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## Wanted

**BURGLAR 40s**, Fit, active – seeks unattended property evenings and weekdays, for a good going over.

Box 1405

**INDEPENDENTLY MINDED**, tall, dark, balaclava, sawn-offs – wishes to meet Sub-post office Surrey Sussex borders.

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**ATTRACTIVE**, successful, good looking con-man – looking for divorced, tall, slim lady for short term fun and rich pickings. Box 1285

**ENERGETIC**, uncaring mugger looking for contacts on or near High Street, L60-85 pref. Box 1909

**SURPRISING**, people in dark alleys, round corners, under bridges, any time of day, all considered. Box 3009

**MEET SOMEONE SPECIAL** down that dark alleyway, handbags, wallets removed

**COLD AND INSENSITIVE** housebreaker, wi jemmy, I'll be round your house in minutes.

Box 0705

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**SEMI-DETACHED**, terrace, flat, apartment, all broken into without you knowing, re-offending a speciality.

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**FAST GETAWAY**, car thief looking for a quick good looking hot hatch. Box 2234

**BLACK MARKET**, ripped off, fenced, swag, lock-up.

Box 9809

**HIGH 80s**, through a built-up area, all night across playing fields dumped and buried our convenience

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**2 LIKELY LADS**, up for it, any amount any where, all currencies handled. Box 4150

**BUSINESS** It's none of yours! white van, no tax, no VAT, no questions asked Box 3315

**NO TROUBLE**, no fun, violence and intimidation, put the boot in. Box 2234

**IT'S NOT MINE** so I'll have it. Not paid for, not asked for – just taken away and never seen again. Box 3456

**PETTY**, 20 offences to take into consideration, seeks to avoid work before going inside again.

# The economics of crime

**How useful is economics in the fight against crime? Ricardo Lagos explores the possibilities.**

**C**rime is always a sensitive political issue, as politicians around the world have found, often to their cost. They get blamed for rising crime; they rarely get credit when the crime rate falls. In Britain, for example, the Blair government is struggling to get to grips with significant increases in the crime rate after several years of decline. The talk is of getting tough with criminals and making the police more effective. But is it time to re-think the traditional approach to dealing with crime? A growing body of research into the economics of crime suggests that it is.

## Crime keeps getting worse

Rising crime creates public alarm and sparks calls for tough measures to deal with criminals. But while many industrial countries have responded by pouring money into extra policing in order to catch more criminals and then sent more of those they catch to jail and for longer periods, the long-term trend in most countries is a steady rise in the crime rate, once short-term fluctuations are taken into account. This has led some to question the efficacy of traditional methods of dealing with crime.

Over the years, social scientists have identified a wide

range of factors which help determine criminal behaviour. These include age, sex and the level of education as well as family, social and cultural background. But since the first economic analysis of crime by Gary Becker in 1968, economists have become increasingly convinced that economic incentives may be a crucial determinant of criminal involvement, at least in property crime. The unifying principle of this approach is that underlying most crimes and criminal careers there is an individual evaluating costs and benefits. Identifying and understanding the mechanisms that shape people's criminal decisions is important because these mechanisms hold the solutions to the crime problem. Understanding how criminals respond to economic incentives could therefore provide new and useful policy tools for the fight against crime.

## The basic equation

From an individual's point of view, a key element entering the criminal decision must be the rate of return on illegal activities relative to the rate of return on legitimate ones. The expected pay-off depends on three factors: the size of the reward (supposing the crime was successful); the probability of being caught and convicted; and the severity of the punishment. The opportunity cost of engaging in criminal activity is given by the rate of return on legitimate market activity. This depends on the wage at which the







## The fact that we know how criminals and would-be criminals react to certain economic and other incentives opens up a whole new role for economic anti-crime policies.

violent crimes rose by 79% for youths and by 31% for adults between 1978 and 1993. This seems, on the face of it, puzzling.

Steven Levitt has examined whether the different patterns of youth and adult crime could be seen as a rational response to changes in the likelihood and severity of punishment for these groups. According to approximate measures of the likelihood and severity of punishment, Levitt argues that the severity of punishment for youths was roughly the same as for adults in 1978 but only half as severe in 1993. His analysis suggests that 60% of the difference in the growth rate of crimes committed by adults and youths can be explained by the relative change in severity of punishment between both groups. This suggests that youths do take account of changes in the likelihood and severity of punishment when deciding whether to become involved in crime. And other evidence supports this analysis: there are sharp changes in criminal involvement with the transition from juvenile to adult court. Violent crimes committed by youths coming under the jurisdiction of adult courts fell by 4% in those states where juvenile courts are lenient relative to adult courts, but rose by 23% in those states where juvenile courts are severe vis-à-vis adult courts.

### Wages matter too

Falling wages for young people have also played a part in the rising figures for youth crime, according to research by Jeffrey Grogger, who documented the relationship between wage levels and the crime rate. He concluded that criminal behaviour among youths is highly responsive to the potential earnings from legitimate activity. According to his calculations, a 10% wage increase would bring about a 6% to 9% reduction in criminal activity among young people. What's actually happened since the mid 70's is a fall in the real wages of young people of roughly 20% – which on Grogger's analysis would have resulted in a 12% to 18% increase in their crime participation.

It's worth noting Grogger's conclusion that wage differences are partly responsible for the differential participation in crime between blacks and whites in the US. It is well known that blacks earn less than whites, even when both have the same observable characteristics (such as age, education, experience and type of work). In addition, police records seem to show that in the US, blacks have a higher propensity to participate in criminal activities. Grogger's analysis suggests that this is in part a labour market phenomenon: the fact that blacks earn less than whites accounts for a third of the difference in criminal participation between both groups.

Recent CEP research has found strong evidence from UK data to support the idea of a negative relationship between wages (in particular wages at lowest end of the wage distribution) and crime.

### The lessons for policymakers

There is a wealth of other evidence to support the idea that there is a clear relationship between incentives and crime. These "incentives" should be understood in the broadest sense, to include the likelihood of being caught and the severity of the punishment as well as those which explicitly determine the costs and benefits of criminal activity. The evidence for such relationships appears strong enough for at least some analysts to argue that anti-crime policies should take account of them. The positive correlation often found between measures of income inequality and the property crime rate, for instance, has led some economists to suggest redistributive taxation as an anti-crime policy. And recent work by this author and others suggests that under some conditions, more generous unemployment benefits can reduce the crime rate provided at the same time punishment is sufficiently likely and severe. (If the penal system is too lenient, increases in unemployment benefits may have perverse effects on crime.)

Policymakers tend to address economic problems with the economist's toolkit and crime problems with the criminologist's toolkit. So concerns about the welfare of the unemployed are dealt with by proposals for more generous unemployment benefits, while rising crime leads to calls for more police. But the fact that we know how criminals and would-be criminals react to certain economic and other incentives opens up a whole new role for economic anti-crime policies. When the crime rate is too high, the policy menu consulted to remedy the situation should include economic as well as traditional anti-crime policies. And the optimal way to respond will almost surely include a mix of both.

**Ricardo Lagos** is a member of the CEP and a Professor of Economics at New York University.

#### Further reading

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# Time to educate the criminals?

Before coming to power in 1997, Prime Minister Tony Blair promised to be tough on crime and tough on the cause of crime. But as politicians gear up for the next general election, widely expected in 2001, the Blair government finds itself struggling to deal with a crime wave. Figures published in July 2000 show a rise in crime which has sparked new public concern about the measures used to combat criminal activity. In the second of our two pieces on alternative approaches to tackling crime, Kirstine Hansen reports on new CEP research on the role of education.







The figures make grim reading. In the year to March 2000, crime in the UK rose by 3.8% – 5.3 million offences committed compared with 5.1 million offences in the twelve months to March 1999. What's more, authoritative sources suggest there may be widespread under-reporting of crime – that the actual figures could be as much as 20% higher. The rise brought to an end an unprecedented period of falling crime in the years after 1992.

Yet the new figures are consistent with the long-term trend in Britain (and, indeed, in most countries). Crime in England and Wales, for instance, has on average increased at about 5% a year since 1900; and grew even more rapidly in the 1970s and 1980s. This long-term trend has been remarkably impervious to changes in the criminal justice system, prompting social scientists to explore the underlying causes of crime and to look for fresh ways to tackle it. Attention has begun to focus in particular on the significance of crime committed by young people.

### What do we know?

Leaving aside concerns about the possible under-reporting of crime, we actually know quite a lot about the crimes committed in England and Wales. In the year to March 2000, 83% of all crimes involved property: 50% of these were thefts, 20% were thefts of and from vehicles; and 8% were burglaries. 13% of all crimes were violent crimes; the

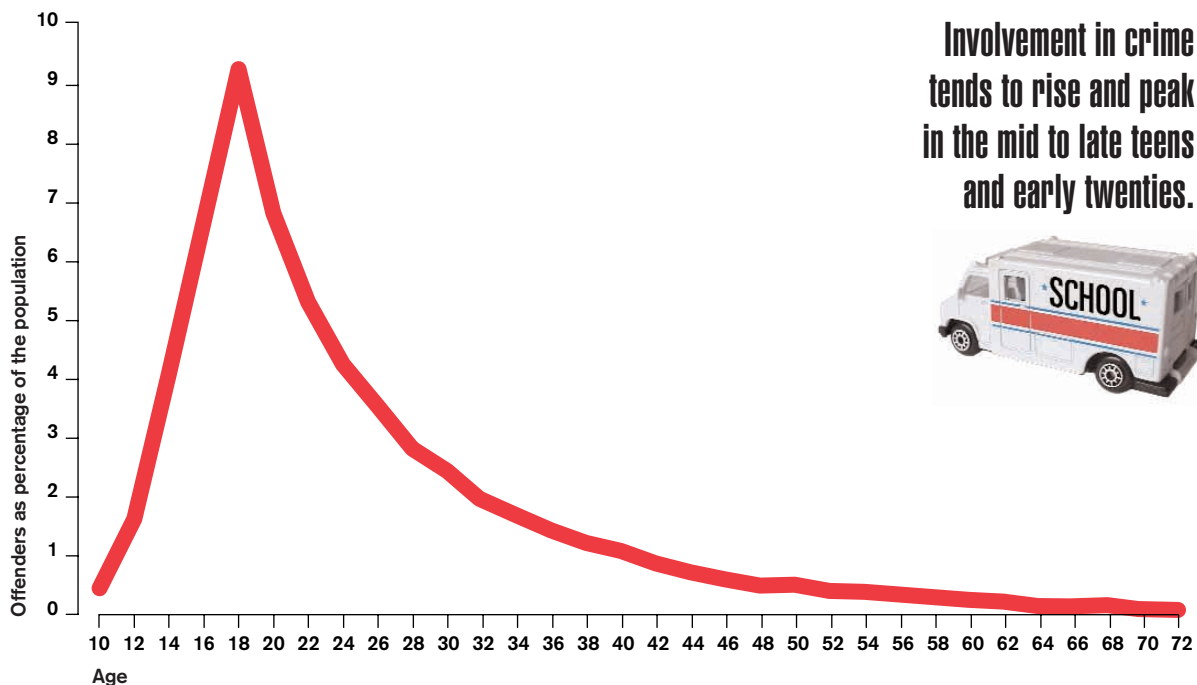
remaining 4% included drug offences, public order offences and crimes involving the prevention of the course of justice.

But the crime statistics only tell us what crimes were reported to the police: crucially, they do not tell us who committed the crimes. For that information we must look to the figures relating to those found guilty of or cautioned for indictable offences. (Since not all crimes are solved, these figures only relate to a proportion of all crimes reported.) In 1997, there were 509,000 offenders: the vast majority – 82% – were male and about 25% were under 25. Figure 1 clearly shows that involvement in crime tends to rise and peak in the mid to late teens and early twenties. It is the rising level of youth crime, taking place at a time when the proportion of young people in the population is declining which has become the focus of much public concern and, in turn, the efforts of policymakers.

### Why the young turn to crime

In trying to combat the problem of youth crime, we first need to establish why young people are more likely to commit crimes. Whilst they are young most individuals have no strong sense of self-identity; much of their behaviour is based on trying to achieve short-term desires. Delinquency could simply be a way of getting 'kicks', having a laugh or relieving boredom. Peer pressure may increase delinquency as youngsters are encouraged to prove themselves and show loyalty to their peers. At this

Figure 1 The crime age profile of males aged 10-71, 1997  
Source: Home Office



**Involvement in crime tends to rise and peak in the mid to late teens and early twenties.**





## Young people tend to be protected from harsh punishment in the criminal justice system.



stage most youngsters feel little pressure to conform to societal norms which means social controls are unable to deter them from breaking the law. What's more, young people tend to be protected from harsh punishment in the criminal justice system. This combination of factors would seem to be a recipe for high levels of youth delinquency and criminal activity.

But as young people grow older, they begin to be influenced by a series of factors which discourage them from breaking the law. They start to think of much delinquent behaviour as childish. As they move from dependence to independence, leaving school and the parental home and entering the labour market, getting married and starting families of their own, young people begin to develop ties to society and attachments to social institutions such as the family, the labour market and the community. These factors, coupled with the possibility of more severe legal sanctions, all encourage a lower crime rate, at least in public, as young people move towards adulthood.

### Why aren't all young people criminals?

All this explains why on average young people are more attracted to crime than older people. It doesn't explain why two people of the same age don't display the same propensity to become criminals – if they did, then by definition all young people would turn to crime. This has led social scientists to explore what other factors, besides age, are important. One key factor (though not the only one) is of course exposure to the education system – a child's experience of school. New findings suggest this may play an important role in determining the likelihood of a young person's involvement in crime.

A 1998 report by HM Chief Inspectorate of Prisons showed that there were 10,570 young people under the age of 22 in the custody of the prison services in England and Wales in 1997. This represented a 5% increase on the previous year. The report points out that 'most of the

youngsters had been failed by the education system'. Around two thirds of these youths had no formal qualifications, many had regularly played truant from school and over 50% had been excluded (or left voluntarily) before the age of 16.

These findings reinforce an important link between education and offending which has been found in many empirical studies. Take the importance of staying on at school, until the proper leaving age. An American study in 1999 found that high school graduation reduced criminal participation among young males in the US, even after differences in ability were controlled for. It also found that young male high school graduates were 30% less likely to earn an income from crime than those who did not graduate. Moreover, high school graduation reduced the probability of being arrested by around 60% and of incarceration by between 85-95%.

### The links between education and crime

Education can affect the likelihood of offending in a variety of ways. The cynical explanation is that whilst youngsters are at school, they are being kept off the streets. This separates them from their most delinquent peers (who are likely to be absent from school) and enforces some level of discipline upon them. But there is more to it than that. Children at school are encouraged by the idea of meritocracy to have aspirations, to create goals which by working hard at school they will be able to achieve. This encourages children to develop a stake in their own future and in society more generally. All these factors would tend to reduce the involvement of young people in crime.

Perhaps most importantly, though, education encourages children to develop skills and acquire knowledge and training which will affect their future success in life. Their ability to communicate and forge relationships, the choices they make at the end of compulsory education, the jobs they will do and the wages they will receive over their lifetime potentially depend on the skills they acquire whilst still at school. If children want to maximise their future success they will be less likely to offend as youngsters. And if they secure successful jobs with good wages as a result of their educational success they will also be less likely to offend as adults.

### The crime-age profile

New research at the CEP has underlined the importance played by education. We used self-reported data collected from young men aged 16-25 in England and Wales to examine the crime-age profiles of two groups: those who leave school at 16 and those who stay on past the compulsory school leaving age. We found that the two groups have significantly different crime-age profiles: but that the gap between the two profiles can be accounted for by clear differences across the two groups in a number of





observable variables related to the labour market, education, family, individual and the area/neighbourhood in which the young men live. Of these, the three most important are whether an individual lives with their parents, family contact with the police and school truancy. These tell us a great deal about why an individual stays on at school or not, and the consequent likelihood of their involvement in crime.

If the age at which an individual leaves school has no link with their involvement in criminal activity then we would expect the crime-age profiles of the two groups to be essentially the same. Figure 2 shows clearly that this is not so. For those who stay on at school, criminal activity is almost non-existent by the age of 25; for those who left school at 16, there is no real decline in the crime rate from the age of 22 onwards.

### Policy implications

On the face of it, these findings have important policy implications: could obliging people to stay on at school affect the crime rate? Unfortunately, the issue isn't quite so clear-cut. We need to know why these crime-age profiles are so different in order to determine the correct policy response.

In order to do this, we have examined other variables which might influence the crime-age distribution for the two groups and controlled for them to see what impact they have on the crime-age profiles. If any of these variables were able to account for a significant proportion of the difference in the crime-age distributions between the two groups, the two distributions would become more similar. If any or all could completely explain the difference in the

profiles then the gap would be eliminated and the two groups would have the same crime-age profiles.

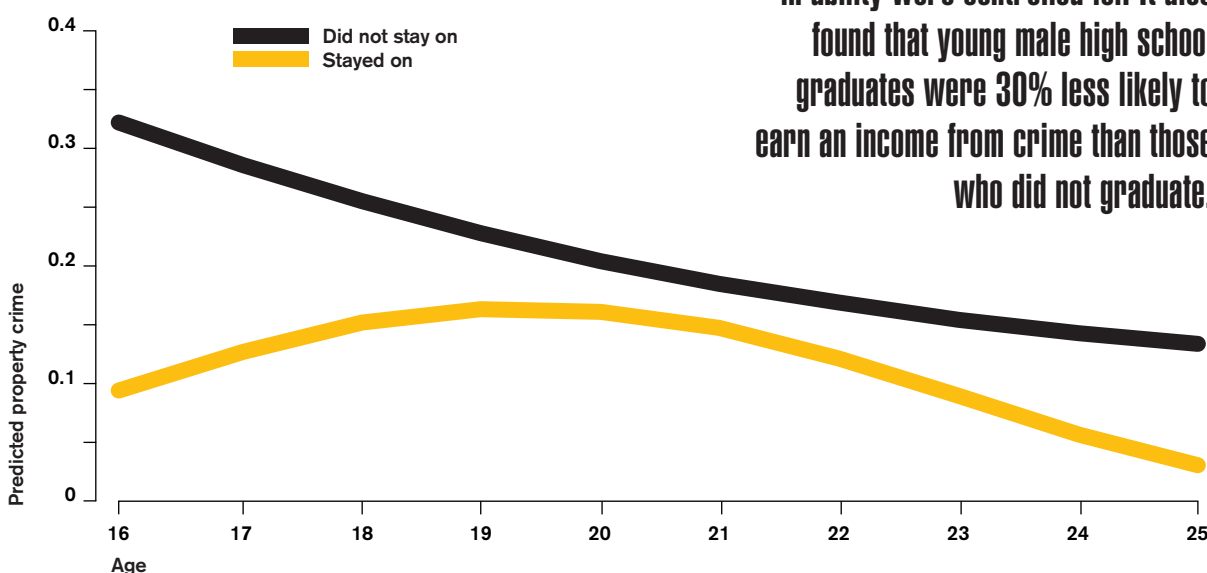
### Where people live

Crime and delinquency are unevenly distributed. Evidence from the British Crime Survey suggests that over half of all property crime and a third of all victims of property crimes are found in just a fifth of communities in England and Wales. In the 1990s those in the worst crime areas suffered twice as much property crime as anyone else in England and Wales. The police statistics reveal similar trends. Police force areas that include large urban conurbations have the highest rates of recorded crime. In the year to March 2000 metropolitan forces recorded an annual rise of 7.2% compared to the 0.9% recorded by non-metropolitan forces. The greatest increases were in the West Midlands, which saw a rise of 16%, and in



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Figure 2 Crime-age profile by education. Basic model for property crime





## Those who have run away from home are more likely to be offenders — as are youths living away from home.

the Metropolitan Police area, with an increase of nearly 13%. These forces, together with the City of London, Greater Manchester and Merseyside, recorded increases totalling 190,000.

Within these broad areas, crime rates are highest in inner city areas, those with a high proportion of social housing; and poorly maintained districts. These patterns have been accentuated by recent trends in crime prevention and control which have encouraged individual self-protection, home security devices, neighbourhood watch schemes, insurance and private policing which lead to increased crime in poorer areas, where individuals cannot afford to protect themselves.

It is not difficult to see that schools influence children's behaviour outside as well as inside the school, particularly in relation to delinquency. The age an individual leaves school, their attendance, whether they have been excluded and the qualifications they gain are all differentially associated with offending.

## And who they are

Empirical work has shown that a number of individual characteristics are associated with offending. For example, crimes rates are higher for non-whites than for white people. According to the Home Office, 18% of the prison population of England and Wales in 1997 were non-white men: even though non-whites accounted for only 6% of the total population of England and Wales. Marriage has also been found to discourage involvement in crime. And young people who have good relationships with their parents are less likely to be involved in criminal activity, while those who have run away from home are more likely to be offenders — as are youths living away from home.

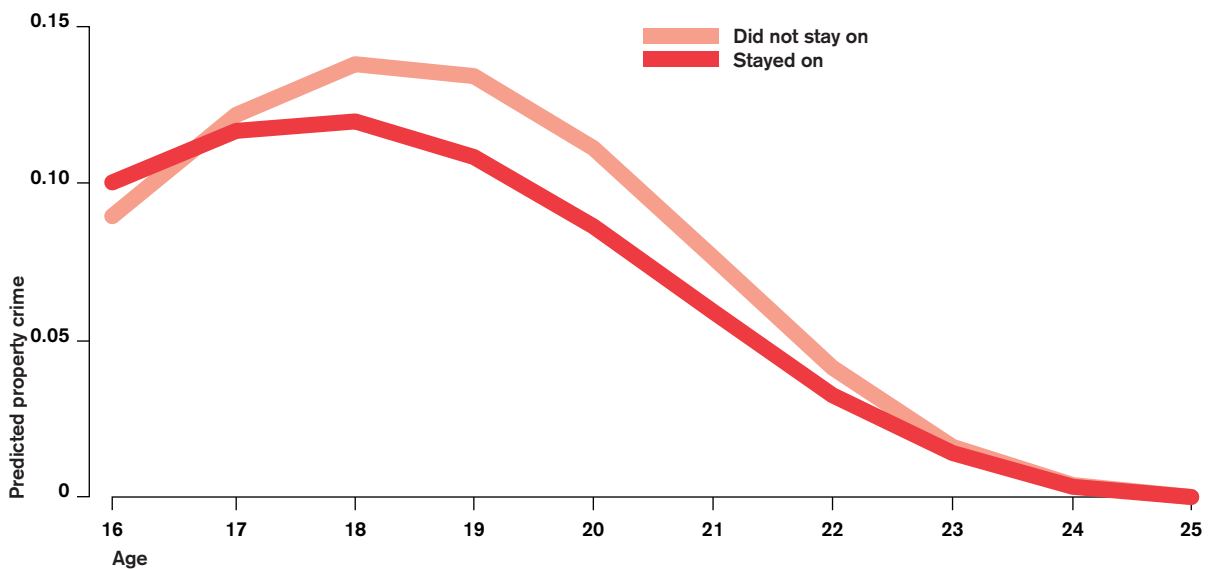
Delinquents disproportionately come from lower class and low income families. Their parents, if in employment, tend to be in low paid manual jobs. Delinquents are also more likely to have convicted parents or delinquent older siblings.

Several studies have examined the link between the labour market and crime. Although there is as yet no consensus, many found that, at least to some extent, crime is related to unemployment, inequality and low wages.

## Which factors matter most?

When all these factors are taken into account, the crime-age profiles are indeed substantially altered. Figure 3 shows that the two profiles now look very similar. They completely come together at ages 16, 24 and 25; with only a slight gap between the two profiles from 17 to 23. All the variables combined account for 90% of the overall gap.

Figure 3 Crime-age profiles with all variables – property crime







**Table 1** Proportion of the gap in the crime-age profiles accounted for by the inclusion of additional variables

Age	16	17	18	19	20	21	22	23	24	25	Mean
Gap	0.226	0.159	0.103	0.063	0.043	0.036	0.046	0.064	.085	0.102	<b>0.092</b>
% explained by area/neighbourhood	10.2	11.9	15.5	17.5	17.1	8.3	0	0	1.2	6.9	<b>9.0%</b>
% explained by school variables	21.7	30.2	44.7	69.8	100.0	105.6	97.8	56.3	44.7	42.2	<b>45.7%</b>
% explained by family variables	25.2	-1.3	-34.0	-68.3	-75.6	-16.7	65.2	100.0	122.4	105.9	<b>26.1%</b>
% explained by individual variables	4.0	6.9	17.5	39.7	70.7	83.3	65.2	45.3	38.8	40.2	<b>27.2%</b>
% explained by labour market variables	11.9	10.1	0	-22.2	-58.5	-69.4	-37.0	-7.8	14.1	23.5	<b>-1.2%</b>
% explained by all variables	104.4	96.9	82.5	60.3	39.0	50.0	80.4	95.3	101.2	100.0	<b>90.2%</b>

Of course some of these characteristics matter more than others. Table 1 shows that the most important set of variables explaining the gap on average are school variables which account for approximately 46% of the gap overall; family variables which explain 26% of the gap; and individual variables 27%. But we can also see from Table 1 that there are variations across ages. For example, individual variables explain very little of the gap at the younger end of the age profile (4% of the gap at age 16), but much of the gap between the ages of 20 and 22. This is perhaps linked to the movement away from the parental home, towards setting up new families and having children in the early twenties.

### Being more specific

So we know that school variables, family and individual variables account for the largest proportion of the gap between the profiles for those with more education and those with less. But we would also like to know which specific factors within these groups are most important. And we do. At school, truancy is the most important factor. Those who have played truant are 14 percentage points more likely to commit property crimes. Within the family, what's important is whether an individual's family has had contact with the police: those with family members who have had contact with the police are 19 percentage points more likely to commit offences. And of the individual characteristics, what matters most is whether an individual lives with their parents at age 16. Those who do are 8 percentage points less likely to commit crimes.

### The implications for policy

There's little doubt that these findings have important implications for long term efforts to reduce crime committed by young people. One obvious solution might be to encourage

**Education encourages children to develop skills and acquire knowledge and training which will affect their future success in life.**



more young people to stay on at school – and thus hope that young people can 'jump' from one crime-age profile to the other. In fact, we do not yet know enough to know if this would work, since we don't know what role is played by educational qualifications which those staying on acquire. The other route for policymakers to explore, of course, is in constructing social and educational policies which can have an impact on the specific factors which close the gap between the two crime-age profiles.

Neither approach offers a quick fix to the problem of youth crime. But set against a century long trend of rising crime, the effort needed to come up with policies which can have a long-term impact is well worth making.

**Kirstine Hansen** is a member of the CEP Labour Markets programme. A more detailed account of her research in this area (Kirstine Hansen: The role of education, labour market and social factors in shaping the crime-age profile CEP 2000) is available from the CEP: [www.cep.lse.ac.uk](http://www.cep.lse.ac.uk)





# Getting the balance right

**Governments around the world are seized of the importance of education both because of its importance to individuals and because of its role in national economic welfare. But has the emphasis on education meant that other important factors in childhood development have been ignored? Leon Feinstein reports on new CEP research which suggests they have.**

**T**he Blair Government is understandably concerned to increase the literacy and numeracy of British children. There is a growing worldwide appreciation that education is important in itself and also as a way of enhancing children's life chances and the economic growth prospects of nations as a whole. But is the drive to improve educational standards leading to the neglect of other factors which can also affect employability, earnings and economic success?

The answer seems to be yes. Take two examples. There is now clear evidence that children with higher self-esteem at age ten get as much of a kick to their adult earning power

as those with equivalently higher maths or reading ability. And better performance in tests of other aspects of psychological development are also well correlated with reduced risk of unemployment. These are two striking results from new research which has made use of British data to examine how the scores of psychological and behavioural ability at the age of ten can predict what happens when a child grows up and enters the labour market.

## Psychological development matters

Popular demands for improving education standards are widespread. Some people advocate the extension of the



## **Managers perceive workers with high self-esteem to have higher productivity in work because they use time more effectively, requiring less guidance and considering a wider range of solutions to problems.**

school leaving age; others argue for a reduction in class sizes. In many cases, proponents of more spending on education believe that such investment is worthwhile because education is a good thing in itself. But while they might not gain such widespread popular support, similar claims could be made about psychological development. Self-esteem, for example, is presumably a good thing in itself, provided that it is tempered by a realistic or balanced view of one's own attributes. Of course, the proponents of higher education spending can also point to research showing that it brings wider economic benefits. What has been less clear until now is whether differences in individuals' psychological development have similar implications for productivity.

Our findings reveal that they do. The early psychological development of children has as much bearing as their academic ability on their later productivity: so much so that there may be grounds for arguing that school performance should be assessed not only in terms of maths, reading or science scores but also in terms of the success or failure in helping children to develop in these other ways. There is as much of an economic or investment argument for helping children develop psychologically as there is for helping them develop academically. Indeed, there are important interactions between the two, and the fact that children are failing psychologically might in many cases have negative effects on their academic development.

### **Measuring psychological development**

We've been able to track the impact of psychological development using the 1970 British Cohort Study. This interviewed the parents of all children born in the UK in the first week of April 1970. Children, parents, doctors and

**That children are failing psychologically might in many cases have negative effects on their academic development.**

schools were subsequently questioned when the children were aged 5, 10, 16, 26 and, most recently this year, around the time of their 30th birthday. We were interested in three sets of questions asked when the subjects of the study were ten years old. First were standard maths and reading tests. Next were questions known as the Lawseq and Caroloc series developed by the Cohort Study to test two particular psychological attributes, self-esteem and 'locus of control.' Both are important, well-established notions in the psychological literature. They have been shown to predict later adolescent outcomes such as school performance and, when low, criminality or psychiatric disorder. The final set of questions was asked of the children's teachers and included questions relating to anti-social behaviour, relations with peers, attentiveness and the extent to which children were extroverted.

### **Self-esteem**

Self-esteem is reasonably self-explanatory. The psychological score was derived from questions such as "Do you think that other children often say nasty things about you?" or "Are there lots of things about yourself you would like to change?". Sixteen questions that were used to create a reliable measure of self-esteem at the age of ten. Other studies have already shown that managers perceive workers with high self-esteem to have higher productivity in work because they use time more effectively, requiring less guidance and considering a wider range of solutions to problems. Self-esteem should, therefore, increase wages directly. It might also improve the chances of getting a job since candidates with higher self-esteem will be more confident in interviews and better able to sell themselves as well as being more productive. More generally, it might be expected that children with higher self-esteem are better equipped both to set appropriate goals for themselves and to achieve the goals they set.

Self-esteem may be derived from awareness of genuine ability. Children with higher maths scores, for example, also have higher self-esteem. Nonetheless, there are children with high maths or reading ability and low self-esteem. It is what happened to these children that we focused on. Self-esteem is strongly associated with social class. Children from wealthier, more educated families have higher self-esteem. We sought to compare children from families with the same level of wealth and education. We found that in the case of two children from families with the same low level of income and with parents who left school at the minimum leaving age the child with the higher self-esteem at age ten will earn more at age 26, even if the two children also have the same scores in maths and reading.

### **The fault lies not in our stars**

The locus of control is a less well-known notion. It refers to an individual's sense of control of their own destiny. Individuals with a high locus of control are better able to





## Boys considered to be anti-social at the age of ten are in general at greater risk of unemployment in early adulthood.



process information from the outside world, are concerned to improve both their circumstances and themselves and, finally, are more stable in response to external influences. It might be expected that such individuals will make better decisions about educational and career choices and have a higher degree of patience. Twenty questions were asked of the children – including “When you get into an argument is it usually the other person’s fault?” and “When someone is very angry with you, is it impossible to make him your friend again?” Strikingly, we found that the ‘locus of control’ score is an important predictor of female wages but is less important for males.

### Behavioural development

Assessing the significance of behavioural development – the questions asked of teachers – is more difficult. Some children classed as anti-social at the age of ten, for instance, might have resolved their difficulties and score very differently by the age of 16. It’s also important to remember that some anti-social people earn high incomes! Interestingly, we found that boys considered to be anti-social at the age of ten are in general at greater risk of unemployment in early adulthood, whereas girls who scored similarly tend to earn more at the age of 26 than their peers. Part of this discrepancy might be explained by an element of subjectivity in the test answers – what teachers consider to be natural aggression in boys could be seen as anti-social behaviour in girls, for example. Or it may be that more ambitious girls are less well accepted by their peers and so appear anti-social.

(It’s perhaps worth remembering at this point that these scores are proxies for features of personality which might be important. Our findings indicate a clear link between the test scores at age ten and subsequent performance in the labour market. They do not address problems associated with the tests themselves.)

### Why the family matters

Family was an important factor in performance in these tests. The higher the level of education of the parents, the better children performed on all the age ten tests. The same is true for the association with social class or income. The effects are not quite as strong for psychological scores as they are for academic ones but they are large nonetheless. This link is perhaps not unexpected – but its extent is striking. The perpetuation of social inequality through the generations isn’t just because children from poorer families get less education, poorer nutrition and worse housing: they also tend to have lower internal psychological support than children from richer families. This may make it even harder to confront the economic circumstances of early adulthood for which they will tend, in any case, to have less financial or other support than children from richer homes.

Another striking finding is that while girls do better than



## Family influences — in particular the wealth and educational achievements of parents — continue to have a major influence on children's performance at school.

boys in the test of anti-social behaviour they have lower self-esteem. These psychological/behavioural gender differences are stronger than the differences in academic abilities. The biggest gender difference is for attentiveness at the age of ten where boys do particularly badly.

Children with good academic scores tend to score highly on self-esteem but it is not unusual to have high academic ability and low self-esteem. Self-esteem and locus of control, however, are strongly correlated, although, again, a significant proportion of children have high self-esteem and a low locus of control score, suggesting, perhaps, that their self-esteem is not well founded. Similarly there are children with low self-esteem and a high locus of control score suggesting that they have psychological attributes that they don't value as much as they might.

### The link with the labour market

Having established that the psychological development tests did indeed provide clear indications about how children at the age of ten would develop in later life, we wanted to know what the link might be with performance at school and, more significantly, with performance in the labour market once the children reached adulthood. It seems clear from our findings that family influences — in particular the wealth and educational achievements of parents — continue to have a major influence on children's performance at school.

But what about in the labour market? The findings for men and women are very different. In the case of men, those men who only differ from each other in the degree of self-esteem recorded at age ten will, at the age of 26, nevertheless show significant differences in earnings. Someone with high self-esteem at the age of ten will be earning 5.6% more than his counterpart with low self-esteem in childhood. The same does not hold true for women, for whom locus of control and behavioural attributes are more important. Women who have better peer relations at the age of ten go on to earn far more than those with poor relations. Attentiveness and anti-social behaviour were also significant.

The risks of unemployment are also affected. Men who were introverted at the age of ten are more likely to experience a significant period of unemployment, as are anti-social boys. Those boys with self-esteem who become unemployed are less likely to experience prolonged unemployment. For women, the results are similar to those for wages. Attentiveness, good peer relations, locus of control and academic ability are all important in reducing the risk of short- or long-term unemployment.

### Family-friendly policies?

It will come as no surprise to many Human Resource professionals that people with higher self-esteem are more productive and earn more. Neither will it shock teachers to





**Schools are generally large and imposing buildings where pupils are taught in one year cohorts with classes of around 30. Schools are necessarily geared to helping pupils achieve good key stage and exam scores and although this requires the development of ethical or moral attributes, they are not institutions created to help individual children achieve psychological growth.**

know that more attentive children tend to learn more. Our findings show conclusively that such intuitive beliefs can be supported by empirical evidence. But are these important psychological attributes at the age of ten randomly allocated? Or is there scope for policymakers to influence them?

Perhaps the most striking of our findings was the extent to which families rather than institutions seem to make the difference in influencing age ten psychological and behavioural scores. This has clear implications for those who would wish to help people develop the childhood attributes which will help them in later life. Schools are generally large and imposing buildings where pupils are taught in one year cohorts with classes of around 30. Schools are necessarily geared to helping pupils achieve good key stage and exam scores and although this requires the development of ethical or moral attributes, they are not institutions created to help individual children achieve psychological growth. This has traditionally been the role of the family.

We found that children whose fathers are in manual, unskilled occupations have on average, low self-esteem, low locus of control, exhibit a high degree of anti-social behaviour and are inattentive even by age ten. Children in this group also have worse labour market outcomes than other children; but their difficulties are made worse by their development up to age ten. It is not only social class of itself that causes these outcomes, but rather what comes with such categorisation in terms of parental education, income, housing, schooling and family size.

More important even than these general aspects of family upbringing, however, is the nature of the relationships between parents and children. In the questionnaire given to them as part of this study, teachers were asked to make two judgements about parental attitudes to the children: their interest in the education of the child and whether they exhibited any hostility to the child. Both variables are hugely important in influencing the age ten scores. The effect of parental hostility on self-esteem and anti-social behaviour is overwhelming, much more important than even the absence of a parent, the nature of the school or the parents' social class.

It is also interesting that fathers' hostility is as important in influencing the age ten maths scores as fathers' interest in education. We found both to be substantially more important than fathers' own education or than the type of school that the child attended. This shows how important the psychological background of the child is in helping them learn academic skills as well as psychological or behavioural ones.

Of course, our findings don't enable us to say anything about the nature of this parental hostility or low level of interest. It is possible that they are proxies for the stress of

poor material circumstances in the home, though this is unlikely because the results already take income into account. It is also possible that teachers don't really observe these parental attitudes but assume them from the children's behaviour. Again, this isn't altogether a compelling argument. The most likely explanation is that it is the quality of the relationships formed by and with children that help them in developing the psychological attributes which help them achieve successful and productive economic lives.

The question for policy-makers is how to help children develop these attributes. Clearly, policies which help families are crucial, for example, support for parental leave, better post-natal or subsequent health and educational support for parents and finding new ways of involving parents in the education of their children. Our findings suggest that there are economic as well as ethical rewards for such endeavours.

**Leon Feinstein** is a Lecturer in Economics at Sussex University and an Associate of the CEP. A fuller account of these findings can be found in CEP Discussion Paper No. 443: The relative economic importance of academic, psychological and behavioural attributes developed in childhood.

# More transparency please!

**A former member of the MPC sets a challenge for his erstwhile colleagues**

**W**hen I was a member of the Monetary Policy Committee I was proud to discover that I received fewer column inches in press coverage than any of my colleagues. I had found it easiest to behave as if I were still a civil servant, so I gave no on-the-record interviews and only talked (with permission) on the usual unattributable background basis. While this suited me fine, I am not sure that I should have been allowed such a quiet life.

## Individual accountability

The MPC was set up with an emphasis on the individual accountability of members. I took this as meaning that not only would votes be recorded but that members would be required to explain their actions. They would have to explain why they had, for example, voted for an increase in interest rates one month and then for no change in a subsequent month.

At the moment, the task of public questioning seems to have been delegated exclusively to the Treasury Select Committee, which was given special responsibilities in this regard

by the Chancellor of the Exchequer. But this is not completely satisfactory. The TSC only invites a subset of the MPC. The Governor is always included and, reasonably enough, much of the questioning is directed to him as a spokesman for the MPC as a whole. In practice, only a very small proportion of the hearings is actually devoted to questioning of specific decisions and, inevitably a great deal of it is spent on attempts to gain political points often in the, usually fruitless, attempt to discover disagreements between the Governor and the Chancellor.

The other means by which we can attempt to discover the views of individuals consist of the minutes of the meetings and the quarterly Inflation Report. When the minutes are published, the commentators look first at the votes and then at the paragraphs that explain them. The discussion uses expressions like “One view was...”, “On one view...”, “On another view...”, “Another view was...”, “Some members of the Committee...” etc. Very occasionally it is possible to attribute one of these views to an individual member of the Committee (e.g. when there is a

single dissenter); but usually such attribution is impossible. We do not, for example, know whether anyone actually holds the view expressed or whether it is simply there as a logical possibility. Nor do we know whether the views are intended to be mutually exclusive. Sometimes the minutes show that members were divided over how close they were to making a change in interest rates. This is potentially very interesting but it would be even more interesting if we knew who was in which camp.

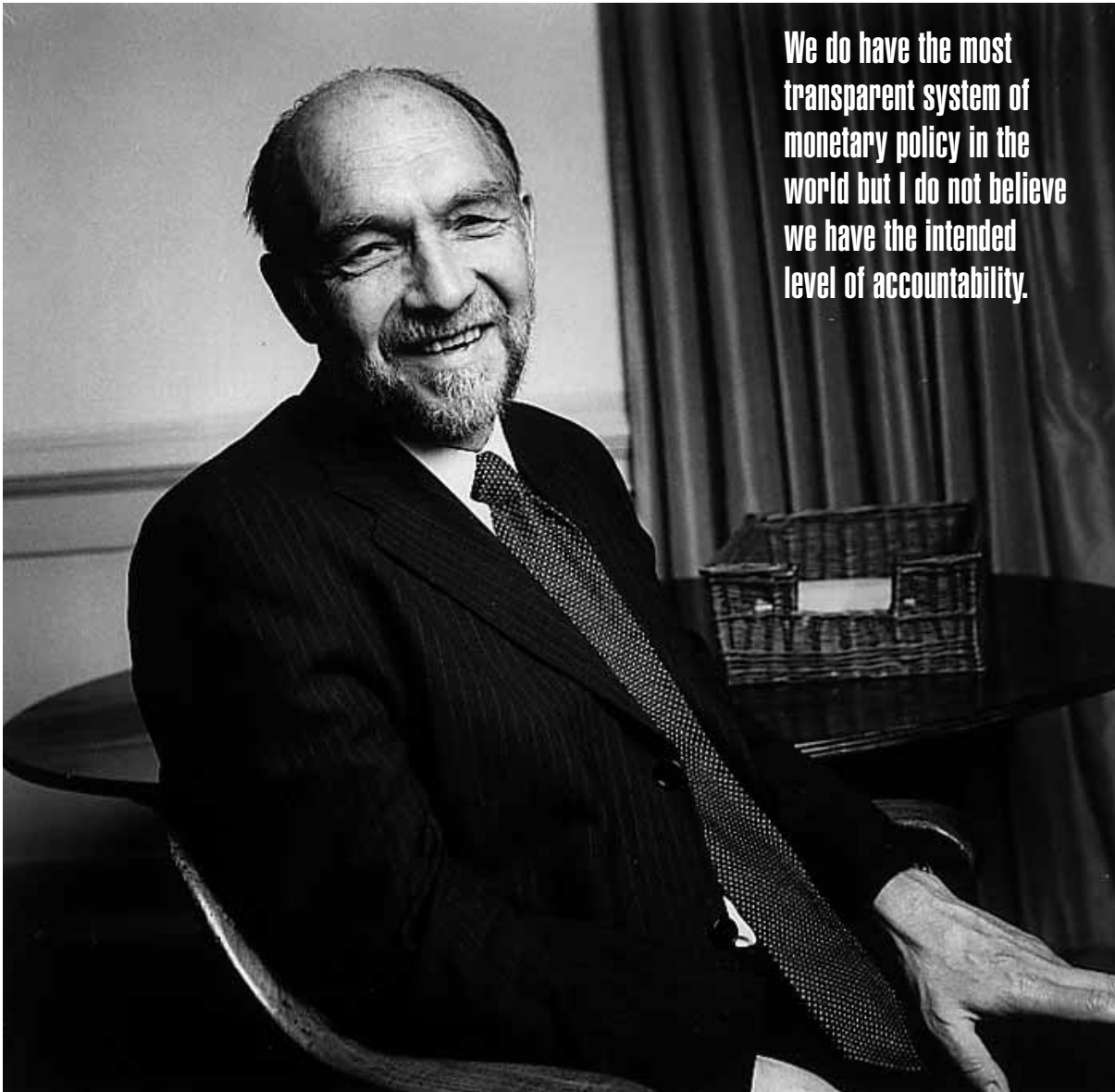
The Inflation Report is even more problematic. The fan charts, showing the range of possible outcomes (within stated probability limits) are described as representing the MPC’s “best collective judgement about the most likely path for inflation and output, and the uncertainties surrounding those central projections.” Experience has shown that members have felt free to disagree about the appropriate level of interest rates while accepting (in the limited sense) a single representation of the fan charts for output and inflation.

## Different opinions

But we now have an additional table which reflects a range of views on particularly intractable issues. In the Inflation Report of May 2000, the issues were the future path of the exchange rate, the extent of pass through from earnings to prices, the degree of improvement in supply-side performance and the extent of downward pressure on margins. For example, an optimistic member of the MPC might believe that the exchange rate would remain constant, that there would be weak pass-through from earnings to prices and

**In practice, only a very small proportion of the hearings is actually devoted to questioning of specific decisions.**





**We do have the most transparent system of monetary policy in the world but I do not believe we have the intended level of accountability.**

Photo: Norman McBeath

additional supply side improvement. Such a combination of views would reduce the inflation prospect at the two-year horizon by about  $\frac{1}{2}\%$  compared with the central projection. A pessimistic member might prefer to believe that the exchange rate would fall in line with uncovered interest rate parity and that there would be weak downward pressure on prices. That set of beliefs would add about  $\frac{1}{2}\%$  to inflation two years ahead.

So if there are optimists and pessimists, it appears that their views on inflation two years ahead differ by up to 1%. That is a very wide range in policy terms, even if each view is surrounded, as it must be, by a range of uncertainty. But in May the MPC agreed unanimously not to change interest rates. There is no doubt a very good explanation for this apparent paradox. But we would at least like to know where each member

stands on these admittedly difficult issues. Do the options in the table represent actual views or is the table merely hypothetical? (But if that is the case, why are the results not simply included in the fan charts?)

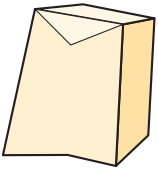
### Asking hard questions

If the Treasury Committee does not ask these questions, why does the press not do so? We do have the most transparent system of monetary policy in the world but I do not believe we have the intended level of accountability.

My colleagues may feel somewhat betrayed by my attempts to expose them to greater scrutiny after I was able to spend my term of office in comfortable obscurity; but that comfort has carried a high price. I assumed that when I left the MPC I would be able to embark on a

prosperous career giving speeches to the Annual Conference of the Society of Fly-Posters, gala meetings of rugby clubs, Bar Mitzvahs etc., for enormous fees. But the invitations have totally failed to materialise. (Prime Speakers, where are you when I need you? I'm much cheaper than Lady Thatcher, and almost as funny.) I exaggerate slightly. I gave one lecture, into which I poured my soul. I was rewarded by a visiting card case and did not even receive a thank you letter. As we economists know, it is permanent income which matters, so, dear members of the MPC, suffer a little now, for the good of the country and for your long-term financial benefit.

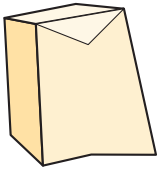
**Sir Alan Budd** is Master of The Queen's College Oxford. He was a member of the Monetary Policy Committee from 1997 to 1999.



# The right to know:

what should employers tell their workers?





**It's increasingly accepted that we live in an age dominated by information flows – the more someone knows the better they are able to make informed judgements; and the person who gets the information first often acquires an important advantage over others. So there are already strict legal rules governing what a company should tell its**

**shareholders – and proposals to extend those obligations are in the pipeline. At the same time, modern management practices favour a greater flow of information from a company to its workers. But, as the authors point out, there are as yet few legally-binding obligations on firms to keep their employees properly informed about the company for which they work.**

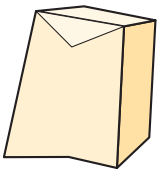
**N**egotiation does not deserve its name if one of the negotiating parties is kept in the dark about matters within the exclusive knowledge of the other which are relevant to the argument.' Otto Kahn-Freund was writing nearly twenty years ago: but his words still strike a chord with those who follow the complexities of industrial relations and collective bargaining procedures. It's now accepted by many management experts that employers themselves could benefit from a freer flow of information to employees. When pay rises are up for negotiation, trade unions and worker representatives would be in a much better position to assess the employment requirements of firms and their ability to afford pay increases. Employee relations would be improved more widely, if worker representatives knew more about the company's development plans and were themselves able to monitor skills levels, productivity, and other factors.

Yet for all the talk of partnership at work, in Britain firms

have few legal obligations to keep their workers, as opposed to their shareholders, properly informed. In spite of considerable changes in collective labour legislation over the past two decades, the law on disclosure of information for collective wage bargaining purposes has until now remained largely unamended. Correcting this could yet form a central part of the Blair government's aim of building a more positive framework for employer/employee relations.

### Leaving out the workers?

This is not to say the legal obligations on employers have remained completely static. In fact, the requirement to provide information to employees has grown since the early 1970s. At that time, the emphasis was on disclosure for collective bargaining. Then in the 1980s and 1990s there was a new emphasis on disclosure as part of joint consultation at work. This reflected a number of factors – the predisposition of the then Conservative government,



## For all the talk of partnership at work, in Britain firms have few legal obligations to keep their workers, as opposed to their shareholders, properly informed.

growing European influence, and the preference of many employers for information provision as part of new human resource management strategies.

In opposition, Labour acknowledged the need for a new approach to industrial relations in general and to disclosure in particular, stating before the 1997 general election that a proper flow of information is 'fundamental to good relations and a positive partnership between employer and employee'. In the white paper, *Fairness at Work*, the Labour government said that 'employers will in the future have clearer obligations to inform and consult recognised trade unions or, in their absence, other independent employee representatives.' The precise implications of this were not spelt out, however. So far the government has accepted various aspects of European social policy and has introduced certain new rights for unions and employees. It is also reviewing the existing legislation on collective redundancies and transfer of undertakings, both of which contain disclosure provisions. Yet in the *Employment Relations Act* there is only one provision which extends information disclosure, namely in the area of training.

This is in contrast to new proposals for more disclosure in company law and for greater freedom of information in public life generally. In the corporate governance area, there are also new proposals for greater voluntary disclosure to shareholders, though not to other stakeholders in the enterprise. And within management, over the last two decades, there has been a renewed interest in information sharing, in the context of management-sponsored or -controlled consultative committees, briefing groups, and other communications initiatives.

In the light of this activity and the promise of a new openness, it would be a pity if the present legislative situation with regard to disclosure at work were to remain unreformed. Where trade unions are recognised for collective bargaining, there needs to be a flow of information to make negotiations meaningful. Moreover, if employees and their representatives are to be in a position to negotiate effectively on employment matters, a timely and adequate flow of information is also essential. If social partnership is to deserve its name, then one prerequisite is more equal access to useful information.

### The legal framework

Provision for legally-based disclosure of information for collective bargaining was first outlined in the Labour white

paper, *In Place of Strife*, and was contained in its 1970 *Industrial Relations Bill*. Similar clauses re-appeared in the Conservatives' *Industrial Relations Act 1971*, supplemented by a *Code of Practice* and a report from the *Commission on Industrial Relations*. These sections, only marginally amended, were then re-enacted in the *Employment Protection Act of 1975* and were backed up by a new *Code of Practice* from the *Advisory Conciliation and Arbitration Service (ACAS)*. Despite a proposal from the Conservatives to repeal the legislation in 1991 the law remains unamended and is now contained in the *Trade Union and Labour Relations (Consolidation) Act of 1992*. Although this Act does impose some requirements for disclosure on employers it also provides a wide range of exemptions.

Other legislation on information disclosure enacted in recent years relates either to both collective bargaining and joint consultation or to joint consultation alone.

In response to European directives, employers have been obliged to disclose information to recognised unions and to employee representatives in the event of redundancies and business transfers. In both cases, the original UK law embodying these EU directives had to be amended in response to rulings by the *European Court of Justice* in 1994.

There are a number of other legal requirements concerning disclosure of information. The *Health and Safety at Work Act 1974* and its related regulations (many derived from European directives), gives employers a general duty to consult safety representa-

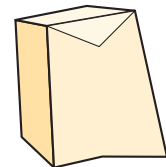
tives concerning the promotion of health and safety. There are disclosure obligations too in the area of occupational pension schemes: the *Pensions Act of 1995*, for instance, requires the disclosure of auditing and accounting information. And the *European Works Council (EWC) directive (94/45/EC)* also contains disclosure requirements, the stated aim of which is to improve the right to information and consultation of employees in enterprises operating anywhere in the European Union.

In addition, the *European Commission* has proposed new rules which would affect existing British law on disclosure. In the first case, relating to *National Works Councils*, the Commission is trying to establish an EU-wide framework of minimum standards of information and consultation at national level, giving employees a greater voice in the running of companies, with or without the agreement of employers. The UK government is opposed to these measures, preferring instead to encourage voluntary





## Trade unions may have chosen not to initiate disclosure claims, either because they had other more pressing problems or because they could not mobilise sufficient workplace support.



agreements based on the notion of social partnership. The Commission has also proposed a directive which would establish a general framework for informing and consulting employees in all EU countries. Information and consultation is regarded as an essential tool for employees to adapt to organisational and work change. The Commission argues that change is necessary because of the weaknesses of national and EU law: where information and consultation rights do exist at present, these are often formal and *a posteriori* exercises. If the new proposals were adopted, they would be an important step back towards a more general approach to disclosure in UK labour law.

### The importance of the collective bargaining approach

Over the years, then, a body of legislation on information disclosure has accumulated. The core legal provisions, however, remain those relating to information relating to collective bargaining; much of the responsibility for implementing the rules is handled by the Conciliation and Arbitration Committee. It's interesting to note that the number of cases which come before the CAC have fluctuated markedly over the years. Between 1976 when the disclosure provisions first came into force and the end of 1999, the Committee had handled 476 complaints, an average of 20 per year. But the actual number in any one year has varied considerably. There was a rash of complaints in the early years, reflecting initial enthusiasm for the legislation. Then the number of cases coming before the CAC fell and remained low through the 1980s, before rising again in the early 1990s – and falling again in the late 1990s.

This uneven pattern, once the novelty of the new rules had worn off, reflected a number of factors. The decline and low level through the 1980s, for instance, might in part have reflected the indirect success of the provisions on voluntary disclosure. But the fall in formal complaints might also have reflected early disappointment with the provisions and the fact that, from the early 1980s, the unions were too busy dealing with the legislation of the Thatcher years. This explanation might in turn be allied to the decline in the coverage of collective bargaining in the 1980s. In these circumstances, the disclosure of information may not have seemed a high priority for beleaguered union members and their shop stewards. Trade unions may have chosen not to initiate disclosure claims, either because they had other more pressing problems or because they could not mobilise suffi-

cient workplace support around related issues.

The provisions brought together under TULRCA 1992 would seem to offer *in potentia* a broad set of legal rights. Over the years, an indirect effect may have been that the threat to use them induced employers voluntarily to disclose information. The number of cases settled or withdrawn may also indicate a measure of success for the CAC. But in practice the obstacles and tests under the law are extremely restrictive, and this is undoubtedly one reason why, after initial enthusiasm, use of the provisions declined and remained low before reviving again in recent years.

### What's wrong with the existing provisions

The provisions outlined above constitute some underpinning for collective bargaining in the UK. But they also contain elements which reduce their value to trade unions. In the first place, information need only be provided for the

purposes of collective bargaining as defined by the Act and disclosure is limited to matters for which the union is recognised. So claims for information relating to costs and prices or to organisational restructuring where the topic had not previously been an accepted bargaining subject falls foul of the provision.

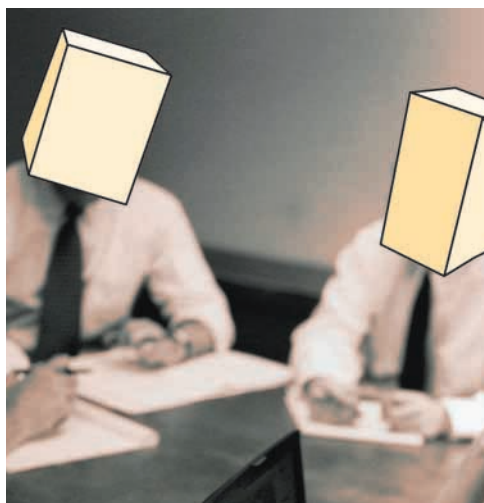
What's more, the two tests contained in the legislation which might appear to strengthen a union's case aren't in practice very helpful. The first test, that of 'good industrial relations practice' is vague, as the CAC itself has admitted. The second, that of 'material impediment' has proved

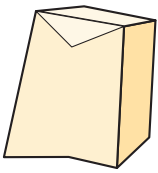
an even bigger obstacle to a union seeking to pursue a complaint where it has managed without such information in the past. Many employers have successfully objected that there was no impediment and unions are severely disadvantaged in arguing the need for information that they do not possess.

The CAC is also hampered because it can only adjudicate upon a past failure to disclose and may not declare what information the employer should disclose in the future – even though this might help avoid a subsequent dispute. And even in cases where the CAC rules in a union's favour enforcement is difficult. The CAC cannot force disclosure of the information required, nor can it include a punitive element in the award against an employer.

### A different approach?

It's clear that the tests and exemptions contained in the





## The right to information could be made more extensive, especially in the areas of non-labour costs, financial matters, the state of the organisation, and corporate strategy.

1992 Act are extensive and restrictive. They inhibit union claims for information and provide employers with a wide range of arguments against disclosure. So does the more recent legislation covering disclosure in specific areas combined with the new proposals coming out of Brussels offer an alternative approach?

Not as much as unions might have hoped. Although some of the weaknesses of the 1995 provisions relating to collective redundancies have been addressed in the changes made by the new government in 1999, not all of them have been remedied. Employers are still only obliged to consult workers about redundancies in good time and not at the earliest opportunity. And the government did not remove the exemption for redundancies affecting fewer than 20 workers. There are similar shortcomings in the specific disclosure requirements relating to business transfers and pensions. Even the Health and Safety at Work Act of 1974, while bringing many benefits in terms of improved practices, was weak in enforcing disclosure of information; and smaller, non-union firms are often unaffected.

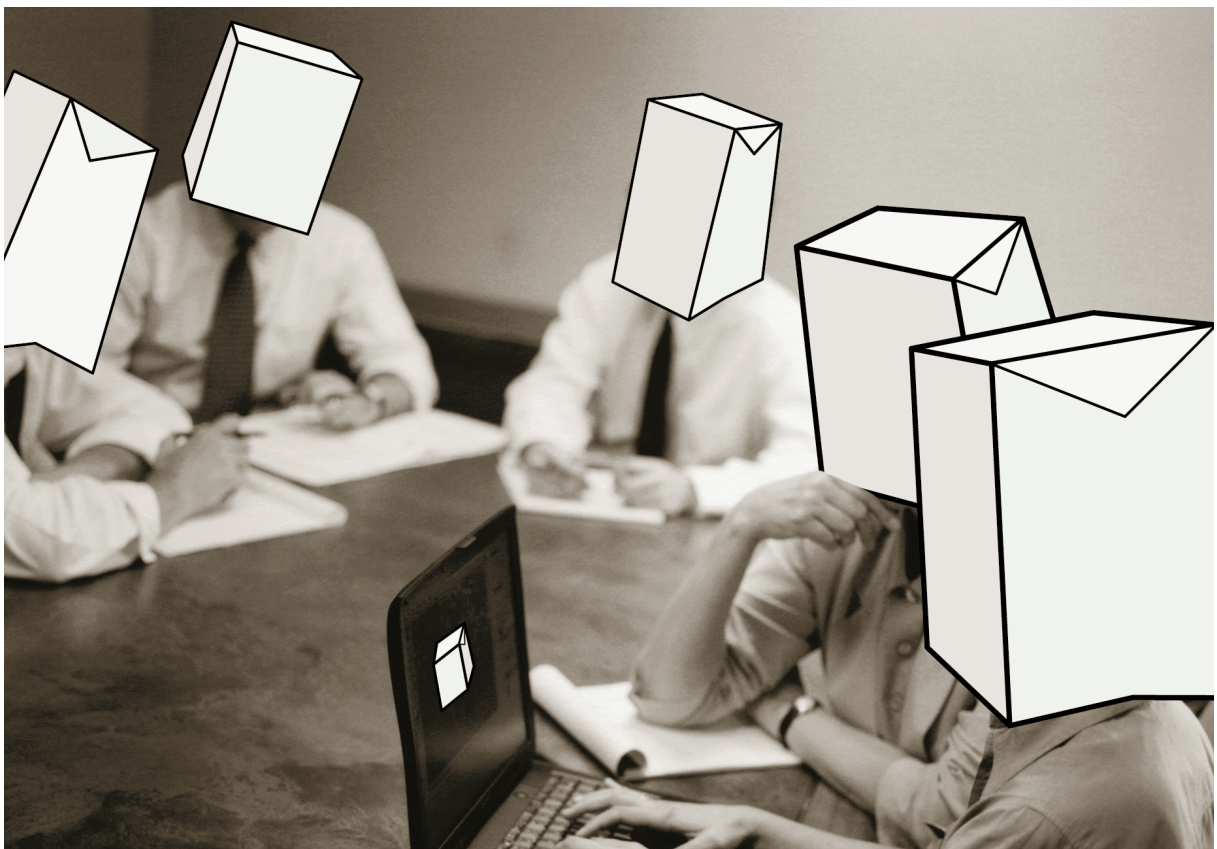
### What is to be done?

There is a continuing tension in the UK between the traditional approach to disclosure and employee representation

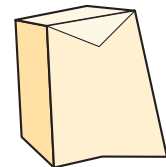
based on collective bargaining and the alternative approach to information and consultation rights derived in part from European Union initiatives. Indeed, there is a possibility that the one may displace the other, and the two approaches are often portrayed as dichotomous. In practice, unions may view the two approaches as complementary and seek to utilise both to produce a comprehensive framework of information, bargaining, and consultation rights for employees and their representatives.

There are nevertheless important analytical differences between the UK law on disclosure for collective bargaining and the European-influenced provisions. The disclosure provisions in UK law are auxiliary in nature, in that they are intended to support the collective bargaining process. But the nature of the provisions – such as their restriction to recognised unions – makes it clear that they aren't meant to extend the coverage or scope of collective bargaining.

In fact, the UK provisions constitute an agenda-driven disclosure model; i.e. the trigger for their use lies within the bargaining agenda. By contrast, the provisions ultimately stemming from European directives are event-driven; they are triggered by specific employer-initiated events which affect employment contracts in many ways irrespective of the representative context. Whereas the concern of the



## Representatives and trade unions need to be given sufficiently detailed information at the earliest opportunity if they are to be effectively involved in decisions at work.



former is with the vitality of a process, the concern of the latter is primarily procedural justice in the operation or termination of employment contracts. As we have shown, the latter operate in a palliative rather than preventative way, and they need have no continuous impact on bargaining relationships. Their main advantage, however, lies in the absence of any necessary association with collective bargaining processes which are shrinking in coverage.

The potential strength of disclosure for collective bargaining is that trade unions have the organisational capability to use information in that they are continuous associations, with a real independence of the employer and with expertise and resources beyond the workplace. Given the shrinkage of collective bargaining and the growth of non-union workplaces, however, disclosure for consultation has become more important in recent years. The legal framework should aim to provide good disclosure for collective bargaining wherever possible; where this is not possible, there is a need for the provision of good information for joint consultation. To this end, the TULRCA 1992 provisions for disclosure need to be improved along with better information provision for joint consultation.

### Proposals for change

Several reforms suggest themselves. The right to information could be made more extensive, especially in the areas of non-labour costs, financial matters, the state of the organisation, and corporate strategy. The statutory restrictions on disclosure could also be more narrowly defined. The timing of disclosure is crucial, and here employers might be placed under a duty to provide information 'as soon as possible'. Good disclosure practice requires more positive employer action and the role of legislation should be the promotion of such a development. Against this standard, it would seem the present law is inadequate. The 'substantial injury' and other safeguards cast the employer as a reluctant divulger of secrets rather than an active participant in information transmission and social partnership at work.

So it would seem to be in the interests of unions to press for changes in the law based on a wider notion of the area of collective bargaining, together with a more effective enforcement mechanism, but without the stringent safeguards concerning confidentiality, substantial injury, production of documents, and disproportionate work. For deliberate breaches of the obligation to disclose, the law could impose financial penalties on recalcitrant employers and CAC declarations might be made enforceable in the courts. And the ACAS Code of Practice should be reviewed so that the code gives better guidance on the general principle of 'good industrial relations' practice.

The law on disclosure for consultation also has a number of weaknesses. It is disclosure for very specific purposes; it is not always easy to make linkages, say between information

on a business transfer and the underlying commercial factors which gave rise to the strategic decision; and it is disclosure to representatives who do not usually have the organisational capability and independence which unions possess. Yet given the shrinkage of collective bargaining, disclosure for consultation has become more important in recent years. It would certainly be wrong, therefore, to throw the baby out with the bath water and to argue against strengthening of the law in this area. At the very least, the existing European disclosure requirements connected with collective redundancies and business transfers should be fully implemented in the UK. In these and other areas, such as pensions and health and safety, greater consistency and improvements could be made in terms of the timing of disclosure and the nature of information provided.

In this respect also, rather than rejecting the concept of national works councils, the government should adopt the initiative and make it a central forum for meaningful information disclosure. Worker representatives and trade unions need to be given sufficiently detailed information at the earliest opportunity if they are to be effectively involved in decisions at work. In the UK context, it is then to be hoped that, in a more supportive legal environment, such provisions might both give strength to, and derive strength from, trade unions along German lines.

### The benefits of change

Improvements to disclosure of information for collective bargaining and joint consultation could have significant benefits for employee relations. Trade unions and worker representatives would be in a better position to assess the employment requirements of firms and their ability to afford pay increases. They would be better placed to assess development plans, to monitor skill levels and productive efficiency, and to ensure that management is best exploiting commercial opportunities. Information is of particular importance in the rapidly changing and competitive environment within which organisations now operate. The neglected area of disclosure of information could be a central part in the Labour government's aim to build a more positive system of employee relations. Otto Kahn Freund's observation applies not only to information for effective collective bargaining, but also to information for meaningful consultation or any real notion of social partnership at work.

**Howard Gospel** is Professor of Management at King's College, London.

**Graeme Lockwood** teaches at King's College, London.

**Paul Willman** is Professor of Management at the University of Oxford.

Gospel and Willman are members of the CEP Labour Markets programme.

This work is part of the Levehulme Future of Unions project at the CEP. A fuller account can be found in CEP Discussion Paper 453.

# Reform in Russia

## A good news story

**The Centre for Economic Performance has been intimately involved in the restructuring of economics teaching in Russian universities. Richard Jackman explains the difficulties he and his colleagues encountered – and how reform was set in train.**

**S**ince the collapse of the communist regime in Russia, several members of the CEP, in particular Richard Layard, Amos Witztum and myself have been involved in one way or another with the restructuring of economics teaching in Russian universities. Evidently, the abandonment of Marxist ideology, the ending of the planned economy and the opening up of Russia to the international community necessitate far-reaching changes in its education system. The teaching of many subjects, including history and philosophy, but above all economics, needs to be radically reformed in the light of the new order. The syllabus of an economics degree which enables students to understand how a market economy works will



obviously be totally different from one appropriate to a planned economy. But in our experience changes in the substance of what is taught have been, in a way, the easy part; more fundamental are changes in the way in which subjects like economics are taught, which in turn reflect very basic ideas about the purpose of education and its role in society.

### A lingering legacy

Since the early 1980s, various international organisations such as the World Bank, the European Commission, the Soros Foundation, and, in Britain, the Know How Fund, have provided technical assistance to economics departments in universities throughout Eastern Europe and in Russia, to enable them to reform their curricula and retrain their teachers. New colleges have been set up and new programmes instituted. It might be thought, ten years after the fall of the Berlin Wall, that substantial progress would by now have been made in introducing courses in conventional Western market economics in Russia. In reality, Russian universities have proved remarkably impervious to Western influence, and most Russian students continue to be taught a Marxist-based curriculum which has hardly changed over the last twenty years.

The reason for this failure is, we believe, that most Western institutions, and indeed individuals, did not fully appreciate the extent of differences between the education system of the former Soviet Union and that of Western countries. The idea that Russian economists could simply be retrained to teach neo-classical economics, in the same way as an international trade theorist could learn how to teach, say, competition policy, was fundamentally misguided. It was to assume Russian economists had been studying their subject by the formulation and testing of hypotheses about the behaviour of planned economies, rather than by the learning of the classic texts of Marxism-Leninism as the fundamental truth about economics.

### The extent of the problems...

At the outset there were indications of peculiarities in the Russian education system. Russian students brought over to the West in the early days were evidently, and indeed quite openly, cheating in exams. Linked to this, teachers reported students outraged if they were not told the examination questions in advance. One might observe similar disparities in formal teaching. Go to a lecture in a Russian university. A teacher might be elaborating a complex mathematical proof on the board; his class might be sitting around paying no attention but reading the newspaper, playing chess or chatting to one another.

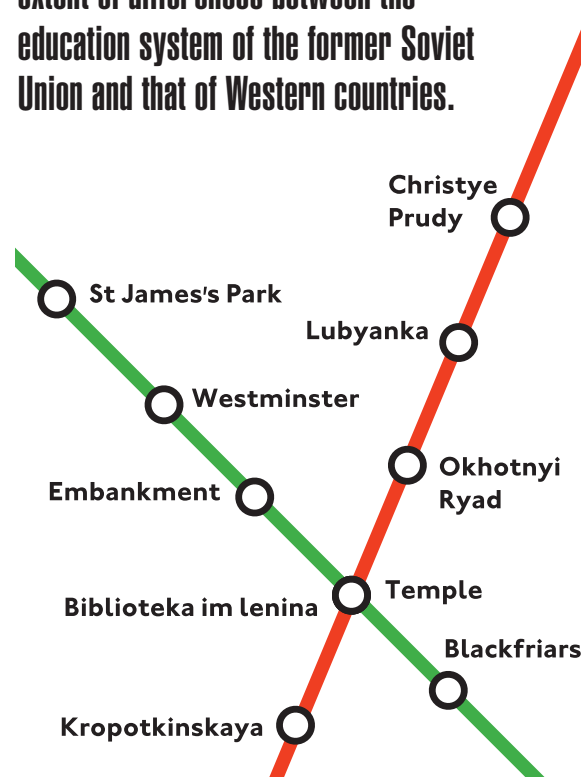
The pervasive malaise of the Russian economy, which is that firms were encouraged to meet output targets through the real or fictitious production of goods which no-one wanted, the 'we pretend to work and they pretend to pay

us' syndrome, seems to have afflicted the universities also. The students pretended to study and were rewarded with meaningless qualifications, but as long as all the students got their degrees each year the system was seen to be working successfully. Teaching became an opportunity for teachers to demonstrate their intellectual prowess and proceeded without regard to whether or not the students were learning anything. (Such tendencies are, of course, not unknown in other parts of the world also.) Russian exams have until very recently been oral rather than written. As long as exams were oral everyone could pass; written exams are more of a problem but the rational response in the context of the system is to coach students in the specific questions that will be asked, and, if they still can't manage, to condone cheating in the exam itself.

### ...and the struggle to overcome them

Thus attempts to 'teach' Western economics have initially sometimes involved simply the application of rote learning, which was the basic skill developed under the previous regime to Western textbooks. The new market-orientated courses were very often taught in addition to rather than in place of the Marxist and planned economy courses left

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over from the previous regime. For example, at Moscow State University, which was in receipt of a substantial grant from the EU through the TEMPUS TACIS programme, which was run by CEP, at no stage did the new courses comprise more than 10% of a student's total teaching. They were therefore able to offer only a glimpse of market economics rather than giving students any real understanding of the subject. In part, of course the resistance to change represents the entrenched positions of senior academics, whose courses would need to be terminated to make way for the new subjects.

The malaise in the existing system led us to the view that the only way to achieve radical reform was through the introduction of degrees subject to external examination. Thus, in 1997, Richard Layard, Director of the CEP, together with a group of Russian academics, set up the International College of Economics and Finance (ICEF). This college had the financial support of a consortium of Russian banks, and was officially sponsored by LSE and the Higher School of Economics in Moscow, with an

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academic support programme run by CEP. To ensure that the College actually did provide an education equivalent to that of a Western university, the students sit the University of London examinations for external students.

### The shock of the new

Exposure to external Western examinations has had a traumatic impact. In the first year, completely unexpectedly, about two-thirds of the students passed in economics but only one-third in calculus and only one-sixth in statistics. Given that economics is a completely new and unfamiliar subject, taught in a foreign language and examined in the context of a foreign culture and institutions, while on the other hand Russian students are believed to be good at mathematics, and the subject matter of mathematics can hardly differ very greatly from one part of the world to another, better results in economics came as a shock both to ourselves and to the teachers in Russia.

The key difference as we see it is that the economics courses, precisely because we had been very worried about the students' prospects in this subject, had been taught by teachers who were themselves Western educated or had familiarity with teaching in the West. By contrast, we assumed that Russian teachers of mathematics would be perfectly competent to teach their subject for Western examinations even if they had themselves no experience of study or teaching in the West. Unhappily, it turned out that for the reasons we have already described, the Russian teachers had no idea of how to teach the acquisition of basic mathematical skills at the level required to pass elementary Western examinations. In the second year of the College, we invited an English graduate of mathematics who was at the time working in Moscow to assist with the College's teaching, and this, together with a number of similar initiatives, raised the pass rate in calculus from one-third to over 80%.

### Defining the differences

So what are the differences between teaching methods in Russian and Western universities? The fundamental one is that in Russia, education is seen as a one-way process in which teachers speak and students listen. The typical Russian academic week consists of 40 hours of lectures, and the students are not expected to do more than listen and attempt to absorb the content of the lectures. There are no classes, seminars or discussions, nor are the students expected to write essays, or solve problems or exercises. Students in other words are not given any opportunity or encouragement to think for themselves. This authoritarian approach to education is clearly consistent with Marxist ideology, though it derives historically from the French and German eighteenth century practice of according respect to intellectual authority, as against the Anglo-Saxon empirical tradition.

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But if cultural traditions differ across countries can there be any justification for seeking to impose an approach to economics based on one particular culture on to universities in a country whose cultural traditions are different? Is there any sense in which the Anglo-Saxon tradition is not simply different, but better? One test is that of the marketplace, the objective of education being then to produce graduates with the most marketable skills. One would hope not, but equally it is not irrelevant that economics graduates from good Western universities are able to command high salaries, whereas those with Russian degrees are not. Why should there be a commercial pay-off from the study of an essentially academic discipline like economics?

### Nurturing independence of thought

We would argue that economics as taught in leading Western universities provides a means of thinking about economic problems, or a language of enquiry. Its objective is to enable a student to think for themselves about an economic problem. It is therefore necessary first to demonstrate to students the tools of economic analysis and then provide them with the opportunity to practice the use of these tools, first in the context of relatively simple and artificial problems (exercises) and then in application to more complex real world problems (in essays). The 'core' courses of theoretical economics and econometrics, supported by mathematics and statistics, provide students with the tools they need for this purpose, and the emphasis on solving problems on their own gives them the opportunity to practice using them. The 'core' subjects are thus central to the study of economics in Western universities.

The purpose of applied subjects is rather different. It is to build a bridge between abstraction and reality, by demonstrating the relevance and application of theoretical concepts and/or econometric methods within a specific area. The purpose is not to learn a lot of facts about some feature of the economic landscape like say international trade or the financial system, but rather to use economics to gain a better understanding of key issues in one or other of these areas. The application of theory and empirical techniques will often strengthen a student's understanding of them, and learning how to apply economics in one area will teach a student how to apply it to other issues also.

Students are examined by unseen written papers, anonymously marked and externally moderated. The exam questions are designed to test the student's capacity to analyse a new problem without external assistance. For this reason the exam papers are kept secret and students can be punished for cheating. The coursework where students were solving problems on their own thus provides preparation for what is required in the exams. The degree structure, teaching method and method of examination thus constitute a coherent package, embodying an approach to economics as a method of thinking, rather than a means of acquisition of specific knowledge.

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The success of the well-educated economics graduate lies not in the subject matter they have been taught but in the intellectual capacities which they have acquired. The capacity for abstract thought encourages the mental flexibility required to tackle new problems and develop new ideas. Such skills are valuable and particularly so in economies subject to rapid change. In Russia, the radical restructuring of the education system necessary to enable its students to succeed in the world is still at a beginning, but with motivation and appropriate institutional reforms, the prospects for the longer term remain bright.

**Richard Jackman** is a member of the CEP Labour Markets programme and Professor of Economics at the LSE.

# The Centre's tenth birthday

In May, the Centre for Economic Performance celebrated its tenth anniversary. To mark the occasion, the Chancellor of the Exchequer, Gordon Brown, delivered the second James Meade Memorial Lecture to an audience of nearly a thousand in the LSE's Peacock Theatre. Anthony Giddens, Director of the LSE, was in the chair.

Mr Brown paid tribute to the work of the Centre, noting the impact which many of its research findings had had on contemporary economic thinking.

After the lecture, several hundred guests adjourned to the Shaw Library for the Centre's birthday party. Former members of the Centre, many of its longstanding supporters,

journalists and policymakers were among those who heard Director Richard Layard speak about the Centre's past – and its future.

Professor Layard listed some of the main achievements of the Centre during its first ten years: the work on unemployment which had led to the British government's New Deal policy;



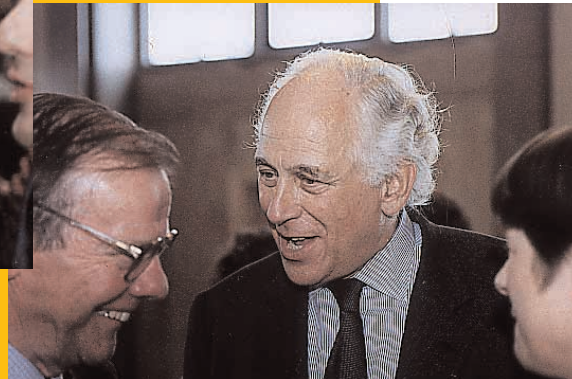
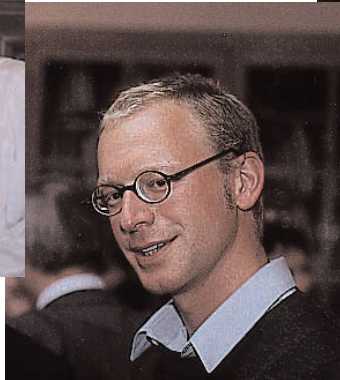


the work on issues such as workless households; and the Centre's involvement in Russia since the collapse of the USSR.

He then announced that negotiations with the ESRC for a further five years of core funding had been successfully concluded, securing the Centre's future until at least 2005.

Chairman of the CEP Policy Committee, Adair Turner, also spoke. He noted that the Centre would in the future be increasingly obliged to supplement its core funding from outside sources and announced the start of a major funding drive by inviting those present to consider ways in which they might help provide financial support to the CEP.

May also saw the launch of CentrePiece's new website – [www.centrepiece-magazine.com](http://www.centrepiece-magazine.com) Check it out!



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April 2000, £15

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by Adair Turner

This paper contains the transcript from a public lecture given at the London School of Economics on Monday 18 October 1999.

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