federally sponsored innovations such as the algorithm of Google and the creation of nanotechnology [5].

Friedman [3] also claimed that public investment and spending "crowds out" and drains the private sector. Yet it has been overlooked that he also claimed

that this would be true only in the case of full employment, whereas unemployment is now more typical of many advanced economies, while public investment generates demand for private sector goods and services. For example, investment projects financed by the European Investment Bank generate up to three times their initial investment, employment, and income in the private sector. Thus, if European Investment Bank renovate a hospital, as they have done 365 times in France, the renovation is done by private construction companies, which engage other private sector companies to carry out the project [2].

It has been widely assumed that economic efficiency *precedes* social welfare and that growth is a necessary condition for redistribution, which is a misconception. Economic efficiency historically has been derived *from* rather than *preceded* social efficiency. It depended on not only natural talents and inspiration of the kind that Schumpeter [6] submitted were characteristic of innovators, but also the state assuring an educated, literate and numerate general workforce [7].

These are social external economies for which firms may pay through taxation – if not avoiding them through transfer pricing [2] – but cannot directly provide for the population as a whole. There also are others social external economies. Shorter waiting times for more frequent public transport, shorter waiting lists in hospitals and a less polluting environment all improve economic efficiency in terms of less time to get to work, or being healthier in getting there, or obtaining treatment. Fifty years ago Edward Denison's study for the Brookings Institution [8] *Why Growth Rates Differ* found education and health to be among the most consistent factors explaining why higher welfare countries have better economic performance. In these key senses, increased economic efficiency *proceeds from* rather than precedes social welfare and wellbeing.

In addition, income redistribution also sustains rather than drains economies. In a recent study for the European Central Bank, Carroll, Slacalek, and Tokuoka [9] found that a tax transfer to the lower half (in terms of net worth) of the population or the unemployed is two to three times more effective in increasing aggregate spending than a stimulus of the same size for higher earners. Moreover, those dependent on state pensions have a high propensity to consume and sustain demand while the richer tend mainly to save. Cutting state pensions does not improve competitiveness since few people eligible for pensions also work for companies. Cutting pensions on the grounds that there is a fiscal crisis, such as in the EU, ignores the fact that this was caused by

speculation by banks and hedge funds, which both challenges the principle that markets are necessarily efficient and defies both the principles of social justice and conviction among people that governments can govern rather than markets and market values rule.

A higher level of public expenditure in turn is crucial for lowering unit costs in the private sector, where economies of scale and more of the same, despite economies of scope and more with the same, remain important. The lack of internal EU demand as a factor constraining competitiveness has been stressed time and again in the debate on the Eurozone crisis and the limits of quantitative easing [2, 10, 11], i.e., that low or zero interest rates will not by themselves promote a sustained recovery, not least since, as Keynes stressed, when confidence in a recovery is low, expectations of returns on net investment are depressed [12, Chapter 12] and low interest rates are like pushing on a string rather than recovering new investment.

In terms of economic efficiency and productivity, it is also widely presumed that employing more people in public services is only a cost rather than a gain from investments in health, education and social wellbeing. Certainly more labor-intensive employment is not a sufficient condition for a more efficient society. This also depends on the quality of more personalized services and to efficiency in outcomes. But, as illustrated in more detail later, more time to individualize a service, such as health care, raises its quality for both the public and service providers, whereas higher productivity at the cost of worker overload and burnout does not.

A Fordist and Taylorist logic has been reflected in the concern of New Public Management (NPM), since the 1970s, to increase efficiency in social domains such as health and education. Within NPM the major concern has been to assure a high performance work system (HPWS) by imposing market or "quasi-market" performance criteria at operational levels [13], often using a transactional approach through financial incentives and managing people within a human capital framework of seeking to raise the rate of return on employees [14]. By contrast, social efficiency implies a service within a high involvement work system (HIWS) through a more transformational leadership approach for which relational models [15] of management are more appropriate, within a longer standing human relations perspective.

It is on such grounds that this chapter proposes that social productivity should be the inverse of economic productivity, assuring more teachers and smaller classes, more health workers and shorter waiting lists and more carers

for the aged. It cites endorsements of this by European heads of state and governments intended to relaunch and reinforce a European social model, which have been displaced by the contrary demands for "structural reforms" aiming to reduce employee rights since the onset of the Eurozone crisis. It illustrates that some of the highest productivity gains in the world, by leading Japanese companies, have been by assuring core employees lifetime employment and that, if they suggest continuous improvements in work methods, their productivity gains are to the mutual advantage of themselves and their work colleagues, as well as their organizations.

The chapter critiques the idea that efficiency and innovation can only be achieved by reducing employee rights, through more flexible labour markets by which outsiders can take insiders' jobs at lower cost, which has been the *leitmotif* of the "structural reforms" demanded by the troika of the European Commission, the European Central Bank and the International Monetary Fund (IMF) since the onset of the Eurozone crisis in 2009 [16]. It illustrates that there is no basis for this in the purely theoretical "insider-outsider" thesis [17] of former Nobel Economic Committee member Assar Lindbeck and the British economist Denis Snower, which was highly influential in persuading German employers from 2004 to demand longer hours for no increase in pay, which reduced the growth of internal demand in Germany to the detriment of the exports of other EU member states with a "beggar-my-neighbor" rather than "better-my-neighbour" syndrome.

The chapter also cites recent recognition from the IMF that there also is no basis for "structural reforms" enabling more flexible labor markets and substantiates the claim that leading Japanese firms have been able to achieve some of the highest productivity rates in the world through flexible and lean production by offering core workers lifetime employment and profit sharing. It shows that it was the failure of flexible labor markets in Japan in the early twentieth century that gave rise to such high productivity, as well as to annual wage increases for core workers, and how these enabled the *kaizen* of continuous improvement in methods of work operation and thus sustained competitive advantage.

It develops the concepts of both economic and social efficiency in relation to theories of transformational and transactional leadership and shows that case studies of leader–member exchange (LMX) in the West have shown the importance of retaining core workers to achieve sustained productivity [18, 19, 112]. It recognizes the degree to which theories of institutional logics such as those

of Lok [20] have shown that government reforms can be disregarded at organizational levels and suggests the complementary distinction of organizational and operational logics [21] in relation to the role of operational learning, which is excluded in a Fordist Weberian paradigm, which insists on top-down performance appraisal. The chapter maintains that hierarchy and surveillance in education, as claimed by Foucault [7], inhibit creativity and efficiency in NPM in both education and health services and that, in seeking to introduce market criteria, NPM has been counterproductive in the UK [22, 23].

By contrast, the chapter illustrates from other international examples how efficiency in health care provision can be achieved by learning up from lean and flexible production within a post-Fordist and post-Weberian paradigm. In this sense it draws on relational models (e.g., [15]) of management by involving employees in decision making and gaining commitment to high performance through concern with the wellbeing of both providers and users of services. It then shows how such arguments were endorsed by successive European Councils before the onset of the Eurozone crisis, thereafter were displaced and denied, but could and should in principle be recovered to achieve the economic and social efficiency that the European Union needs for its own democratic legitimation.

4.2 Productivity and economic efficiency

One of the claims made by Milton Friedman [3], and which influenced Margaret Thatcher – through briefings from a fellow member of parliament and close confidant, Sir Keith Joseph – is that markets always were more efficient than governments. It encouraged her to endorse a presciently named "Big Bang" liberalization of financial markets in the UK in the mid-1980s. This was part of the so-called supply side economics that posed a challenge to John Maynard Keynes's [12] notion that the state should intervene to manage the level of demand since markets could not of themselves assure a balance of demand and supply. This was paralleled from the 1980s by theories of efficient markets on the assumption that, provided the markets were not constrained by government regulation, perfectly informed entrepreneurs with "rational expectations" would ensure an optimal allocation of resources [2]. Influenced by such a theory, US Treasury Secretary Larry Summers persueaded the US Congress in 1999 to repeal the Roosevelt New Deal separation of deposit banking from speculative finance. The outcome, within a decade, was the worst financial crisis to hit the Western world since the Crash of 1929. This then generated a crisis in the European single currency area, the Eurozone, from which it has not yet recovered [2].

4.2.1 Flexible labor markets

The supply side case for the alleged superiority of efficient markets rather than government regulation of finance was paralleled by the case that governments also should deregulate labor markets by structural reforms [16]. Their assumption was that if companies could fire workers more easily, then new and innovative firms would be able to attract them to expand their businesses. Likewise, the lower labor costs that the new enterprises would incur from the reduction of social protection would increase the competitiveness of Europe as a whole in the face of globalization. This narrative has been extremely well marketed by the European Commission and related institutions and interest groups since the onset of the Eurozone crisis [24]. Yet the narrative, like many others from neoliberal economics, such as that macroeconomic austerity is the only way to resolve high unemployment and low growth, is a myth.

For example, a paper by the IMF's research staff in its April 2016 *World Economic Outlook* recognized that while productivity can be increased by innovation, through investing more in research and development, training and using more highly skilled, there is no evidence whatsoever from any of the advanced economies of the Organization for Economic Cooperation and Development (OECD) of negative effects on total productivity of social protection for workers. Because labor market deregulation has been a key ingredient in the structural reforms and structural adjustment austerity programs demanded by the troika of the IMF, the European Central Bank and the European Commission in several European member states, this represents a direct challenge to the intellectual and ideological basis of how the crisis since 2009 in the Eurozone has been mismanaged [24].

The case for flexible labor markets was made most notably in 1988 by Nobel economic committee member Assar Lindbeck and British economist Dennis Snower (1988), who proposed that Europe could be competitive only by reducing the right of so-called insider employees to defend high wages and benefits against outsiders, who would be willing to work for less. The theory was very influential with leading German employers, who, led by Siemens, from 2004 demanded that employees work an additional 4 to 5 hours a week, without any increase in pay, in order to raise productivity. This demand was met on the undisguised threat that, if workers did not comply, they would relocate to former Soviet satellite states in Central and Eastern Europe or to China – which they did anyway [2].

By contrast with such top-down hierarchical presumptions of how to gain greater efficiency, the role of operational managers is vital. This can be informed by a distinction within LMX theory between transactional and transfor-

mational leadership and how to achieve a work climate by which employees at operational levels who are the front line of the potential for achieving greater efficiency and enhanced customer/user satisfaction can do so.

Moreover, although it was replete with premise-dependent algebra, the Lindbeck–Snower insider–outsider claim [17] offered no evidence, from any country, to support its case [25]. On the contrary, shortly after Lindbeck and Snower came out with their idea and well before more recent IMF findings were published [113], extensive evidence refuting their claim was published by the Organization for Economic Cooperation and Development [26] and by independent researchers [27].

The internal restraint of wage increases in Germany then had beggar-my-neighbor effects on other EU economies by reducing demand for their exports. In addition, by contrast with the demand from 2004 of leading German firms that employees should work an additional 4 to 5 hours a week for no increase in pay to make them more competitive, Germany in 2004 overtook the US as the world's leading exporter and did so with a population less than a third that of the US, indicating that it already was more than three times as productive in terms of national output per capita as the USA.

On the London launch in 1988 of the Lindbeck–Snower book, one of us asked Dennis Snower how his and Lindbeck's insider-outsider thesis related to Japan, to which he replied, "I don't know about Japan. It may be different." It is, and has been so for a century, precisely because at the peak of the industrial revolution in Japan, which had been inaugurated by the Meiji dynasty in the later 19th century, by the opening decades of the 20th century flexible labor markets failed in the sense that industrial firms trained engineers at considerable cost but then found that they were poached by others offering them higher pay [28].

4.2.2 Flexible and lean production

It was in response to this failure that leading Japanese firms offered core workers lifetime employment to the age of 55, combined with seniority pay – annual wage increases – and biannual profit sharing. It was this policy that enabled Japanese companies to achieve formidable productivity gains through the continuous improvement of *kaizen. Kaizen* [29] in Japanese combines two words and two concepts: *kai* refers to improvement and *zen* signifies something that is to mutual advantage, just the inverse of the Western.

This enabled Japanese companies to achieve highly flexible and lean production [30], i.e. precisely the inverse of the Western flexible labor market model. Western firms have treated capital as a fixed cost and labor as a variable cost,

which can be reduced either by cutting wages or letting people go in a recession. In both large and many medium-sized companies in Japan, this can be the case for temporary workers, but it is not the case for core lifetime workers. It is because employment for such insiders is secure that such Japanese workers have known that if they suggest improvements in methods of work organization that cut waste in terms of materials or time and thereby go "lean," they will not innovate themselves – or their colleagues – out of a job.

In Japan, following the 1973 first OPEC oil shock and encouraged by the Japanese Ministry of International Trade and Industry, *kaizen* went big, registering widespread, macro effects [31]. With financial support, leading companies scrapped much of their earlier capital investment and accelerated continuous improvement in methods of work organization, by which companies such as Toyota and Honda managed to double labor productivity in the following decade, whereas the US auto majors managed next to none [31]. By the early 1990s, Toyota was receiving up to 95 suggestions for continuous improvement per employee per year and was implementing many of them, whereas Detroit was not even soliciting such suggestions from their workers [32]. The direct reward for an accepted proposal in process innovation was not great. But the indirect gain was to the mutual advantage not only of the individual employee but also other employees since the companies survived and thrived and since a high proportion of income was through profit sharing.

Notably, lifetime employment in Japan, like the seniority wage system, is a norm, not a rule. Like a psychological contract [33, 34], it has been implicit in practice rather than explicit in the sense of an employment contract.

Nonetheless, where the Japanese flexible production paradigm has been open to question is in its lack of work–life balance. For decades leading Japanese companies paid limited attention to this, tending to demand that workers commit themselves to their flexible production schedules. This has coincided with the cultural phenomenon in Japan of *karoshi*, or "working to death." According to the Japan Productivity Center (2009) nearly 90% of workers reported that they did not even know what was meant by work–life balance. The Japanese Trade Union Confederation found that two-thirds of men put in more than 20 hours of unpaid overtime monthly. One in 25 admitted to working 80 extra hours, a level that risks *karoshi.*

Leading Japanese firms have gone to considerable lengths in seeking to offset the trend toward *karoshi* [36], such as by insisting that employees leave work at 5:00 pm, albeit so far with limited success since many white-collar workers simply take work home with them. What this chapter suggests, however, and was recommended by the European Council to heads of state and governments at Lisbon in 2000, is that the principle of *innovation-by-agreement*

derived from Japanese flexible production should be matched in Europe by the right to a work–life balance. However, while it was recommended both to the Lisbon Council [38] that such work–life balance should have been a European citizen's right, the Council endorsed this only as a recommendation, which, arguably, is among the reasons why the aspirations of the Lisbon Agenda as a platform for European innovation and competitiveness failed to gain traction, as did the parallel aspiration of ministers at Lisbon to regenerate and enhance the European Social Model.

4.2.3 Transformational vs transactional change

What Japanese manufacturers learned from the Toyota production system was transformational change. This was implicit in Schumpeter's [6] case that it is product and process innovation rather than only reducing costs that lifts economies and societies to higher levels of both efficiency and wellbeing. In addition, Weber [39] considered entrepreneurial innovation and leadership an example of his three leadership archetypes, with the others being traditional and hierarchical (as in feudal societies) and bureaucratic. Weber also recognized that charismatic leadership could succeed in the short term but fail thereafter if a charismatic leader did not establish effective management structures. Whereas process innovation in the sense of doing something better does not need to be top-down, innovated from on high, but more typically, as in the case of Japanese *kaizen*, base-up, from operational levels. Such innovation also can be transformational, as it has been for Toyota and other leading Japanese companies.

By contrast, transactional leadership tends to be financial such as in "A fair day's work for a fair day's pay" from an entrepreneur or an organization. But this may have to do with offers that workers feel they cannot afford to refuse if unemployment is high. The pay – though it was high for Ford [1] – may not be high, but it is better than the close-to-subsistence poverty-line levels that many workers who are able to find work have had to accept since the financial crisis in the USA, where average incomes have not risen since the early 1970s, or in countries subjected to so-called structural adjustment policies that have led to reductions in labor protection in the Eurozone since 2008.

One of the clearest statements of transactional leadership is leadership-exchange theory [18, 19, 112] in terms of role taking, role making and rewards for performance within what otherwise remain routine work methods. But, as stressed by Lunenberg [40], LMX theory works best when it assumes two groups. In-group members are given greater responsibilities, more rewards and more attention. The leader also allows these members some latitude in their

roles. They work within the leader's inner circle of communication. By contrast, out-group members are outside the leader's inner circle, receive less attention and fewer rewards, and are managed by formal rules and policies.

Such findings, from western rather than Japanese organisations, directly conflict with the ungrounded Lindbeck–Snower thesis. Parallel findings also indicate that in-group members [19, [41] have higher productivity, job satisfaction and motivation and engage in more citizenship behaviors than out-group members. George and Jones [42] also submit that in-groups should be as large as out-groups, which in leading companies in Japan has been the case for core workers relative to temporary or part-time workers [28, 37]. In-group members also tend to gain from relational models [15], reflecting High Involvement rather than only High Performance Work System.

Thus the initial and sustained improvement was not transactional but transformational, in the sense of transforming a company such as Toyota, which in 1948 had been producing only as many vehicles in a year as General Motors was producing in a day, into a global giant that in 2006 overtook GM as the world's leading auto company. This is what emerged as a post-Fordist production paradigm [25, 114] in the sense of enabling economies of scope – more with the same – rather than economies of scale – more of the same – even if, from the 1970s, leading Japanese firms were able to combine both.

4.2.4 Operational and organizational logics

Bass [43, 44] defined transformational leadership in terms consistent with LMX theory in the sense of how this may encourage employees to trust, admire and respect the transformational leader. He identified three features of this: (1) increasing workers' awareness of task importance, (2) persuading them to focus on both team and organizational goals, and (3) recognizing and enabling fulfillment of their own personal aspirations and ambitions. Most institutions locked into a Weberian, Fordist and Taylorist organizational logic are not centrally concerned with any of these three recommendations [43, 44]. Nor are they predisposed to learning from tacit knowledge or implicitly acquired skills at operational levels because they already have determined what should be both known and done within their own presumptions of what is the "one best way" of management [45, 115].

In practice, most upper-level managers still presume that organizational change will form by itself, its meaning transmitted to divisional, unit or line managers, understood at face value and acted on. They do not see a need to solicit suggestions from employees, including middle managers, for improvements in operational practice, which could have significance both for the value

of the products or services they offer and for the efficiency of the organization as a whole. Nor do they recognize that, by reflective practice with employees [46–48], they could open up new skill paths for individuals and groups, new innovation trajectories for an operational unit, department or division, with wider learning implications for the entire organization.

This relates to questions of efficiency between the "center" and "periphery" of Europe, which have played such a prominent role in debates on how to respond to the Eurozone crisis, with the presumption of German finance minister Wolfgang Schäuble that the economies of the periphery should compete with Germany by reducing their labor costs [2, 49]. This neglects differences in economic structure, such as in Germany, which is a highly industrialized modern economy, whereas Greece and Portugal are not. It also neglects differences in the size and scope of firms, most of which are traditional, regional or local in the southern European periphery, with some multinationals, as in Ireland, which has benefited – not least from a common language – in attracting US high tech multinationals.

In addition, rather than assuming that central economies are saints and peripheral economies are sinners in terms of a Protestant work ethic [50], when the nature of firms is the same – as in the parent or the subsidiaries of a multinational company – the periphery may be more efficient than the center. Such is the case with the Portuguese subsidiary of Volkswagen, which has been more efficient on all internal efficiency criteria of Volkswagen than any of its plants in Germany, including its iconic Wolfsburg plant [51].

4.3 Social efficiency

The words efficiency and economy are often juxtaposed. This is less so for efficiency and societies. Yet a society is not efficient if it allows banks to speculate with people's savings and destroy them. Nor is it efficient if it tolerates persistently high levels of unemployment. Nor if a sense of injustice threatens the legitimacy of its institutions. Nor if it only serves markets rather than ensures that they also serve people. Nor if it demands that economic criteria for productivity should obtain without qualification in social domains such as health, education and public services.

For a productivity logic is counterproductive in the social domain. An efficient company may take labor out as one way to "go lean" and aim for a HPWS or on the basis of people's ability, motivation and opportunity (AMO) perspective [52, 116]. But an efficient society puts people in and goes lean in other ways, such as in a more flexible use of plant and equipment, cutting waste

in time and procedures, and ensuring personalization of student or patient focus in education or health services. In this case, the concern is with achieving HIWSs through relational models of managing people at work that goes beyond the AMO framework by strengthening relationships and mutual advantage between employers and employees [15].

The earlier claim that no one judges a hospital or health clinic with more patients as being better than another is clearly corroborated in the case of nursing by Oppel and Young [53], who, along with others such as Everhart, Schumacher, Duncan, Hall, Neff and Shorr [54], echoing also Spetz, Donaldson, Aydin and Brown, D. S. [55] and earlier research by Mark, Harless, McCue and Xu [56], found that higher nurse–patient staffing is associated with better clinical patient outcomes such as dealing with complications gaining, lower mortality rates and higher patient perceptions of the quality of health care.

Nor is it clear that economic efficiency can be achieved in the social sphere only through financial incentives. Thus, in health care, Brosig-Koch, Kairies-Schwarz and Kokot [57] found that the outcome of fees-for-service (FFS) payments rather than capitation (CAP), in the sense of payment for the number of patients treated, resulted in less patient-oriented care than CAP after the choice of payment scheme was made and did not necessarily improve but could even worsen patient treatment. From a large administrative data set in the Netherlands, Douven, Remmerswaal and Zoutenbier [58] found that more altruistically than financially motivated providers of mental health care achieve better treatment outcomes. Nor is the mode of ownership versus organization vital to social efficiency. Data from Germany on whether hospitals are public or private show comparable results rather than superior performance by private providers [59].

4.3.1 Learning from flexible production

Stefan Stern's observations, which head this chapter, clearly are ironic. Yet they point to a central dysfunction of paradigms of change management that draw explicitly on performance criteria such as productivity from the commercial sphere without recognizing their illogic in the social sphere. For the implicit logic of an efficient society is that it would employ more people rather than fewer, both in the sense that doing so is central to economic and social cohesion and precisely because people want smaller classes in teaching and more personalized care in health or social services. The market itself shows this in the degree to which those who can afford it pay for it. Thus, there is a demand for more and better jobs [117] and a human approach to managing people that implies the use of relational models [60].

Not that this in itself means that either education or health or other social services have no room to make efficiency gains. One of the main arguments in several of the papers to which we recently have contributed (e.g., [25, 61–63]) is that paralleling flexible production in the provision of health care services can reduce the underutilization of operating rooms or wards by increasing their flexible use and cut waste in patients' waiting time for treatment. But this is different from the operational logic of British health and education reforms, which have tried in a Fordist manner to produce more for less by increasing pupil/student or patient throughput within an unchanged organizational paradigm.

Failure to address the issue of what exactly an efficient economy and an efficient society also carries external and internal costs in the political sphere. This is evident in the reaction to both globalization and European expansion, not only in Western Europe but also in Central and Eastern Europe, where Kregel, Matzner and Grabher [64] correctly forecast that "market shock" and the lack of counterpart policies for social cohesion would cause "withdrawal" to earlier models of the primacy of nationhood, increased xenophobia and more overt racism, thereafter echoed by Boyes [65] and Wagstyl [66] a decade before the onset of the refugee and asylum-seeker crisis to which European governments had no common response.

4.3.2 Deigning down and "deliverology"

Top-down change in the name of reforms designed to increase productivity has been typical of the introduction of NPM in the UK but has been almost entirely counterproductive. For example, Seddon and Donovan [67], drawing on Blond [68], as well as on their own research, have shown how an ideological approach to changing management in the public sector has driven it in the wrong direction. The New Labour governments intensified performance criteria and a culture of "deliverology" [70], which was deigned down by imposition on public sector managers and employees and which Tony Blair has since claimed to be his main political legacy and current global mission [71, 72]. Yet it did not work.

For example, one of the "deliverology" reforms that the New Labour government introduced was on the basis that "back-office" activities in delivering social services could be cut while enhancing "front-line" services. Early in the New Labour government, Gordon Brown, Chancellor of the Exchequer, declared that there would be no investment in public sector services without higher performance. The Department for Work and Pensions persuaded him to invest £200 million in a new system for the delivery of housing benefits by local

authorities. It was one of the earliest attempts to impose a separate front–back office design, the front being the means of access and the back being the place where claims are processed. The two were to be linked by document image processing with information received in the front office scanned and sent electronically to the back office.

Taylorist time and motion targets were central for the new change in management design. For the front office these included how quickly people were seen, how long phones rang before being picked up and how soon documents were scanned and sent to the back office. The back office needed to report on the response time for the processing of correspondence, how many "work activities" were done and the time it took to process a claim. But, as Seddon and O'Donovan stress, the flaws in the design soon became apparent by something intuitively obvious: someone arriving without all the required documentation would need to establish eligibility and entitlement. If they could not, the delivery stalled.

This led to backlogs in housing benefit offices all over the country. On the advice of the Department for Work and Pensions, local authorities then hired "backlog-busting" services from the private sector, costing tens of millions of pounds. But this ignored "the human factor." People are not walking data processors. Until the new system was introduced, they might rarely have been obliged to produce a birth certificate, a marriage certificate, a divorce certificate or a national insurance or social security number. If they had hit an early or midlife crisis, they might know where in principle some of these were, with a former partner, but not be able to access them. Information was frequently "lost" before it could be processed, and thus people were often asked to bring it in again.

The previous practice in which someone might apply for a benefit without bringing in their national insurance or social security number, and just being asked to bring it in next time, if they could, was abolished. Or, if they could not remember it, a social worker would find it for them and ensure that their claim therefore was duly processed. Understandably, this not only was dysfunctional but provoked anger from people whom the new "improved" system had reduced to numbers and whose rights the system was blocking and denying. As a consequence, social security managers felt compelled to put up posters announcing that any offensiveness to staff would result in legal action by management [67].

There also are pressures resulting from understaffing. An example from a current study directed by one of us is from an emergency unit in a pediatric hospital involving a mother with a baby in her arms waiting to be seen for more than half a day, under stress and voicing her concern because the baby was not

allowed either to drink or eat before being seen, to which a nurse replied that she should "not be concerned because the symptoms of the [as yet unevaluated] baby are alright." Of course, especially in public hospitals, with pressure from governments to gain more patient throughput per staff member, there is less and less time to attend to individual patients. The same goes in education, with a ranking of schools by the number of examination passes, where there is less and less time to individualize learning.

4.3.4 The limits of performance appraisal

There have been parallel failures in the demands of NPM to impose greater accountability of public sector employees through intensified performance appraisal, in particular by new line managers brought in from the private sector. Organizational psychologists such as Fletcher [73] have recognized that the criteria for performance appraisal not only are fraught in practice but also in principle.

Thus Fletcher recognizes not only that personnel assessment and performance appraisal actually may have no benefit for the person appraised but also may offer no gain for an operational unit or an organization if the appraisal and evaluation are not to mutual advantage. For example, employees should be able to indicate not only what may be going right but what is going wrong and needs to be improved. He also recognizes that assessment or appraisal may be less than objective, political in its choices and ineffective in its outcomes, for a range of reasons such as those outlined below.

Performance appraisal by line managers or other supervisors as a means of raising productivity may be limited by the following factors [73]:

- belief that accurate ratings would have a damaging effect on subordinate motivation and performance;
- desire to improve the subordinate's chances of getting a pay rise;
- a wish to prevent a superior from obtaining evidence of internal problems and conflicts;
- prevention of a permanent written record of poor performance that might have longer-term implications for the subordinate;
- need to protect subordinates whose performance suffered from the effects of personal problems;
- desire to reward subordinates who had put in a lot of effort, even if the end result was not so good;
- avoidance of confrontation and potential conflict with "difficult" subordinates;
- desire to promote subordinates from outside the department who were disliked or problem performers;

– desire to scare people into performing better;
– punishment for difficult or non-compliant subordinates;
– encouragement of unwanted subordinates to leave;
– minimization of merit pay rewards.

One of the responses in principle to this is a 360 degree evaluation with subordinates directly evaluating superiors or peers, as well as being subject to review by them. Yet this also may be risk prone, and not least for the individuals concerned. Who can be sure that the confidentiality of the assessment will be secure? Who wants to call a colleague, especially a superior, incompetent if the result of the exercise will be publicized? And if it won't be, what is the point?

A framework for performance assessment that enabled employees to talk about what is going right, not right, or seriously wrong and make recommendations for remedying the situation could feed up to higher levels of management and indicate what is dysfunctional rather than simply whether the employees have performed according to criteria that could actually be the root cause of dysfunction in the organization. Such dysfunctional criteria might result in workers feeling alienated and might not lead to greater social efficiency for the public.

Nor is a 360 degree evaluation in the sense of assessment by both an employer (or a line manager or supervisor) and an employee inclusive when it is done on a bilateral and thus dyadic basis alone. It excludes "externalities" related to what employers should be able to recognize in terms of not only work but also life experience in employees, such as family or other personal reasons why someone may not be performing well at work. In many cases, this will have more to do with the personal life of workers rather than only work performance. X may have been a good worker, or manager, sensitive to colleagues and the needs of the job, or work group, or whatever. But then some life crisis happens, such as the breakdown of a marriage or other personal relationship, or a close family illness, or perhaps the parent of an employee was diagnosed with terminal cancer and only has a few months to live, which may mean that he or she needs "time off" to be with and care for them. But the worker may not have the right to take a leave since it has not been stipulated in his or her employment contract.

4.3.5 Economic versus social efficiency

One of the main limitations of NPM is that its organizational logic has been designed from the top down without concern for learning up from organizational levels on what works well, what does not, and what could be made right by more efficient use of time and resources. For instance, a European teaching

hospital in one of our case studies [62] consistently ranks high in the OECD for the quality of its medical care. Medical and nursing staff are highly flexible and multitask in a manner also consistent with the operational logic of a Toyota style post-Fordism. But the organizational logic of the hospital is "several things at the same time" with multiple inefficiencies, most of which remain unresolved because they have not "surfaced" through dialog and voice for health professionals at operational levels.

- First, its formal organizational structure is multidivisional as in a classic Sloan-GM model, with each department or service having its own vertical structure.
- Second, within the departments or services authority is hierarchical, but in a pyramidic Weberian sense, with all real authority focused at the apex of the departments, while the wider base of the 4000 medical staff and nurses have no authority to take initiative or feed up operational learning.
- Third, there is no mechanism for lateral exchange of learning by experience through relational coordination [74] and boundary spanning [75] either between departments or, often, within them.
- Fourth, surgical teams within units under pressure to increase patient throughput tend not to have time to share their operational learning with other teams, while even this tends to be casual and learning only on an implicit double-negative basis by chatting and anecdote about incidents in which things had gone wrong.
- Fifth, it is difficult for the management board of the hospital, including its trustees, to know much of what is happening at the consultant level or below within individual departments and services, or obtain a clear idea of what could be gained from this by learning up from operational logic for organizational logic [25, 62, 63].

This was not because the hospital management was not concerned with inertial institutional logic [20]. Nor was this only externally by pressure on the government from the Troika of the IMF, European Central Bank and European Commission to reduce costs. Although this was a factor, it was secondary to its primary concern that the hospital was not functioning at anything like its potential in terms of service, while the high degree of alienation of already overworked nursing staff at the base of its organizational pyramid was resulting in levels of absenteeism that were seriously compromising operational efficiency. This was aggravated by the concern of the government to introduce Taylorist criteria for performance, which were increasing the intensity of work and stress.

More dramatically, 2016 saw the first all-out strike action by junior doctors in the English National Health Service (NHS) since the NHS was founded in the

UK in 1948. This was in response to a government demand for a new contract obliging them to work at cheaper rates on weekends – something ministers claimed was needed both to improve care on Saturdays and Sundays and to reduce costs. But it also represented an intensification of the labor process, and thereby stress, and a disregard for work–life balance. The British Medical Association supported the junior doctors on the grounds that the government should both pay either as much or more for week-end work and hire more doctors to do it.

When polled, 99% of junior doctors voted in favor of industrial action short of a strike, and 98% for full strike action, demonstrating the strength of feeling in the profession. Industrial action went ahead in January, with juniors withdrawing their labor and providing only emergency care. The government did not respond. The doctors then took part in their second all-out strike in April 2016 in protest over the imposition of a new contract. The April strikes were the first time doctors had stopped providing emergency care in the history of the NHS. By August 2016, when the new contract should have come into force, the dispute had not been resolved [76, 77].

Thus what transpired was a contradiction of social efficiency in the sense of the wellbeing of both medical staff and patients by an unremitting demand for greater economic efficiency. This concerns the need to appreciate what have been identified as proximal and distal processes and outcomes [60, 78]. The proximal outcomes (e.g., absenteeism, turnover rates, productivity, quality and service performance) relate more closely and directly to human resource (HR) practices (e.g., selection, training, motivation and opportunity to contribute). Distal outcomes relate to the overall financial or market performance of an organization (e.g., return on capital and market value if it is in the private sector, or how much care costs in a national health service) and may appear to senior managers to be less directly linked with HR practices. Yet the one can either aid or abet the other, which justifies more attention to not only gains but also losses within a High Performance Work System (HPWS) rather than a more relational approach [15] within a High Involvement Work System (HIWS).

4.4 Hierarchy, surveillance and education

The introduction of primary education in the later nineteenth century was based on what businesses needed were people who could read, write, calculate and perform rather than imagine, create or challenge. For Cherkaoui [79], the forms of assessment that emerged with mass education were a mode of socialization that prepared individuals for the division of labor within a Webe-

rian bureaucratic society. For Foucault [7], this was part of the "normalization" required from modern education itself and, with it, surveillance to ensure that norms were observed. This was echoed by Bourdieu [80] in his *Homo Academicus*, which also asserted that norms needed to be respected rather than challenged if one wished for advancement.

Most mass education not only is Fordist in its concern for volume throughput, Weberian in terms of hierarchy and Taylorist in terms of explicit rules for achieving standards. It is also Foucauldian in knowledge as power and power in controlling the reproduction of knowledge, including what research is deemed worthy of government support. This was well put in a debate on a proposed reform of Oxford University by one of its fellows teaching management, Peter Johnson [81]. The proposal was to appoint a management board over and above the "congregation" of the college fellows who actually did the teaching, with a chief executive officer and an inner group who could make key decisions on supposedly clear-cut criteria. As Johnson put it:

> the particular business variant underlying the new governance proposals is well past its sell-by date. The engineers' paradigm behind [them] applies the ideas of Henry Ford and Frederick Taylor to learning as though the university were a machine bureaucracy where dons are substitutable employees in an integrated academic factory [81, p. 15].

Misplaced market criteria in education in the UK also have included the introduction of private sector academies to replace local government responsibility for secondary schools. Launched initially by Margaret Thatcher as City Technology Colleges, they presumed that public-spirited business leaders would sponsor local schools, impose higher standards and, by linking business more directly with education, foster entrepreneurship in young people. Taking "market solutions" seriously, one city academy started to pay pupils cash bonuses to achieve target exam results, even if the expected grade was the lowest to get a pass rather than a fail [82].

Overall, academies have removed Hirschman's [83] "voice" for local governments and parents, yet not improved examination performance. A recent report from the Education Select Committee of the House of Commons on Academies and Free Schools [84] concluded that academy status does not result in raised standards, that schools work best in collaboration with others not in isolation, that sponsors and proposers of academies and free schools have not been properly vetted before being allowed to run taxpayer-funded schools, and that the whole system lacks transparency as well as oversight and is open to fraud, abuse and mismanagement.

Clearly there are dilemmas here. At one level, tests and assessment are important as indicators of whether someone is competent in terms of explicit reasoning. Yet too much testing, especially within schools, can inhibit creativity, especially when it is done according to "national standards" and when schools are assessed for future funding on a productivity basis of how many examinations per pupil have been passed at what grades. This risks meaning less the *educare* as leading out that Rousseau stressed in his *Emile or on Education* [85] than the *inducare* or induction into what Alfred North Whitehead [86], coauthor with Bertrand Russell of *Principia Mathematica*, deemed too often to be "dead bodies of knowledge" and into the technique of how to pass examinations rather than Whitehead's concern that education should be about "life itself."

The potential positive effects of HR practices on organizational performance in education depend on student/staff-related factors (e.g., individual or group wellbeing in relation to those teaching courses or supervising research). This implies transcending an Ability-Motivation-Opportunity (AMO) framework [52, 87, 88]. It also differs from human capital models of HRM such as high-performance work systems [14]. By contrast, relational models of HRM go further than the AMO framework by strengthening relationships between students and staff [15] and enhancing a high-involvement learning environment.

Yet teachers as the line managers of mass education know that if they fail to show productivity in terms of both the quality and volume of examination passes, both those they are teaching and they themselves will be sanctioned. They know that they cannot afford to encourage imagination and diversity in the answers that their pupils give on tests since, if they do, both the pupils' ratings and theirs as assessors will drop because the pupil – or student – has departed from a top-down assessment "template," and their "internal market" rankings will fall.

In addition, despite the admirable aim of European education ministers to achieve diversity and quality in European higher education in their Bologna Declaration [89], the Bologna Process adopted to achieve this neglected quality and introduced a crude quantitative input–output model in its assessment procedures. It ranks universities in terms of the input of hours taught, yet pays no attention to class size. It insists that a university must allocate a given number of hours to teaching to earn a high ranking by its own criteria. This neglects entirely the notion that the value of teaching may be *inversely* related to class size and reflects both a constrained and flawed concept of productivity [90].

For example, a graduate class of 12 is one in which the teacher can get to know not only the names of the students and what they can do well or are doing less well, but also who they are, what their backgrounds are, what their

aspirations are, in particular those related to careers and quality of working life. In a class of 24, this is still possible. In a class of 48 it becomes geometrically rather than only arithmetically more difficult. In an undergraduate lecture of 240 students, it is impossible. Assessment of the quality of teaching in terms of input hours therefore is absurd if one wishes to evaluate the quality of teaching irrespective of class size. The Bologna Process pays no attention to this consideration, nor does it rank it in its assessment procedures.

4.5 Counterproductive health reforms

From the 1980s the Thatcher and Blair governments in the UK did not overtly aim to privatize the NHS, and they did not commit themselves to doing so in their election manifestoes. But their presumption was that a flexible private sector is always more efficient than inflexible public sector "bureaucracies." Their explicit logic was the introduction of an "internal market" to the health service and outsourcing of services that hitherto had been internal to hospitals or health care centers. It was claimed that this would raise quality and widen freedom of choice [91, 92]. Its managerial logic was that with more outsourcing and shorter-term internal contracts, the power of professional associations and trades unions in the NHS would decrease [13]. Its implicit economic logic was Fordist in seeking to gain higher patient throughput and Taylorist in terms of introducing line managers to assure that new performance criteria were being observed by health care professionals.

Yet this proved entirely counterproductive in terms of economic efficiency. Many of the new line managers had no medical training. The top-down performance criteria were decided by civil servants who, with very few exceptions, likewise had no medical training. The outcome was entirely counterproductive. It trebled administrative costs in the British NHS, and the English NHS after devolution of health services to Scotland, Wales and Northern Ireland, from less than 5% in the 1970s to 14% by 2004 [23], which, despite government claims that this would be reduced by 2011, was not lowered because of the inertial top-down organisational design of the Nep Public Management paradigm [22].

British shadow finance minister Gordon Brown had made a commitment before the 1997 general election that a Labour government would not breach the budget limits of the previous Conservative government, including those for the NHS, which appeared Thatcherite. Yet then, with Labour winning the next general election, in a very un-Thatcherite manner, he threw money at the NHS, nearly doubling, for example, the income of local doctors or general practitioners and increasing funding for local health authorities and hospitals [22].

The outcome of more money, and more health care employees, had been a reduction in waiting lists. But the ongoing pursuit by government of higher Fordist volume on the presumption of economies of scale, rather than of scope, also posed "size" problems. Some of the chief executives of new local and regional hospital "trusts" chose to take early retirement rather than manage trusts that the government enlarged, and then enlarged again, since in their view they then would have been too big for anyone to know what was going on, much less continue with "change management by consent" [36].

In addition, although Gordon Brown had prided himself on the principle that his "prudent" public management of finances would end an earlier cycle of "boom and bust," this was the outcome for new funding without a new management model for the NHS since, while increasing resources for it overall, he also imposed strict penalties if they were exceeded. For, in trying to meet local demand, some hospitals ran out of money, as a result of which not only did many have to cut some services, but others closed outright. This led to the resignation of the chief executive of the NHS but without any recognition of what had gone wrong in terms of management rather than choosing simply to quit in view of the resulting crisis [93]. Moreover, Bolton [94] has observed that at the heart of attempts to gain higher productivity in health within a New Public Management paradigm, there is an illogic that emphasizes contradictory criteria in claiming both to improve the quality of service yet also cut those who could deliver it and that "As nurses account for the largest part of the hospital budget, and also are accountable for how the quality of bedside care is perceived, these contradictions deeply affect their work" [94, p. 320].

The new Taylorist focus on internal hospital efficiency also neglected resulting social diseconomies with a degree of deceptive accounting verging on little less than deceit. For example, part of the increase in patient admissions was due to their spending less time in the hospital and, thus, the outsourcing of postoperative care from hospital staff to general practitioners or health workers, or families, whose members might have to take time off work to care for those who had been sent home without having fully recuperated. Faster throughput also meant a higher rate of readmissions of patients who formerly would have stayed longer in hospital. Perversely also, although suiting government claims on admissions, the total figures for these included those who had to be readmitted because of complications or failure to recuperate, with Sterns' "revolving door" effect that sending patients home early raised "success" in later readmission rates [95].

4.6 Logic in learning from lean

By contrast with these failures in change management within an unreconstructed Weberian and Fordist paradigm in the UK, other governments were learning up from lean management on the post-Fordist flexible production model [30, 96]. Teich and Faddoul [97] found that most of these were in the USA but that early approaches implementing lean principles were not much more than an exercise in reducing stock inventories in hospitals. Nonetheless, later approaches included managerial and support case studies, patient-flow case studies and organizational case studies.

Teich and Faddoul give several examples of the successful implementation of comprehensive lean projects in health care in the USA, such as at the Virginia Mason Medical Center, where the hospital reported increased profit margins, decreased deaths, and a reduction in the number of medication errors. Other reported benefits were an 85% reduction in how long patients had to wait for lab results and a lowering of inventory costs by $1 million. In order to directly learn up from lean production systems, in 2002 30 senior managers traveled to Japan for 2 weeks to observe this at Toyota. By 2008, more than 200 employees visited production plants in Japan [97].

Researchers from Belgium explored whether lean management activities improved patient safety culture in a radiotherapy institute. Data were collected over a 3-year period using surveys, workshops, an incident reporting system and interviews with professionals. Lean approaches were associated with some changes in safety culture and increased intention to take action to prevent future incidents. The number of patient safety incidents decreased owing to better group-based problem solving and fuller use of resources. Patient safety culture improved significantly as a result of the introduction of so-called care pathways [97], which is consistent with Gittell et al. [74] on relational coordination and Mørk et al. [75] on boundary spanning.

Flexible capacity utilization, care pathways and concern with cutting waiting times were among the most notable examples of a post-Fordist reorganization on lean principles in the Karolinska teaching hospital in Stockholm in the 1990s, inspired by its general director Jan Lindsten [32, 98]. Flexible capacity use of operating theaters was introduced based on the likely duration of the operation rather than the type of operation.

As a result, all theaters were segmented into four groups – fast, medium, slow and emergency. Flexible theater use was matched by a flexible use of wards. Underlying this was the principle of clustering so-called families of service both within the organizational logic of the hospital and the operational logic of departments and units. In addition, a new post of nursing Coordinator was

created and adopted by most departments. This job's responsibilities include minimizing the number of visits a patient must make and scheduling preoperative preparation and postoperative care by doctors. Two operating theaters were closed, but a new preoperation anaesthetic clinic opened. More anaesthetists were hired, allowing senior staff to focus on surgery and junior staff to manage all preoperative patients.

The outcomes were that the new position of Nursing Coordinator created a career path for nurses, who in practice became responsible for the administration of the various departments. This freed doctors from administration and allowed them to spend more time on their clinical work and research. The time between operations was cut by up to half. Average waiting time for surgery was reduced for hip operations from 8 months to 3 weeks and for some cancer conditions, after diagnosis, to 3 days. Overall unit costs were cut by 15%. No medical staff were made redundant.

4.7 Responding to technological unemployment

The labor-substituting effects of technical progress, and thus technological unemployment, are now attracting increased attention. Some of this ranges from an optimistic scenario of increased welfare [99] to cataclysmic in its pessimism. Thus Frey and Osborne, of the Oxford University Martin Programme on the Impacts of Future Technology, anticipate that up to 47% of jobs in the USA could be displaced by computer technology and robotics within the next two decades. Analyzing some 702 different occupations, they found that the jobs most at risk were semiskilled or unskilled, which has major social implications [100].

Mainstream macroeconomics tends to assume that technical progress is neutral. But it is not. It has differential economic and social implications. As with horses with the advent of the horseless carriage, in the case of the driverless car being developed by Google, jobs for hundreds of thousands to millions of commercial drivers of cabs and freight vehicles could disappear. Larry Page of Google has claimed that new technologies will make businesses not 10% but ten times more efficient and that, provided this flows through into lower prices, "I think the things you want to live a comfortable life could get much, much, much cheaper" [101, p. 4].

Yet if there is to be an increase in welfare and wellbeing, this demands that the productivity increases be distributed within society in terms of social income, social investments, or social expenditures by governments in ways that compensate for the job losses involved. For example, while technical progress

is still creating jobs in firms, it is creating fewer of them. In 1960, the most profitable company in the world's largest economy was General Motors (GM). In today's money, GM made $7.6 billion that year. It also employed 600,000 people. Today's most profitable company, Apple, employs 92,600. Where 600,000 workers once generated $7.6 billion in profit for GM, 92,600 in 2014 generated $89.9 billion for Apple, an improvement in profitability per worker of 76.65 times [99].

Technological unemployment is consistent with Piketty's findings [69] on inequality but also gives more explanatory power in terms of asymmetric outcomes from technical progress than the neutrality assumed in mainstream macroeconomic theory. It also implies more than Piketty's proposals [69] for global taxes on wealth and income since, through transfer pricing, which is the near exclusive domain of multinational corporations rather than smaller national firms, vast profits by companies such as Apple, or Google or Starbucks are not being effectively taxed.

On this point, Piketty makes no proposals on how to achieve more effective taxation. There had been such proposals made at high levels in the Commission to Jacques Delors when he was its president, and they attracted his support and that of then director general of Eurostat [2, 102]. But this support lapsed after Delors resigned in 1995 following his 10-year tenure as the commission president. After which, multinational corporations were highly effective at bringing pressure to bear on the subsequent president of the commission, Jean-Claude Juncker, to arrange for them tax avoidance deals when he was prime minister and finance minister of Luxembourg [103]. As Richard Murphy, a tax expert and campaigner who runs Tax Research UK, told International Business Times, UK:

> The whole of Europe faces a financial crisis [...]. It's going into recession. Its member states have one characteristic in common; they are short of tax revenue. And yet, as prime minister of Luxembourg, Juncker made it his job to ensure that, frankly, a blind eye was turned to tax avoidance across Europe being facilitated by his Duchy [103].

Yet the combination of low incomes, current unemployment and social and political tensions arising from both already have been sufficient to change the terms of reference in politics in the USA, with Donald Trump and his assault on globalization decimating other candidates for the Republic nomination for the presidency of the USA as well as in the support for the self-styled democratic socialist Senator Bernie Sanders in the primaries leading to the adoption of Hillary Clinton as the Democratic candidate.

This had echoes also in the UK in terms of the 2016 Brexit vote. In Paul Mason's view [11], shared by one of us with extensive experience of British politics, this was less a resurgence of nationalism – any more than the remarkable success of the Scottish Nationalist Party in the previous general election – than a protest against a neoliberal model of politics that prioritized market rather than social values. It also had precedents in earlier referendums in Europe for the three countries given the chance to vote on the ill-fated constitution for Europe proposed by former French President Valéry Giscard d'Estaing, France, the Netherlands and Ireland, all of which voted against. On the other hand, opinion polls showed that the constitution was rejected not because most people at the time were "against Europe." For instance, a Gallup poll in France in June 2005 found that 83% of those voting against thought that "EU membership is a good thing"; the same share also thought that voting "No" would give the "opportunity for a more social Europe," while 80% wanted a treaty that would "better defend national interests and jobs" [104].

The answer to both technological unemployment and the outsourcing of jobs with globalization is not competing down in terms of incomes and rights at work but more labor-intensive employment in the social domains of health, education and public and social services. In addition, such employment overwhelmingly is local not global, not exposed to international competition and not necessarily subject therefore to the efficiency criteria of the private sector. Finally, as also touched on at the outset, to the degree to which job creation in this field is public rather than private, its employees are in the "overground" economy and taxed at the source, with multipliers in terms of income and employment that then generate demand in the private sector.

4.8 Working to mutual advantage

What has been represented so far is that, in the social domain of health care provision in the UK, "change management" focusing in a Fordist manner on throughput, with Taylorist surveillance, has not delivered expected gains from NPM reforms, while continual surveillance and assessment of students on the grounds of needing to compete in a global era is widely held by the UK teaching profession to have degraded the quality of education. The last people to have been consulted in both cases were those on the front lines in health care provision and teaching, whereas it could have been to the mutual advantage of both parties and policymakers to have involved them from the outset in what change was feasible to increase both economic and social efficiency and in what ways.

However, unless there are procedures in place for recognizing proposals for innovative methods of work operation and share their added value with an organization or institution, few employees, including middle management, will be motivated to make such proposals to increase either economic or social efficiency. This has several implications:

- Employees proposing innovative methods of work operation, including middle managers, must know that they are not thereby innovating themselves or colleagues out of a job.
- Not every organization can commit to profit sharing on the model of the Toyota Production System, not least nonprofit organizations, such as most public services. Not everyone can be promoted or paid more than efficiency allows. But striking a work–life balance through being able to customize individual working time is a key motivator;
- Multiskilling and multitasking may not reduce stress, but skill profiling and skill path planning [36] can enhance individual fulfilment, while horizontal mobility can both provide job variation and lessen the incidence of intensive "front line" work pressure;
- Innovations in methods of work operation focused on cutting wasted time and better use of fixed resources are a key alternative to raising productivity rather than to longer hours or cutting jobs. Not every organization can innovate new products, but all can in principle innovate new methods of work operation and thereby improve operational efficiency;
- The best resource for achieving this within an innovation ideology rather than only a cost-cutting ideology is employees themselves. It is they who know best the tacit rules and implicit norms that are frustrating operational and organizational learning;
- Effective mutual feedback is vital if both management and employees are to be able to voice [83] not only their own interests but also their earlier learning from experience on how operational logic can be improved. Such voices should be able to articulate and improve what otherwise is implicitly assumed or has been eroded.

4.8.1 Innovation-by-agreement and flexibility-by-consent

Such a mutual advantage approach or paradigm was advocated by one of us to the then prime minister of Portugal Antonio Guterres in recommending innovation-by-agreement or flexibility-by-consent [38] and has four main implications for countering social inefficiency from excessive pressure for economic efficiency.

- First, pressure to increase throughput in a Fordist manner may increase productivity, but it may also increase fault rates and deprive people of the

time needed either for reflective practice [46–48] or learning up from operational levels on the potential for continuous improvement through reducing wasted time and materials [29];
- Second, if increasing throughput means increased overtime, this will both will raise unit costs and tend to be unsustainable in terms of work–life balance, unless there is agreement with employees to credit current overtime against later "undertime";
- Third, while few Western companies exposed to global competition are going to commit themselves to lifetime employment on the Japanese model, they can commit themselves to no-redundancy agreements for the expected life cycle of a product or model; this could have the same incentive for employees to commit themselves to continuous improvement and operational learning;
- Fourth, a socially embedded mutual advantage paradigm at the operational level may achieve flexibility-by-consent and sustainable continuous improvement, and thus operational learning, through reinforcing rather than reducing employee rights, as was the intent and design of the innovation-by-agreement approach of the Lisbon Agenda.

The right to negotiate working time to enhance personal work–life balance was explicitly recommended in the Lisbon Agenda agreed in 2000 by the European Council of heads of state and government [38, 105]. It could be combined in the public sectors of education and health with progress on more labor-intensive employment in the social sphere [102], which was endorsed by the Essen European Council [106], with more teachers and smaller classes, more health care workers and shorter waiting lists. Continuous improvement negotiated through innovation-by-agreement therefore need not be limited to the production sphere or private services. It can include the following:

1. the right of workers and managers in both the private and public sectors to expect negotiation to range beyond wages and working conditions and to include the relation between their work and non-work lives as well as retraining, job redesign, skills path planning and horizontal mobility;
2. the degree to which this and the personalization of service and "continuous improvement" in education, health, public administration and other public services can directly benefit the wider public, enhance social efficiency and improve the quality of life.

Innovation-by-agreement as a process, based on flexible production rather than flexible labor markets, offers efficiency both within organizations and for society. It can achieve a positive-sum institutional logic in terms of new methods of work operation based on consent because the process reinforces individual rights. But it also can imply a positive external logic for society as a

whole. By allowing employees more scope from saving time through new methods of work operation, innovation-by-agreement offers both the potential for better work–life balance and for employees to be able to relate better to individual patients, students or those claiming benefits.

4.9 Summary

- An efficient market is concerned with economic criteria, competitive advantage and private gain. An efficient society is concerned with social criteria, mutual advantage and social gain.
- An efficient economy is concerned with market innovation. An efficient society is concerned with social innovation, as was the case with the innovations in national insurance and the right to a pension, or national health services or of public and mutual societies for housing.
- An efficient market will meet consumer preferences. An efficient society will meet social preferences, such as for better health, education and quality of life and the environment.
- An efficient economy counters unemployment by effective demand. An efficient society will match latent social demand with effective supply.
- An efficient society will be concerned with both full and socially useful employment.
- An efficient society will recognize that not everyone in an economy has to be efficient or hyperefficient by the highest standards in the market domain. Part of an economy may be so and sustain the rest well at high levels of employment.

Japan is an exemplar of the last point, in which less than a seventh of its employment has been in hyperefficient industrial groups, with commitment to continuous improvement in methods of work organization to raise productivity. The rest of the economy has low productivity in both agriculture and services yet is socially efficient in the sense of assuring employment, income and a high degree of social cohesion [28, 107]. The low growth that has followed in the wake of Japan's own financial crisis in the 1990s is less negative than positive in being less damaging to the environment in a society that already has achieved some of the highest living standards in the world.

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