

# The Soft Revolution



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It has become something of a cliché to say that we live in changing times. But few really grasp the scope and speed of the changes now shaping Europe's future. We are all aware of the economic vicissitudes that have characterized the European marketplace in recent years. But less obvious is the fact that we are only at the beginning of a process of structural change that will dominate Europe's economic agenda into the next century. We are, in fact, engaged in what I have called The Soft Revolution: one as dramatic as any revolution in its impact on peoples' lives; but one which lacks leaders, manifestos, slogans and barricades.

Indeed we are privileged as a generation to be witness to a transformation of historic importance : The Soft Revolution will not end until the ways in which we work, live and learn will be barely recognizable to our parent's generation.

Tele-working or flexible working will be instrumental in The Soft Revolution. Not because it will be an interesting experiment pursued by a growing number of enthusiasts; but rather because it will become the economic means by which a majority of companies in Europe and North America will survive and prosper in the new century that will soon be upon us.

You only have to look at some recent headlines to realize that something is happening to change forever the ways in which people behave and economies function:

- \* Consumer confidence: at an all time low in Europe.
- \* Inflation: at levels in some countries not seen since the early 1960s.
- \* Working from home: 50% of Europe's workers would like to work from home some of the time.
- \* Outsourcing: 10% of Ireland's top 1,000 companies intend to contract out their data processing.
- \* The world economy: the global turnover in foreign exchange transactions has reached \$1 trillion per day; equivalent to Ireland's annual GNP every 50 minutes.

The most immediate impact of these developments is at the level of business micro-economics:

\* Growth: we have entered a new growth era due mainly to rising unemployment leading to weak consumer demand. This in turn is forcing businesses to adopt more aggressive strategies including price wars, take-overs and grabbing market share.

\* Prices: with inflation below 2% in some countries, businesses find that they can no longer assume that next year's prices will be higher than this year's prices -- something they have done for the past 20-30 years.

It is time, then, to realize that The Soft Revolution has begun.

## A MATTER OF ECONOMICS

The result of this unique configuration of low real growth and low inflation is that companies throughout Europe and North America are now embarking upon a process of cost reduction, containment and avoidance that will shape the fundamentals of our economies for decades to come. It is therefore these unprecedented developments in business micro-economics that are the key reasons for the growing interest in flexible or tele-working, and the primary reason why the 1990s will see the coming to fruition of developments anticipated as far back as the early 1970s.

Over twenty years ago, Alvin Toffler predicted the emergence of the 'electronic cottage', heralding a new era of IT-based working patterns that would revolutionize the very foundations of our modern economy. It has taken two decades for a modified version of his vision to become a reality.

But there is more at play than the mere application of interesting technologies to still marginal work forms. It has recently been forecast by Ovum that the numbers tele-working (as employees) for some or all of the average working week will rise from a current level of 600,000 in North America and Europe, to about 12 million by 2000.

Taking this as our base, such a twenty fold increase in the number of flexible workers will directly affect the lives of approximately 25 million spouses and children; and indirectly affect at least another 50 million neighbors, friends and colleagues who will interact with the new tele-workers. By the end of the century, virtually all of us will either be tele-workers and/or married to tele-workers and/or living in the same community as tele-workers.

The nature of the forces giving rise to the belated development of tele-working are summarized in the chart below.

## SUPPLY AND DEMAND

The 1970s and 1980s saw the rapid development of the forces enabling the supply of tele-working services, including:

- \* Technology - the rapid fall in the real price of computer software and hardware, in parallel to an exponential rise in processing capabilities, has meant that it has become economically feasible to equip large numbers of tele-workers with state-of-the-art IT; or for tele-workers to equip themselves with the technology.

- \* People - the past two decades have seen unprecedented shifts in the nature of work, with sharp declines in the numbers working in manual and manufacturing jobs; and compensating increases in the numbers in service sector and white collar jobs: the type that can be done from home.

But it is on the demand side that the catalysts for the take-off of tele-working practices in Europe are now emerging:

- \* Costs - with revenue under pressure from weak demand and intense competition, the only means of securing an improving bottom line (other than through take-overs) is through the cost base. That means a focus on cost reduction (eg: through contracting out services); on cost containment (eg: through the use of third party overflow services); and on cost avoidance (eg: through the use of 'hotdesking' rather than renting more office space).

- \* Competition - with the creation of a Single European Market and the likely emergence of a global marketplace through GATT, Europe's businesses face competition from a growing number of sources, including Eastern Europe, NAFTA and the Pacific Rim countries.

## A NEGATIVE SUM GAME?

However, it is too easy to focus simply on the micro-economic factors driving the demand for tele-working, to conclude that it is inevitable, and leave it there. But this would be too narrow a focus. For those of us charged with the task of advising policy makers and politicians, we need to be alert to the broader macro-economic consequences of the changes that we have described.

Very simply, against a background of rising unemployment in Europe, the rapid implementation of flexible working practices by Europe's businesses could give rise to the greatest geographical re-distribution of work since industrialization led to the decline of rural populations. But the matter would not rest there. While some would have the opportunity to re-locate themselves to match the new sources of work; many would not. We would then be witness to the spectacle of traditionally 'recession-proof' cities such as London and Paris becoming the new loci of structural unemployment. Indeed, there is some evidence this is already starting to

happen.

But if the issue was simply one of a temporary 'zero sum game' in terms of employment opportunities, then policy makers might not have a great deal to worry about. However, it is quite feasible that the re-distribution of work and incomes associated with the rapid expansion of tele-working could turn out to be a negative sum game (as indicated in the chart).

For example, those losing their jobs in the traditional white collar employment regions will likely be in permanent, full time jobs. In contrast, many of those securing employment as flexible workers (especially those working as 'self-employed' individuals), will likely be on short term, even part-time contracts.

The latter will not enjoy the sense of material security of the former, which in turn will affect their spending and saving behavior. The consequences for Europe's weak economy could actually be to worsen the already precarious state of consumer confidence, in turn retarding the pace of economic recovery.

Given that we have already postulated how flexible working could touch the lives of tens of millions of Europeans, and given that consumer spending accounts for approximately two thirds of the EC's GDP, then such a scenario is not beyond the bounds of possibility.

In fact, we have just sketched out the thinking behind our worst case scenario illustrated below. We have called this scenario 'the Redistribution of Risk', after the concept of the Risk Society developed by the German sociologist, Ulrich Beck. He argues that developments such as flexible working amount to the wholesale re-distribution of 'risk' away from the enterprise and entrepreneur and towards sub-contractors and employees. And whilst the business motivations behind such moves are both rational and, to a certain extent, unavoidable; their wider macro-economic consequences are only becoming evident in the form of a growing sense of insecurity among white collar workers. Coupled with the continuing uncertainties associated with EMU, GATT and Maastricht, it is not inconceivable that the measures adopted by hundreds of thousands of rationally behaving European businesses could end up exacerbating the problem they were responding to in the first place: namely, weak demand.

But of course, there is an alternative scenario to all of this which we have sketched out in the chart as well.

This, our best case scenario, we have called 'Regaining Global Competence' The European model of capitalism, with its emphasis on the social market economy, must confront the American and Japanese models in an increasingly barrier-free global marketplace. In our optimistic scenario, Europe does so by taking the lead in adapting to the exigencies of technological and corporate change, using flexible working to enhance the productivity of Europe's workers; in turn securing a growing share of a growing global market. Europe's employees and sub-contractors then share in the profits of success.

LE DÉFI EUROPÉEN

In 1967, Jean-Jacque Servan-Schreiber published *Lea Défi Americain* : a book written to alert France and Europe to the external challenge posed by America's global economic capabilities. Over twenty five years later, it ha become obvious that the real challenge is in fact an internal European challenge. In other words, the challenge is one of marshalling the skills, resources and talents of our continent to secure the standard of living to which our citizens aspire. This in turn requires a recognition both of the inevitability of the business changes being wrought by the convergence of factors described above; and of the wider economic and political challenges that these pose for Europe. Europe should therefore facilitate the market for tele-working.

Beyond this, however, Europe must leat *The Soft Revolution* , ensuring that the gains arising from the changes we have described are shared with those who suffer the pain of change. If it accepts the challenge of tele-working, Europe can lead the world into a better century.

[Home](#) \* [Back to Contents](#)