

# The changing welfare state: employment opportunity for all

November 2001



HM TREASURY

**DWP** Department for  
Work and Pensions

---

---

**THE CHANGING WELFARE STATE:  
EMPLOYMENT OPPORTUNITY FOR ALL**

November 2001

---

---

Further copies of this document are available from:

The Public Enquiry Unit  
HM Treasury  
Parliament Street  
London SW1P 3AG

Tel: 020 7270 4558

Welfare Reform (DWP-INW)  
Freepost (HA4441)  
Hayes UB3 1BR

Tel: 020 8867 3201

Fax: 020 8867 3264

Lines open Monday to Friday 9 am to 5 pm

Please quote code DWP-INW

This document can be accessed from either the Treasury's Internet Site: <http://www.hm-treasury.gov.uk>,  
or the Department for Work and Pensions' Internet site: <http://www.dwp.gov.uk>.

Published November 2001

# CONTENTS

---

<b>Foreword</b>	<b>Page</b>
	<b>iii</b>
<b>Chapter 1 Introduction and summary</b>	<b>1</b>
<b>Chapter 2 The state of the labour market and the distribution of work</b>	<b>5</b>
<b>Chapter 3 Labour market inactivity among different groups</b>	<b>11</b>
<b>Chapter 4 The policy response since 1997</b>	<b>27</b>
<b>Chapter 5 Conclusions</b>	<b>35</b>
<b>Appendix A Data sources for charts</b>	<b>37</b>



# THE CHANGING WELFARE STATE: EMPLOYMENT OPPORTUNITY FOR ALL

---

## FOREWORD

---

### “The Changing Welfare State: Employment Opportunity for All”

Opportunity for all is at the heart of our economic and our social policies. Work is the best way to lift families out of poverty, to raise incomes, and to open doors. That is why we have adopted a work first approach in our welfare reforms, as part of our drive to end poverty. For people who cannot work, our priority is to provide greater security than in the past.

In 1997, we inherited a major problem of worklessness – not just among those traditionally seen as unemployed, but for millions of other people who were offered little or no help at all to find work. Between the 1970s and the mid-1990s, the number of lone parents on benefit and the number of people claiming sickness and disability benefits both trebled. By the mid-1990s, a third of men aged between 50 and state retirement age were out of work: most did not retire voluntarily. That is the scale of the challenge we face.

This paper sets out the background to the problem and how it has developed over the past 20 years. It also shows how, in the past, people were often written off to a lifetime on benefits – when earlier intervention and help could have enabled many more people to return to work. And it was not just a lack of help to get into work. For too long, the welfare system had let down lone parents, disabled people and older workers who had been made redundant. At best, the system failed to encourage and support people to move into work, and at worst it provided clear disincentives to work.

Over the past 4 years, we have started to tackle the legacy of worklessness and at the same time to address the scandalous levels of child poverty we inherited. We have made important inroads into the problem of unemployment – particularly for young people, with a reduction of more than three quarters in long-term youth unemployment. Employment rates are close to historically high levels and unemployment remains at levels not seen since the 1970s. As the economy enters a more testing period, our labour market is in a stronger position than for a generation. We are well placed to deal with the ups and downs of the economic cycle.

This is not something that has happened by chance. Instead it has been the result of deliberate action to build a strong and stable economy, combined with a new approach to welfare – helping individuals to help themselves. We have transformed the tax and benefit system, to make work pay, and provided new opportunities through the New Deal. In addition, we have begun to raise educational standards and improve skills – an essential part of our strategy.

During the last Parliament, we also started – for the first time – to extend help to those who have been neglected in the past, through the New Deals and other measures. Again, the results are starting to be seen. Employment rates for lone parents and for the over-50s have risen since 1997. But, as this paper shows, there is still a great deal more to do. There are still 4 million people of working age who are out of the labour market and on benefits, and many would like to work, given the right help and support.

In the past, people have been held back by an artificial distinction between those who signed on for jobs (who were dealt with by the Employment Service) and those who signed on for benefit (who were dealt with by the Benefits Agency). That is why we have brought together, in one Department, the responsibility for delivering policies on jobs and benefits, backed up by a new service for everyone of working age: Jobcentre Plus.

Jobcentre Plus will enshrine the principle that everyone has an obligation to help themselves, through work wherever possible. In return, the Government has an equal responsibility to provide everyone with the help they need to get back to work, when they need it, as well as making sure there is greater security for those who cannot work.

Over the next few years, we will also build on existing policies to:

- invest extra resources where they are needed – to tackle pockets of high unemployment, and to help those people who are hardest to help. We are extending the successful outreach services of Action Teams for Jobs to cover 53 areas by January, and introducing transitional employment pilots to provide people with a stepping stone into work,
- ensure work pays – from 2003, the new Working Tax Credit will be introduced, extending help to those without children, along with the new Child Tax Credit, to support families,
- provide a rapid and effective response to redundancies. At a time when there are still 10,000 vacancies notified each day, we need to do all we can to match people without work to the jobs that are available, and to do so as quickly as possible. Early intervention is crucial – to prevent people drifting into long term worklessness,
- improve standards in schools, as well as helping the 7 million adults in Britain who lack the literacy and numeracy skills we expect of an 11-year old. Education and skills are crucial, and we will continue to invest in the productivity of our current and future workforce; and
- tackle discrimination wherever it is found – for example, we will extend the Disability Discrimination Act in 2004 to include small firms, as well as legislating against age discrimination. But legislation alone is not enough – we also need to do more to win over hearts and minds, so that both public and private sector employers are recruiting the best person for the job.

By building on our reforms of the welfare state, underpinned by a stable economy, we can extend employment opportunities to more and more people. Our task is to build on the successes of the past four years, and to continue to develop new approaches to tackle worklessness and poverty.



**Rt Hon Gordon Brown**  
Chancellor of the Exchequer



**Rt Hon Alistair Darling**  
Secretary of State for Work & Pensions

November 2001

# INTRODUCTION AND SUMMARY

**1.1** This Paper sets out the Government's strategy for extending employment opportunity to all those who are out of work, including many people such as lone parents, older workers and disabled people, who in the past have often been condemned to a life on benefits.

**1.2** The Government is committed to high and stable levels of growth and employment, in order to deliver employment opportunity for all – the modern definition of full employment. The long term ambition is that by the end of the decade there will be a higher percentage of people in employment than ever before, on a sustainable basis.

**1.3** Over the past few years considerable progress has been made in tackling unemployment, with both the ILO (International Labour Organisation) and the claimant count measures now at levels not seen for a generation. Employment rates are very close to the historic high.

**1.4** However, there are still just under a million people who are unemployed (and receiving Jobseeker's Allowance) and a further 4 million people of working age who are out of the labour market (economically inactive) and on benefits, such as people with disabilities or health problems, lone parents and people who have been made redundant or retired early in their 50s or 60s. Many would like to work, given the right support.

**1.5** The Government will continue working to:

- deliver economic stability and sustainable rates of growth;
- build on the success of the New Deals;
- make work pay – so that people see the financial gains from work;
- tackle adult basic skills deficiencies ; and
- tackle discrimination.

**1.6** The introduction of Jobcentre Plus, which will bring together the Employment Service and parts of the Benefits Agency, will provide the platform for ensuring that everyone who wants to work gets the help they need, when they need it. Jobcentre Plus will provide a new approach to help people get into jobs, or improve their prospects for work in the future. It will enable people to be seen on a regular basis, to ensure they are getting the right benefit, and to see what can be done to provide the support, skills, training and other help they need to move into work.

**1.7** *Chapter 2* sets out the background to changes in economic inactivity (people who are out of work, but not actively seeking and available for work). It also looks at the distribution of work among people of working age and explores some of the social, economic, and policy drivers that have contributed to those trends. Over the past 20 years, the overall proportion of people of working age who are economically inactive has been fairly stable. But this stability masks considerable changes in the composition of the economically inactive which has contributed to growing poverty.



**1.8** Male inactivity rose with around 15 per cent of working age men out of the labour market by the mid-1990s, compared to 10 per cent in the late 1970s. In part this reflects the growth in higher and further education (more young people are at university and other post-18 education or training), as well as a rise in early retirement. But much of the growth also reflects an increase in the numbers of men who were in receipt of incapacity or other benefits. A third of men aged between 50 and state retirement age are out of work: most did not retire voluntarily, and almost half rely on benefits for most of their income.<sup>1</sup>

**1.9** On the other hand, there are more women in the labour market than ever before. Female inactivity has fallen from over a third of women of working age, to just over a quarter, over the same period. But the rise in male inactivity and the fall in female inactivity have mostly taken place in different households. Many women who entered work already had a partner who was in work. Many men who withdrew from the labour market either lived alone, or had a non-working partner. At the same time the number of lone parents increased and – in contrast to married women – the proportion of lone parents who were in work fell over the 1980s and early 1990s.

**1.10** As a result of all these changes, households have become polarised between those that are “work rich” (where all adults work) and those that are workless (where no one has a job). This has had a major impact on poverty in Britain, especially among families with children. By the mid-1990s, around 80 per cent of children in workless families were living in poverty.<sup>2</sup> Tackling worklessness is therefore a crucial part of a wider Government strategy to end child poverty.

**1.11** *Chapter 3* sets out in more detail the variations in labour market inactivity across different groups. The analysis in this chapter shows that over the past few decades, as well as becoming concentrated in certain households, inactivity also became concentrated:

- among people with particular characteristics: the low-skilled, people with disabilities or health problems, the over-50s, lone parents; and
- in certain disadvantaged areas within the countries and regions of the UK.

**1.12** These changes have come about for a number of reasons, including structural economic changes, as well as a significant decline in the demand for unskilled workers. While the proportion of the population without any qualifications has fallen, the “penalty” for those without qualifications (in terms of lower pay and a higher chance of being out of work) has increased dramatically.

**1.13** Between the 1970s and the mid-1990s there were large increases in the number of lone parents on benefit, and in the numbers of people claiming sickness and disability-related benefits. Both the number of lone parents on benefit and the number on sickness and disability-related benefits trebled. Both these groups, along with the over-50s, tend to have relatively low levels of educational attainment and qualifications.

**1.14** Moreover, in the past, those who were out of work but not traditionally classified as unemployed, (such as lone parents, many of the over-50s, and people with disabilities) received little, if any, help through the tax and benefit system to assist them in moving into work. The system was riddled with disincentives – many families found they would be little, if any, better off in work than if they remained on benefits. In addition, lone parents and people with disabilities or health problems received neither advice, nor access to training and

<sup>1</sup> Performance and Innovation Unit (2000), “Winning the Generation Game: Improving Opportunities for People aged 50-65 in Work and Community Activity”

<sup>2</sup> Based on a definition of poverty using 60 per cent of median household income.

other employment programmes. Many found they were also facing discrimination in the labour market, for example on grounds of their age, or because of health problems or a disability.

**I.15** By the mid-1990s, inactivity had also become concentrated in certain areas of the country. These areas, where a particularly high proportion of the population is outside the labour market, tend to be in large conurbations, or in areas that were in the past dominated by mining or heavy industry. Nonetheless, even in areas where there are still pockets of high worklessness it is often only a short travelling distance to areas where high numbers of vacancies and skill shortages can be found. This chapter concludes that the task is to deliver carefully targeted labour market policies: to tackle economic inactivity and poor skill levels among older workers, lone parents and disabled people.

**I.16** *Chapter 4* outlines the comprehensive range of measures, introduced by the Government since 1997, to create and maintain economic stability and to increase employment opportunity. First, the Government has introduced fundamental reforms to build and maintain economic stability by putting the public finances on a sound footing, and giving independence to the Bank of England for setting interest rates. Economic stability is an important pre-requisite, but on its own it is not enough to deliver employment opportunities for all.

**I.17** The next step is to make sure that work pays – and so millions of families are benefiting from the National Minimum Wage, the Working Families’ Tax Credit (WFTC) and other tax and benefit reforms.

**I.18** For those who may have been out of the labour market for a while, or who need support to prepare for work, the various New Deals are delivering additional and tailored help, to raise skills, help people find jobs and childcare and improve their long term prospects. In those parts of the country where extra help is needed, additional resources are being invested, to provide outreach (through the Action Team for Jobs) and additional flexibility (in Employment Zones). In addition, to improve skills in the short and medium term, the Government is investing to raise standards in schools, and is helping adults with poor basic skills to improve their literacy, numeracy and IT skills.

**I.19** While this strategy has been successful in reducing unemployment, and in starting to increase the employment rates for lone parents, and among the over-50s, there is more to do.

**I.20** The proportion of lone parents in work has risen from 45.6 per cent in 1997 to 51.5 per cent today – but this is still some way short of the 70 per cent in work found in other countries. Similarly, there has been a rise in the proportion of over-50s in employment every year for the past 4 years, but the rate of inactivity in this older group is still unacceptably high by comparison with overall inactivity rates. The New Deal for Disabled People pilots have helped over 8,000 people into work, but there are still more than a million disabled people who are without a job, but would like to be in work.

**I.21** To build on this progress, the Government is committed to introducing further measures to make sure that everyone who wants to work has the opportunity to do so. The cornerstone of this strategy is the introduction of Jobcentre Plus, bringing together the Employment Service and parts of the Benefits Agency, to provide an integrated service for people of working age. Jobcentre Plus will mark a radical development in public service delivery – building a new culture of “work first” in the welfare system. Starting in 49 areas, and extending over the next few years across the country, Jobcentre Plus will ensure that everyone of working age, no matter what benefit they are claiming, has access to the support of a personal adviser to ensure they are aware of the options open to them.

**1.22** Alongside Jobcentre Plus, Chapter 4 also sets out other measures that the Government is introducing to further tackle the problems of unemployment and inactivity. This includes further steps to make work pay, through the extension of the Working Tax Credit to people without children. The Government will also continue to build on the New Deals; for example since July the New Deal for Disabled People is being extended nationally. It is taking new measures to tackle persistent long-term unemployment in deprived areas, piloting transitional jobs for the hardest to help. The Government is also determined to put in place policies to tackle poor adult literacy and numeracy, and to address discrimination in the workplace. The Government will continue to build on all these measures.

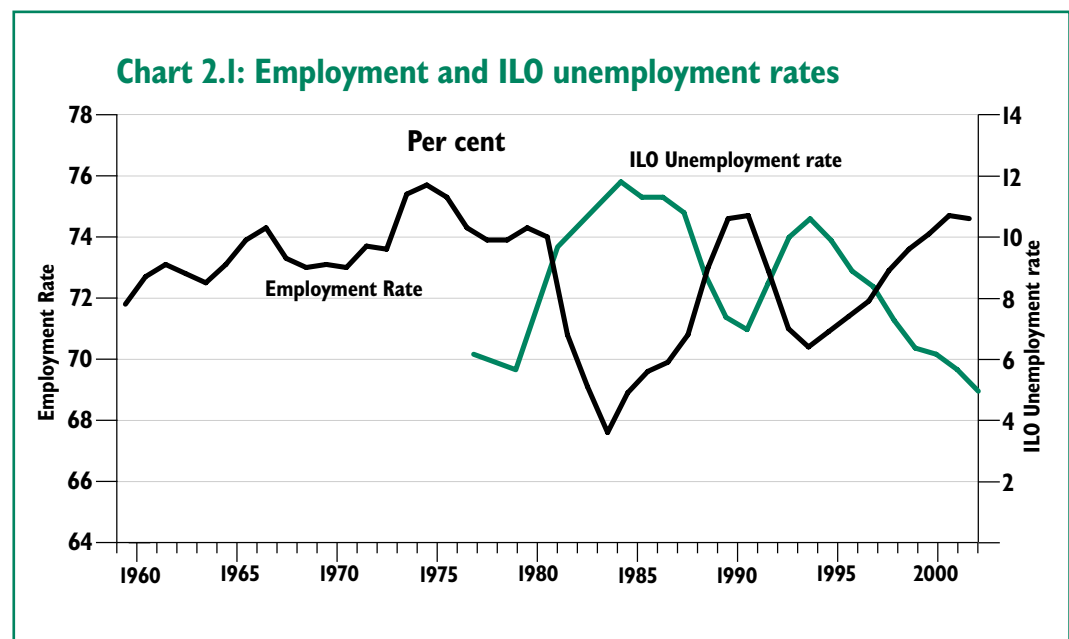
# 2

## THE STATE OF THE LABOUR MARKET AND THE DISTRIBUTION OF WORK

**2.1** This chapter sets out the nature and scale of the problem of worklessness that had developed by the mid-1990s.

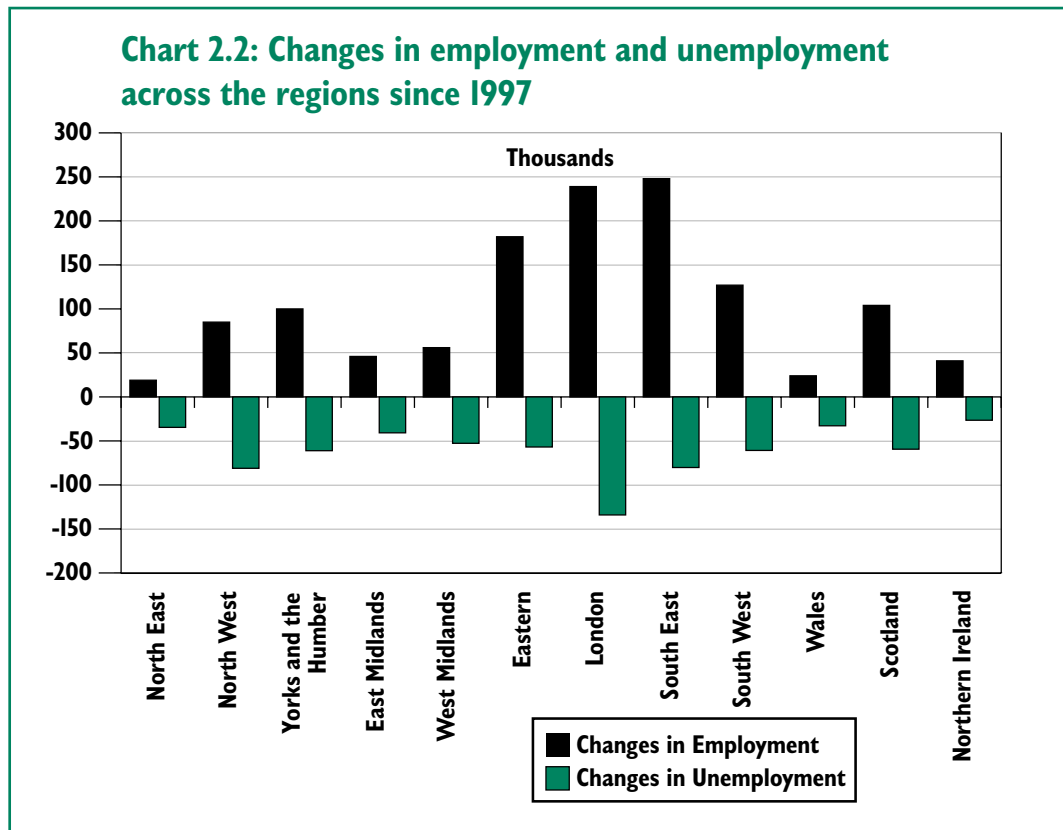
**2.2** During the 1980s and the early 1990s Britain's macroeconomic performance was poor compared with other G7 countries. During this period the UK had one of the highest average inflation rates and below average growth; and suffered from the two deepest and longest recessions in its post war history.

**2.3** Employment and unemployment rates have varied considerably over the last 20 years as Chart 2.1 below shows. The early 1980s saw large increases in the unemployment rate and large falls in the employment rate. Over time many people drifted into long-term unemployment and some eventually into receipt of sickness and disability-related benefits. The late 1980s saw a significant rise in the employment rate and decline in the unemployment rate. But this improvement in the labour market was not sustained into the early 1990s when the employment rate fell and the unemployment rate again rose above 10 per cent.



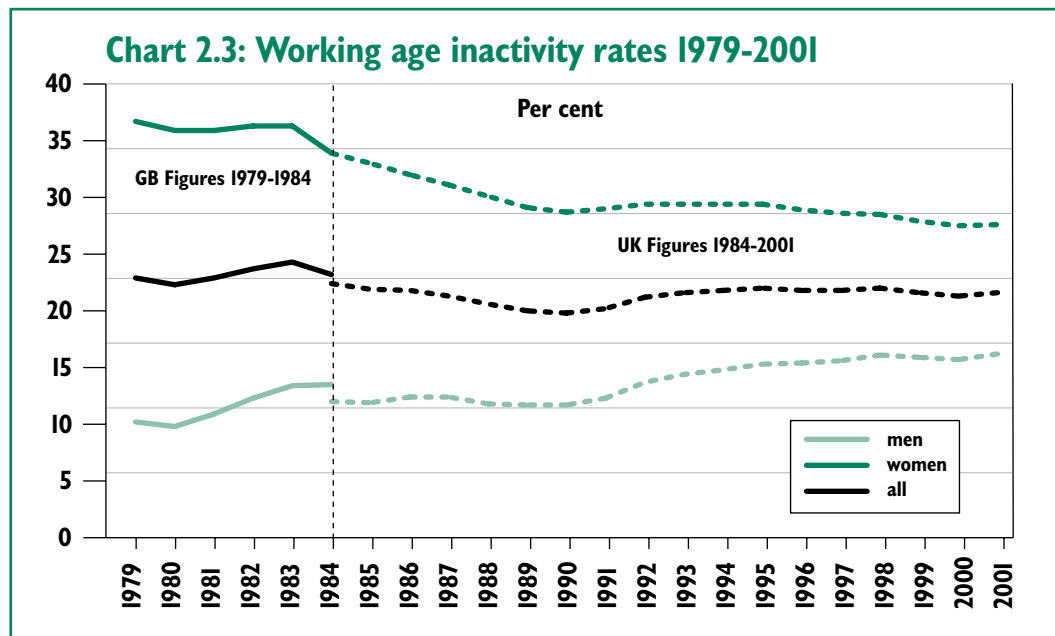
**2.4** Since 1997 there has been considerable progress towards achieving the goal of high and stable levels of employment. The number of people in work has increased by 1<sup>1</sup>/<sub>4</sub> million since Spring 1997 and now stands at close to record levels. The unemployment rate on the ILO definition (and on the claimant count definition) has fallen to levels last seen in the 1970s, see Chart 2.1 above. Since 1997, long term unemployment has fallen by more than two-thirds and the number of young people unemployed for six months or more has fallen by three-quarters. While future international conditions are more uncertain, the UK enters this difficult period with a stronger labour market than for many years.

**2.5** This picture of rising employment and declining unemployment is repeated across every country and region of the UK as shown in Chart 2.2 below. Job opportunities are arising all the time across the UK. Currently, vacancies notified to Job Centres are running at high levels of 10,000 a day.



**2.6** However, while falling levels of non-employment or worklessness have been reflected in declining unemployment, overall economic inactivity has fallen by less. In Spring 2001, excluding students, the inactivity rate was 18½ per cent; half a percentage point below its 1996-1998 peak of 19 per cent. Greater progress has been made in reducing the percentage of households with children with no one in work, from 15.7 per cent in 1997 to 13.8 per cent in 2001, an area where inactivity had become more concentrated, with adverse impacts on child poverty. Consequently, the number of children living in households with no one in work has fallen by over 300,000 since 1997, contrasting with a rise of 731,000 between 1990 and 1996.

**2.7** The overall inactivity rate has been fairly stable over the last 20 years as shown in Chart 2.3 below. But this stability masks considerable changes in the composition of the inactive. The male inactivity rate rose from 10 per cent in 1979 to around 15 per cent by the mid-1990s. Over the same period, female inactivity fell from more than a third of women of working age to just over a quarter. However, this change was not a simple “rebalancing” of labour market opportunities between men and women. These changes occurred in different households. Many women who entered work already had a partner in work, rather than coming from those households where men were inactive.

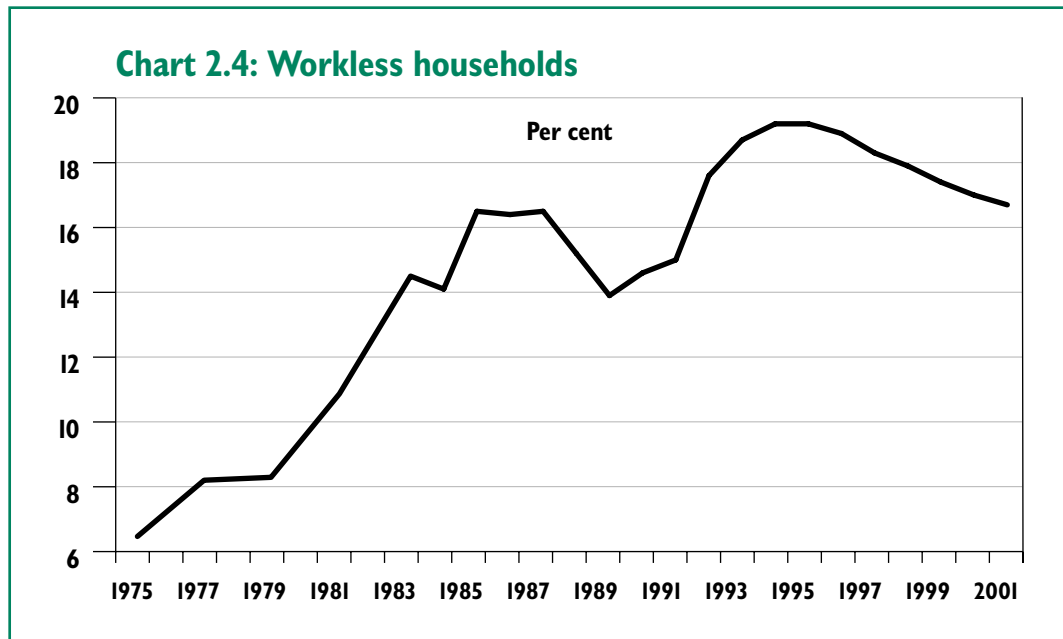


**2.8** Consequently, households have become polarised into work rich ones, where all adults work, and workless ones, where no adult works. Households with a mix of adults both in and out of work fell from 37 per cent in 1975 to 21 per cent in 1995. Over the same period the proportion of workless households more than doubled, from 7 per cent to 19 per cent, as shown in Chart 2.4 below.

**2.9** Part of this increasing divide into work rich and workless households was due to an increase in the proportion of households which contained just one adult, and which by definition cannot have a mix of adults in and out of work. However one research study suggests that this demographic factor explains less than a third of the increase in the number of workless households observed over the 30 years to the mid-1990s.<sup>3</sup>

**2.10** As a result of these changes the chances of an inactive person living in a household with no one in work rose dramatically between the mid-1970s and the mid-1990s – from around 20 per cent to over 50 per cent. This had a major impact on the extent of poverty. In the past the living standards of workless people were often protected by others in the household being in work, but by the mid-1990s this was less and less the case – workless people were more likely instead to find themselves solely reliant on benefit payments and living on low incomes.

<sup>3</sup> Gregg, Hansen and Wadsworth (1999), "The rise of the workless household", in Gregg and Wadsworth (ed), "The State of Working Britain."



**2.11** The overall inactivity rate has been relatively stable since the late 1970s. Inactivity for people with particular characteristics: the low skilled, people with disabilities or health problems, over 50s, lone parents; and in certain disadvantaged areas within the countries and regions of the UK, rose. People in these groups that have failed to hold or obtain jobs have tended to drift out of contact with the labour market and into economic inactivity. This has helped contribute to a big rise in the numbers of people of working age claiming inactive benefits – the number of lone parents on benefits and the number on sickness and disability-related benefits trebled between the 1970s and the mid-1990s. The rise in receipt of Income Support among lone parents is also partly demographic as the number of lone parents doubled between the late 1970s and the mid-1990s. This is set out in more detail in Chapter 3.

**2.12** Part of the reason for the rise in numbers in receipt of inactive benefits was an increase in the amount of time people remained on these benefits once they had joined them. Currently, around 75 per cent of people receiving sickness and disability-related benefits, and around 60 per cent of lone parents receiving Income Support, have been on these benefits for more than 2 years. This contrasts with unemployed people receiving Jobseeker's Allowance where only 12 per cent have been on benefit for more than 2 years.

**2.13** A key economic driving force behind these trends has been a striking shift in the employment and earnings prospects of workers with low skills. Over the 1980s and 1990s people with no educational qualifications have seen substantial declines in their pay relative to those with some educational qualifications. For example, in the mid-1970s men with an A-level earned 22 per cent more than those without qualifications, but by the mid-1990s this had doubled to 46 per cent. On top of this substantial fall in their relative pay, the employment position of people with low skills seriously deteriorated. In 1979 around 9 out of 10 men with no qualifications were in work, by 1995 this figure has fallen to around 6 out of 10. The employment rate for women with no qualifications also fell over this period, in contrast with women as a whole, who saw a significant rise in their employment rate from 61 per cent in 1979 to 70 per cent in 2001. This fall in employment has been particularly reflected in a dramatic increase in inactivity – as shown in Charts 2.5 and Chart 2.6 below.

Chart 2.5: Inactivity rates of men by qualification levels

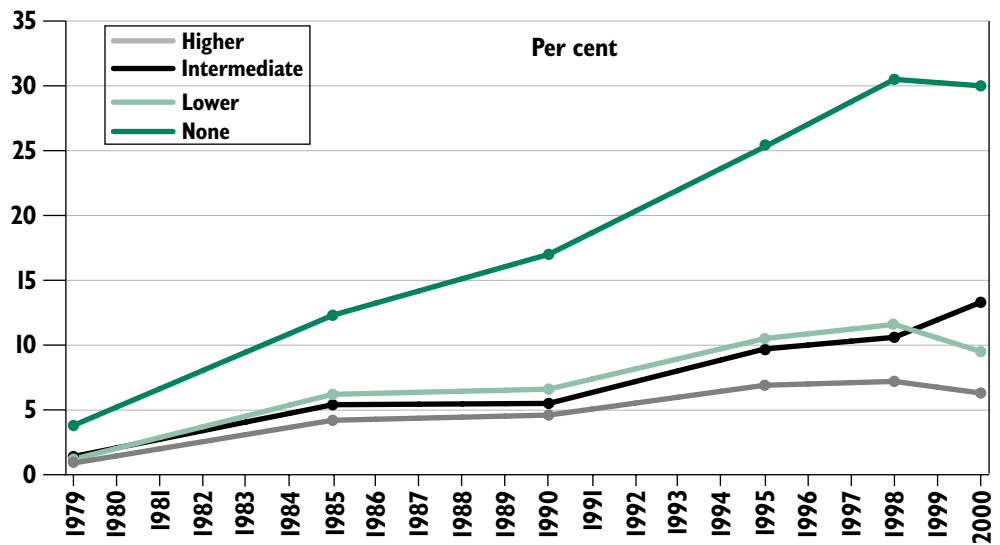
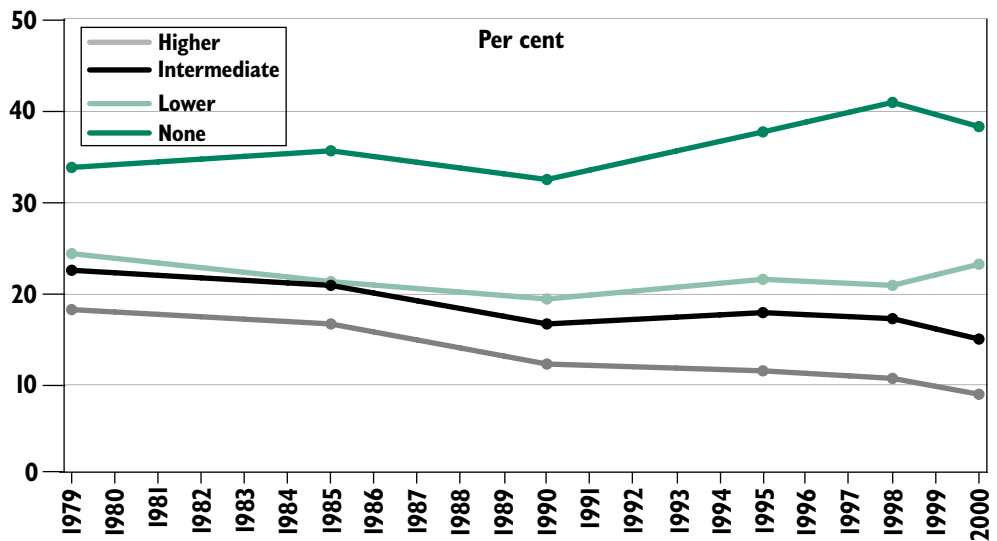


Chart 2.6: Inactivity rates of women by qualification levels



**2.14** These changes have come about as a result of a significant decline in the relative demand for low-skilled workers. This fall has outstripped the fall in the numbers of low-skilled workers, as overall educational standards have improved.



**2.15** The general rise in educational attainment among the population has led to a reduction in the proportion of working age people with no qualifications, from 28 per cent in 1992 to 16 per cent in 2001. But this still represents 5.6 million people of working age.

**2.16** Despite the rise in inactivity rates among low-skilled workers, this has meant the number of people without qualifications who were economically inactive fell from 2.9 million to 2.3 million. But the “penalty” incurred by this smaller group without qualifications, in terms of reduced employment opportunities, has increased dramatically over the last 20 years.

**2.17** Some areas of the country have also seen inactivity rates rise to very high levels. Twenty four local authority districts, out of the total of 408 British districts, have working age inactivity rates in excess of 30 per cent. These areas tend to be in large conurbations, for example Glasgow, East London and Merseyside, or in areas that were in the past dominated by mining or heavy industry, such as parts of the North East and the South Wales valleys, where structural unemployment arose in the 1980s. These also tend to be areas that have a high proportion of their local populations receiving sickness and disability-related benefits, or lone parents receiving Income Support.

**2.18** The rise in inactivity among those with poor skills and the consequent polarisation of work into work rich and workless households had different effects on different groups and different localities. This is explored further in Chapter 3.

# 3

## LABOUR MARKET INACTIVITY AMONG DIFFERENT GROUPS

---

**3.1** This chapter sets out how trends in inactivity rates since the early 1980s have varied across different age groups and among groups such as lone parents and people with disabilities.

**3.2** Inactivity among young people has risen but this has reflected an increase in the proportion of young people who decide to stay on in full-time education. People between the ages of 25 and 49 years have experienced less dramatic changes in inactivity rates. There has been a tendency for male inactivity to drift up slightly over the last 20 or so years and for female inactivity to decline among this age group. The inactivity rate of people over 50 increased sharply from under 20 per cent to over 30 per cent between the late 1970s and the mid 1990s. There has also been a rise in economic inactivity among people with poor levels of educational attainment across the age groups in the population.

**3.3** Over the past 20 years, there have been large increases in the numbers of lone parents on Income Support and the numbers of people receiving sickness and disability-related benefits. In recent years, the number of lone parents on benefit has fallen by more than 100,000. The inflow of people claiming Incapacity Benefit has also declined although the overall caseload continues to rise, but at a reduced rate. These two groups as well as older workers all tend to have relatively low levels of educational attainment and qualifications.

**3.4** In addition, in the past, these groups have often received little, if any, help through the welfare system to enable them to move into work and so have tended to drift into economic inactivity. Indeed, some policy measures may even have encouraged this. For example, the 1983 Budget allowed men over 60 to move onto a higher rate of benefit if they left the unemployment register and signed onto long-term Supplementary Benefit. This benefit did not require that recipients look for work. In addition, the Job Release Scheme subsidised the early retirement of older workers.

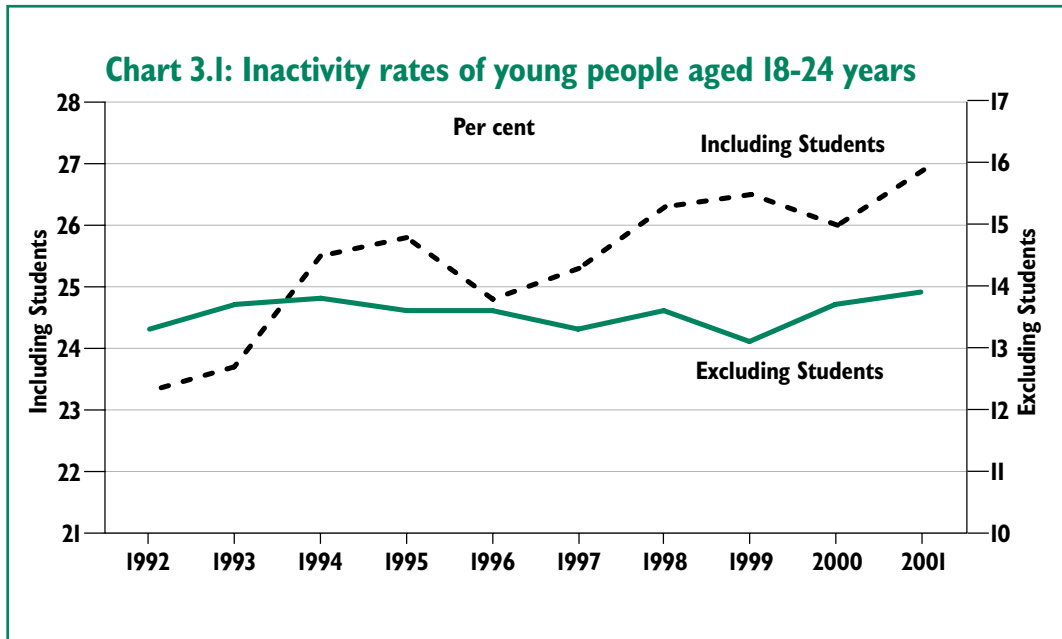
**3.5** Over the 1980s and most of the 1990s, lone parents and people receiving sickness and disability benefits were largely ignored by the benefit system. They received neither the advice nor the access to employment programmes offered to the unemployed. Since 1997, the Government has sought to address these past policy weaknesses by offering advice and assistance to help economically inactive people move into work, through the New Deal and other initiatives.

**3.6** Given these patterns of inactivity, this chapter looks in more detail at inactivity among young and older people of working age, how poor skills affect inactivity rates across different age groups and at inactivity among lone parents and people with disabilities or health problems.

### YOUNG PEOPLE

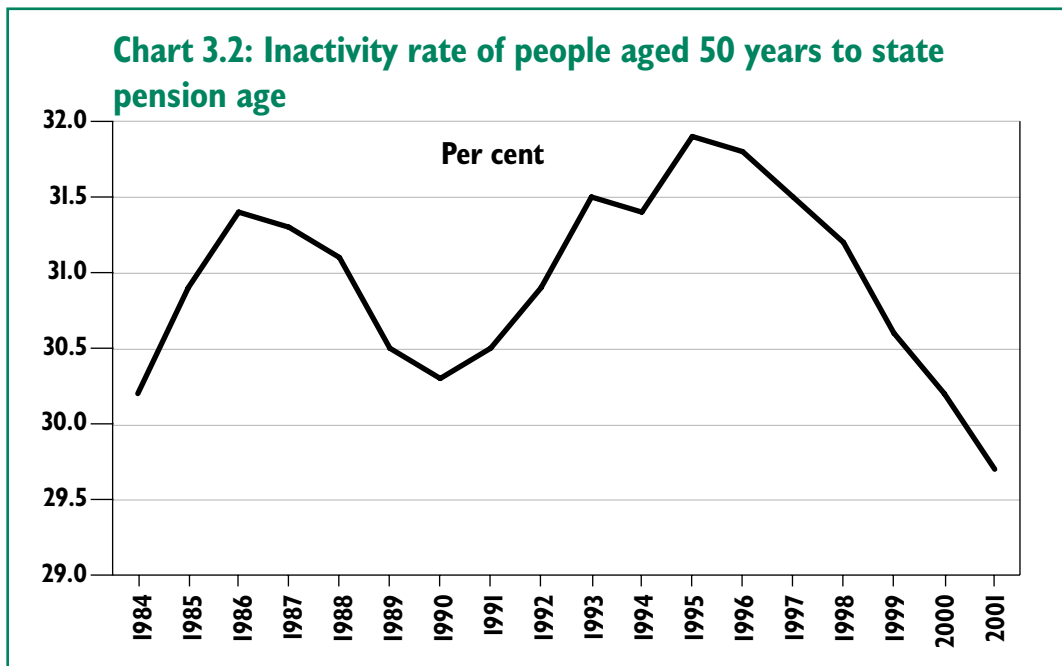
---

**3.7** Inactivity rates of people aged 18-24 substantially reflect young people's choices to delay their entry into the labour market in order to continue in full-time education. In Spring 2001, the inactivity rate of young people aged 18-24, excluding students, was just 14 per cent compared to 27 per cent with students included. As Chart 3.1 below shows, increasing educational participation among young people has also affected the trends in inactivity. Excluding students the inactivity rate has remained remarkably constant varying between just 13 and 14 per cent. The growth in inactivity among 18-24s has been almost entirely driven by increasing educational opportunities.



**OVER 50s**

**3.8** Between 1979 and 1984, the inactivity rate of people aged between 50 years and the state pension age jumped from under 20 per cent to over 30 per cent. Although inactivity among this group fell slightly in the late 1980s, this fall was not sustained and quickly went into reverse with the inactivity rate of older workers reaching a new peak of 32 per cent in the mid 1990s, see Chart 3.2 below.



**3.9** As successive generations are better off than their predecessors, we might expect voluntary early retirement to increase. While some people undoubtedly did freely choose to retire early in order to have more leisure and family time, two key factors argue against this as an overall explanation for the trends in the labour market position of older people:

- The increase in inactivity was greatest among poorly educated older men rather than those with more education – poorly educated people were least likely to have been able to afford voluntary early retirement.
- The path that many older men take to inactivity – losing their job, a period of unemployment, moving onto long term receipt of sickness and disability-related benefits, and finally early retirement – is not consistent with a voluntary choice to retire.

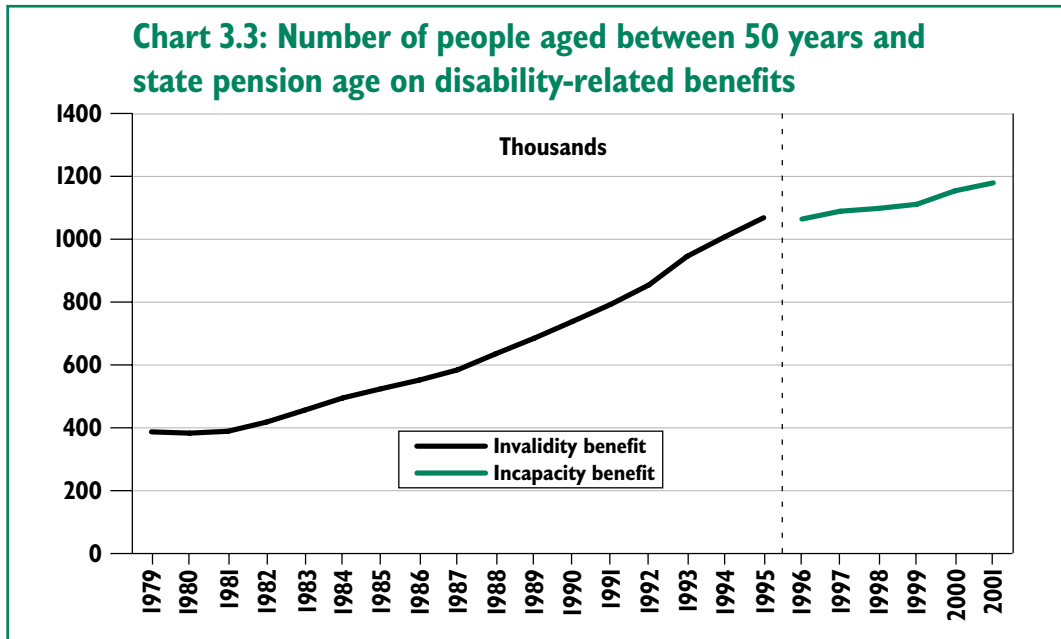
**3.10** Rather the decline in employment and rise in inactivity amongst older people up to the mid-1990s appears to be related to a lack of labour market opportunities. Between 1979 and 1997 the wages of older men fell relative to men in their mid-40s, at a time when older men experienced a disproportionate fall in employment.<sup>4</sup> At the same time, the employment rates of older women did not rise in line with those of younger women. This suggests that older people faced a reduction in employment opportunities available to them. Older men were much more likely to have been working in industries which lost employment. Half worked in industries whose employment fell by 12 per cent or more between 1990 and 1995, while total employment fell by less than 4 per cent.<sup>4</sup>

**3.11** Employment rates were also lowered because older people who lost their jobs were much less likely to return to work. Over the six year period 1990-96, around half of men aged 45-49 who were displaced from employment returned to work, but for men aged 55 and over this return to work rate fell to one in nine. Similarly, around a third of women aged 45-49 returned to work after being displaced from work. For displaced women aged 55 and over just one in eight returned to work.<sup>4</sup> One factor behind this is the larger costs of job loss for the over 50s. People over 50 who have been displaced return to work at a wage 24 per cent below that which they would have commanded had they stayed in work continuously. The equivalent figure for workers aged 25-49 was 18 per cent.<sup>5</sup> In addition, many over-50s had access to relatively generous out of work benefits such as the previous earnings-related component of Invalidity Benefit.

**3.12** This decline in the employment prospects of the over-50s was accompanied by a big rise in the number of people aged over 50 on sickness and disability-related benefits. Between 1980 and 1995 the number of people aged between 50 and state pension age on these benefits more than doubled, from 383,000 to 1,068,000, see Chart 3.3 below. This decline in employment opportunities for people over 50 and the increase in numbers on out of work benefits led the Government to introduce the New Deal 50 plus, see Chapter 4 for details. Since being launched nationally in April 2000, over 50,000 people have moved into work via New Deal 50 plus.

<sup>4</sup> Campbell (1999), "The Decline of Employment Among Older People in Britain", Centre for Analysis of Social Exclusion Paper 19

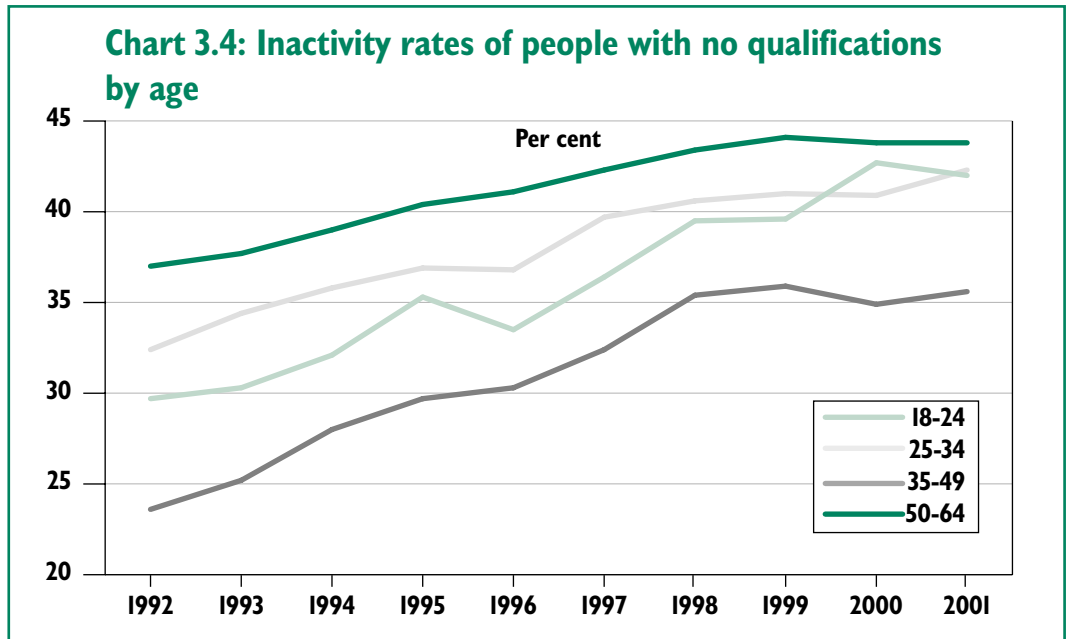
<sup>5</sup> Gregg, Knight and Wadsworth (1999), "The cost of job loss", in Gregg and Wadsworth (ed), "The State of Working Britain".



**3.13** Recently inactivity among the over-50s has fallen and in 2001 fell below 30 per cent for the first time since 1984. But the extent of inactivity among the over-50s still remains high relative to the overall inactivity rate of 18.5 per cent. The number of people aged between 50 and state pension age on Incapacity Benefit – by far the main inactive benefit for this age group – has continued to rise but at a much reduced rate – up by just 40,000 between May 1995 and May 2001. This increase has in part been due to a rise in the eligibility for National Insurance benefits among older women. It has also been driven by an increase in the population aged between 50 and state pension age, which increased by 1.1 million between 1995 and 2001. Overall, the percentage of people in this age range on Incapacity Benefit has *fallen* from 14½ per cent to 13 per cent between 1995 and 2001.

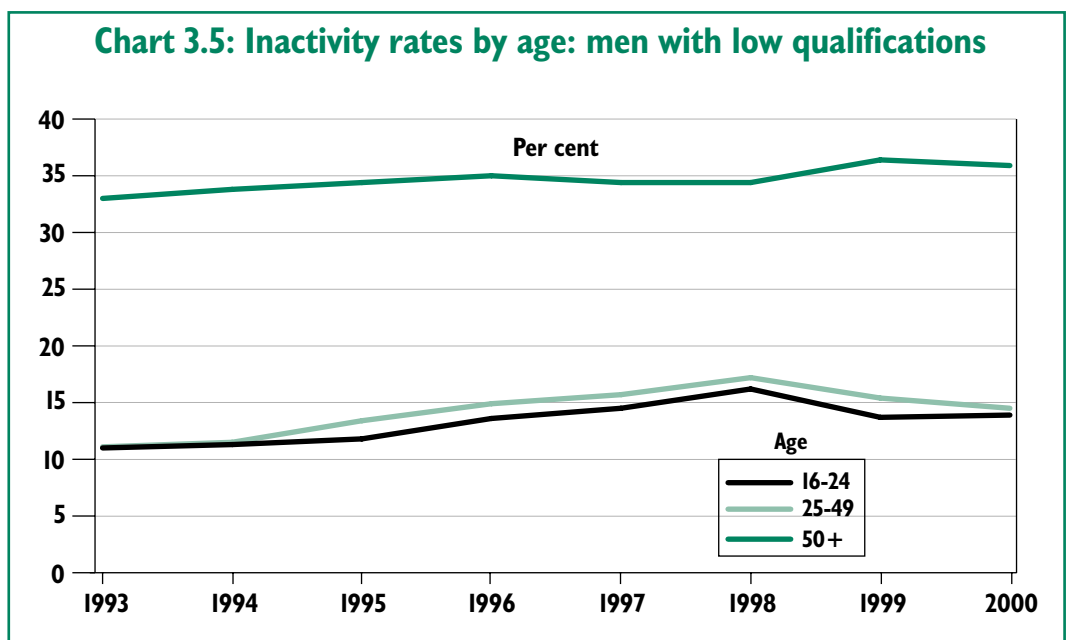
## AGE AND SKILLS

**3.14** Qualification levels impact on rates of inactivity across age groups in the population. Inactivity rates for those with no qualifications have risen across all ages – see Chart 3.4 below. While inactivity rates are highest for older people, especially the over-50s, there have been sharp rises in inactivity among younger people with no qualifications.

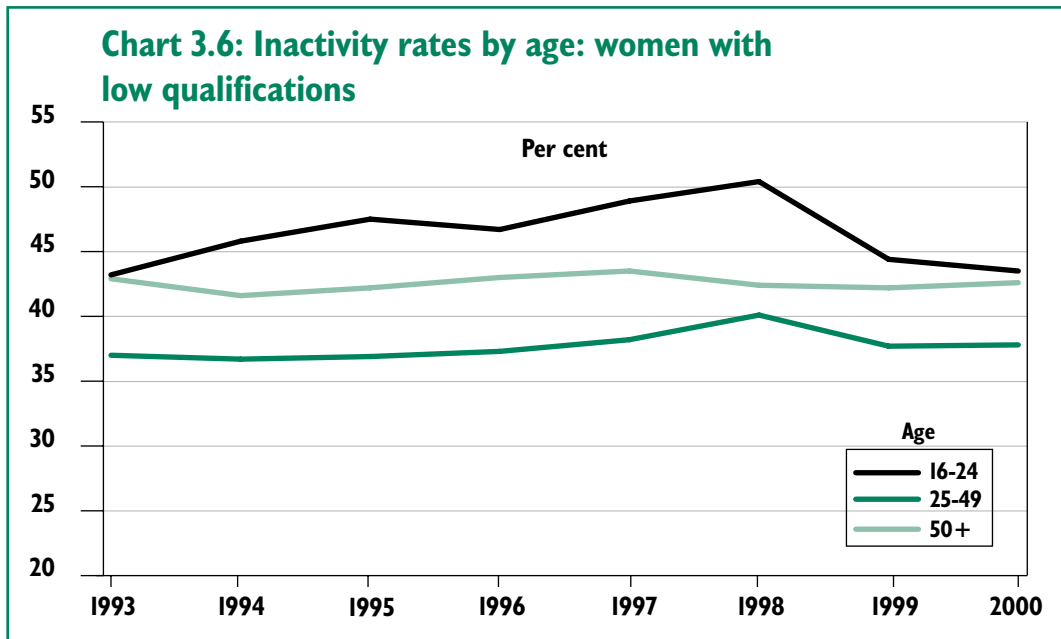


**3.15** One potential reason why inactivity rates have risen so much for people without qualifications is the trend towards formally accrediting skills that in the past were not formally certificated. Some people with these skills would in the past have been counted as having no qualifications. Thus over time there may be an adverse shift in the average make up of those with no qualifications which could explain part of the increase in inactivity.

**3.16** One way of trying to assess whether such an effect can explain the rise in inactivity is to look at a fixed proportion of the population ranked according to qualifications held.<sup>6</sup> Charts 3.5 and 3.6 below show the trends in inactivity rates for men and women in the least qualified 25 per cent of people by age. At the beginning of the period the least qualified all had no qualifications, but by 2000 they also include those with NVQ level 1 qualifications.



<sup>6</sup> Dickens, Wadsworth and Gregg (ed), (2001), "The State of Working Britain Update 2001".



**3.17** Chart 3.5 indicates that inactivity rates have risen since 1993 for men with the lowest qualifications in each the three age groupings. In contrast for men aged 16-49 with higher levels of qualification (the other 75 per cent of men) inactivity rates have remained broadly constant during this period. Inactivity rates fell for men aged 50 and over with higher levels of qualification.

**3.18** Chart 3.6 indicates that for women aged 16-49 with the lowest qualifications inactivity rates initially increased but declined from 1998 so that by 2000 they were back at around their 1993 levels. For older women aged 50 and over inactivity rates were broadly constant after 1993. In contrast inactivity rates have been falling for women with higher levels of qualifications.

**3.19** Hence for both men and women across age groups the trends in inactivity among the least qualified 25 per cent were worse than for individuals with higher levels of qualification. Inactivity rates have risen for those with the lowest levels of qualification across all age groups in the population of working age. As Chapter 2 noted this has come about as a result of a significant decline in the demand for unskilled workers relative to skilled workers over recent decades.

## LONE PARENTS

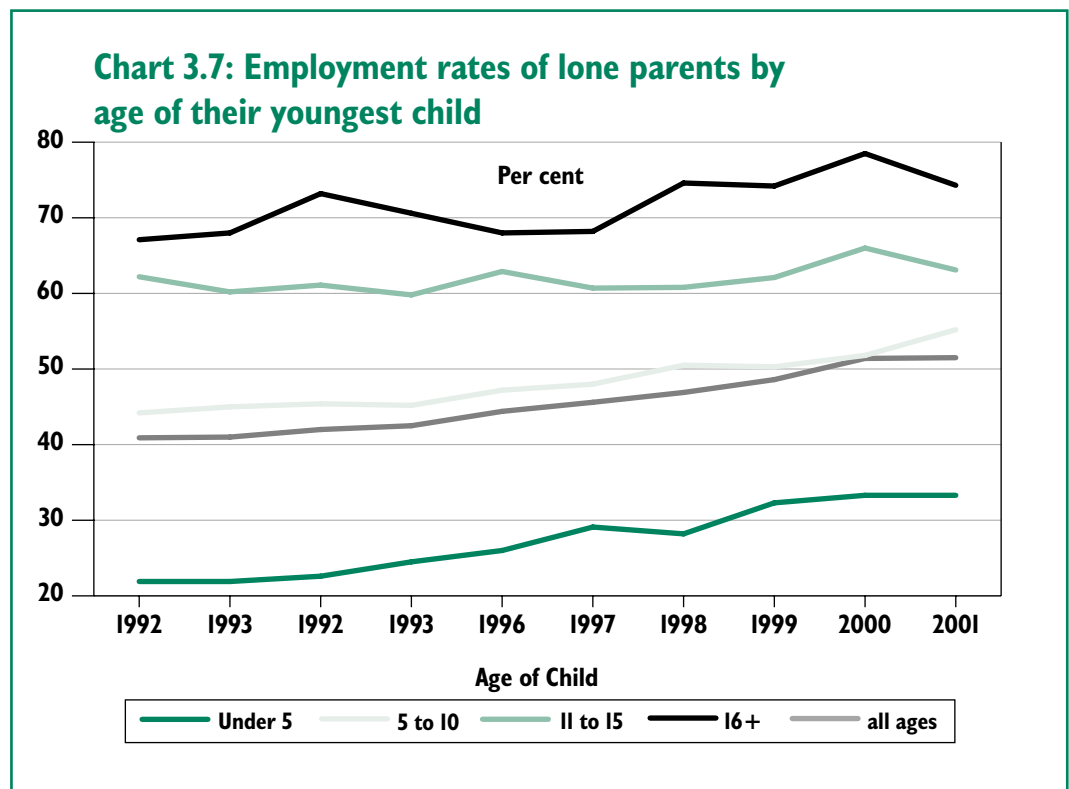
**3.20** The number of non-working lone parents on Income Support trebled between the late 1970s and mid 1990s. This rise is partly demographic – the number of lone parent families more than doubled over this period. But employment rates for lone parents also fell from around 50 per cent at the start of the 1980s to 41 per cent in 1992 during a period when the reverse was true for mothers in couples. Employment rates for lone parents were also low compared with other major economies in the early 1990s. In both the USA and France lone parent employment rates were around 60 per cent.

**3.21** Part of the decline in the employment rate of lone parents over the 1980s is attributable to changes in the composition of the lone parent population. For example the increase in the proportion of single mothers who have never been married, a group who are generally younger than their divorced or separated counterparts, and have younger children, accounts

for just under a third of the decline. As Chart 3.7 below shows, the employment rate of lone parents increases with the age of their child. Mothers, both lone mothers and mothers in couples, are much more likely to be in employment the older they are, at least in part because their children tend to be older. But within all age groups, lone mothers are less likely to be employed than mothers in couples and this difference is especially dramatic for young mothers. Mothers in couples aged under 25 are nearly twice as likely to work as lone parents of the same age.

**3.22** Lone parents are more likely to have relatively poor levels of qualifications – a quarter have no qualifications compared to one in eight mothers in couples, which reduces their chances of finding work. In addition, poor qualifications appear to impact more on the employment opportunities of lone parents, as under a third of lone parents with no qualifications are in work compared to nearly a half of mothers in couples with no qualifications.

**3.23** Lone parents are also more likely to be concentrated in areas of high unemployment and deprivation. Well over half of lone parents live in social housing compared to one in six couples with children. In England, in 1996 13 per cent of lone parent households were living in a neighbourhood offering “poor” living conditions, twice the proportions for all households.

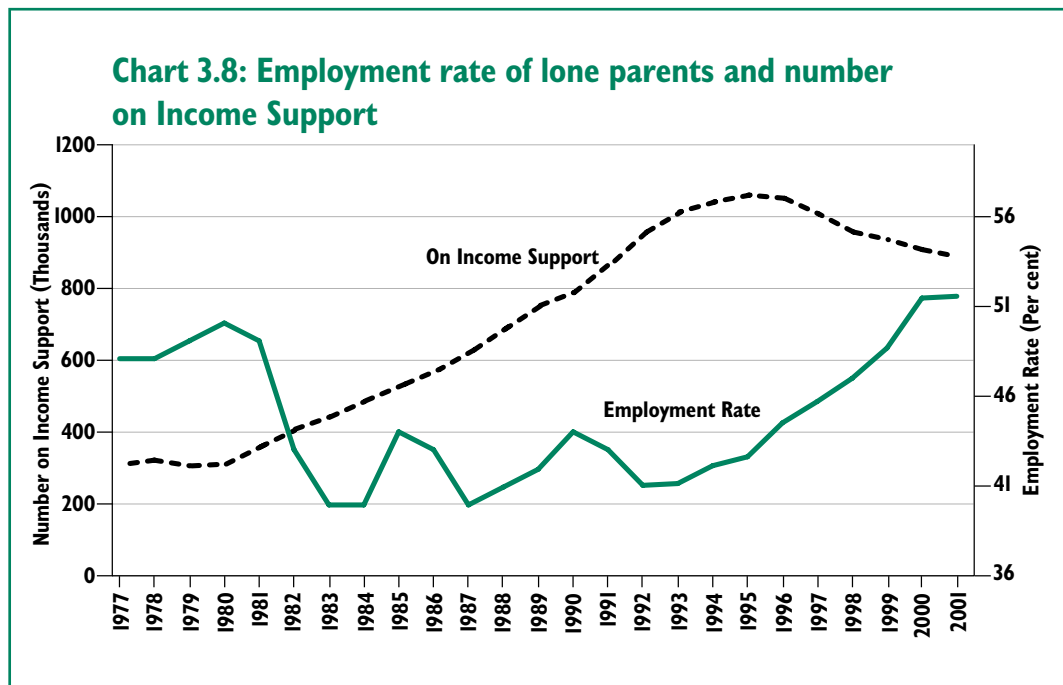


**3.24** Lone parents could also have poor incentives to enter and progress in work prior to the introduction of the Working Families’ Tax Credit (WFTC). The increased generosity of WFTC has improved work incentives. For example a lone parent with one child moving into full-time work at a typical entry wage, with childcare costs of £60, now has a gain to work of £62 compared to £46 under the previous Family Credit system. Many lone parents also had poor incentives to progress in work prior to the Government’s reforms to make work pay – with around 250,000 lone parents losing 70p or more in tax and benefits from every extra £1 of income before these reforms, but just 60,000 after the changes.



**3.25** In recent years the labour market prospects of lone parents have improved. Employment rates have risen with concurrent declines in inactivity rates, see Chart 3.8 below. Since 1992 employment rates have increased fastest for lone parents with a youngest child aged below 10 years old. Consistent with this rise, the number of lone parents receiving Income Support fell by around a sixth between 1995 and 2001. This has been driven by a sharp fall in new claims for Income Support with a decline of over a fifth since 1997.

**3.26** A key structural reason for the falling lone parent inflows to Income Support is that an increasing number of people becoming lone parents for the first time are already working. A key determinant of whether a lone parent is in work now is whether they were working when they became a lone parent. Only 6 per cent of people who are not working when they enter lone parenthood have a job two years later. In contrast, over 75 per cent of those who are working when they became a lone parent remain in work two years later. As well as the measures taken by government, such as the New Deal for Lone Parents and WFTC, some favourable demographic shifts, including an increase in the average age of lone parents, have contributed to raising their employment rates.



**3.27** The employment rate of lone parents has already risen from 40.9 per cent in 1992 and 45.6 per cent in 1997 to 51.5 per cent in 2001, but it is still well below the level of mothers in couples or of lone parents in most other OECD countries, for example, in the mid-1990s the employment rate of lone parents was around 60% in both the USA and France. Continued progress in helping lone parents move into work is required in order to tackle child poverty.

**3.28** Lone parents face a number of barriers to work. In one study,<sup>7</sup> 39 per cent of lone parents identified either the affordability or availability of childcare as a factor that stopped them looking for work. Nearly one in seven believed that either they would not be better off in work or would be unable to pay their rent or mortgage. Six per cent stated they did not have the skills for work. Accordingly, the Government has taken steps to support lone parents in making the move from welfare into work, and to ensure that work pays.

<sup>7</sup> Marsh, McKay, Smith and Stephenson, March 2001, *Low-income families in Britain: Work, welfare and social security in 1999*, DSS Research Report No. 138.

**3.29** The New Deal for Lone Parents (NDLP) is part of the move away from leaving lone parents on benefits with no active help to move them into work. Under NDLP, lone parents receive advice and support to move into employment. Evaluation evidence indicates that the NDLP reduced the number of lone parents on Income Support by over 3 per cent over 18 months.<sup>8</sup> This estimate compares favourably with international evaluations of lone parent programmes. Over 96,500 lone parents have so far moved into work via NDLP. As set out in Chapter 4, the Government is now going further – providing new choices for lone parents together with a new requirement that they must attend a work-focused interview.

**3.30** The need for affordable quality childcare is being addressed through the Government's National Childcare Strategy which has already delivered a substantial increase in the number of childcare places, together with help with the costs of childcare through WFTC. Further details of this approach are set out in Chapter 4.

**3.31** The introduction of WFTC from October 1999 has increased the amount of financial support to working lone parents, improving incentives to work. By May 2001, 642,000 lone parents were in receipt of WFTC, 200,000 more than received Family Credit. In addition, policies such as the childcare tax credit and benefit run-ons to cover the first few weeks in work after a period on welfare have helped improve the financial attractiveness of work for lone parents. Chapter 4 sets out further details.

## SICKNESS AND DISABILITY-RELATED BENEFITS

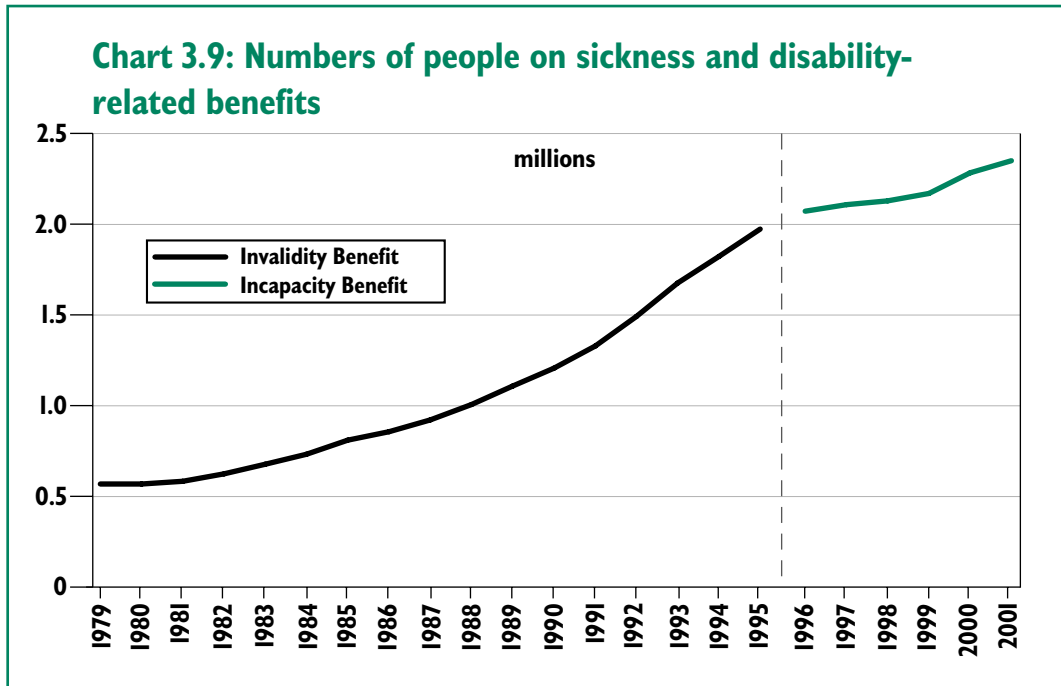
**3.32** Sickness and disability is the most common reason for inactivity amongst the over-25s. In 1998, nearly three-quarters of men aged 25-49 who were inactive were in this position because of sickness or disability. The equivalent figures for inactive men and women aged over 50 were 60 per cent and 42 per cent respectively. Only among women aged 25-49 was sickness and disability not the primary reason for inactivity, with nearly three-quarters being inactive due to looking after home and family.

**3.33** Sickness and disability-related inactivity has risen particularly among those with low skill levels. Between 1979 and 1998 the proportion of men with no qualifications aged 25-54 who were inactive because of sickness or disability rose from 3 per cent to 17 per cent. The equivalent increase for men with no qualifications aged 55-64 was from 9 per cent to 35 per cent. In contrast, for men with degrees the increases over this period were from just above zero to just 1 per cent for those aged 25-54, and from 2 per cent to 7 per cent for those aged 55-64.<sup>9</sup>

**3.34** Low-skilled people whose employment opportunities had been adversely affected by the changing structure of economic activity were given little help to stay in contact with the labour market. Many ended up on sickness and disability-related benefits. As a consequence there was a trebling in the number on Invalidity Benefit in the 1980s and the first half of the 1990s. Since 1995, the number on the new Incapacity Benefit (IB) has continued to rise but the rate of increase has slowed markedly, see Chart 3.9 below.

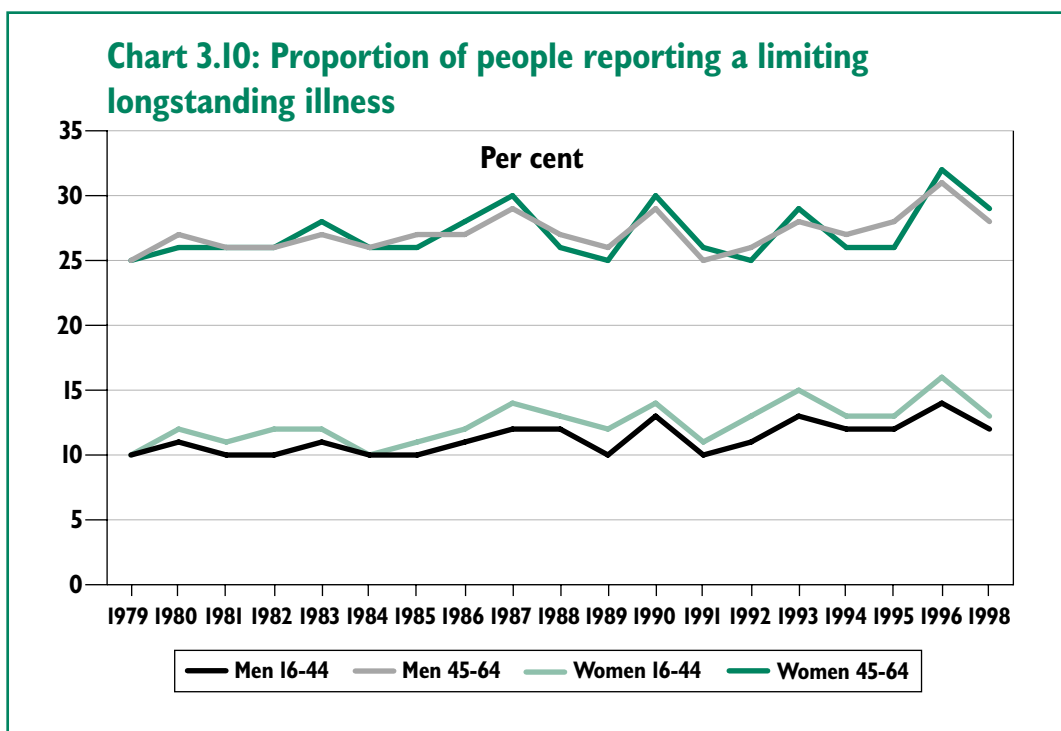
<sup>8</sup> Hasluck, McKnight and Elias (2000), "Evaluation of the New Deal for Lone Parents", DSS Research Report No. 110.

<sup>9</sup> See Nickell and Quintini (2001), "The Recent Performance of the UK Labour Market", Table 12 for full details.

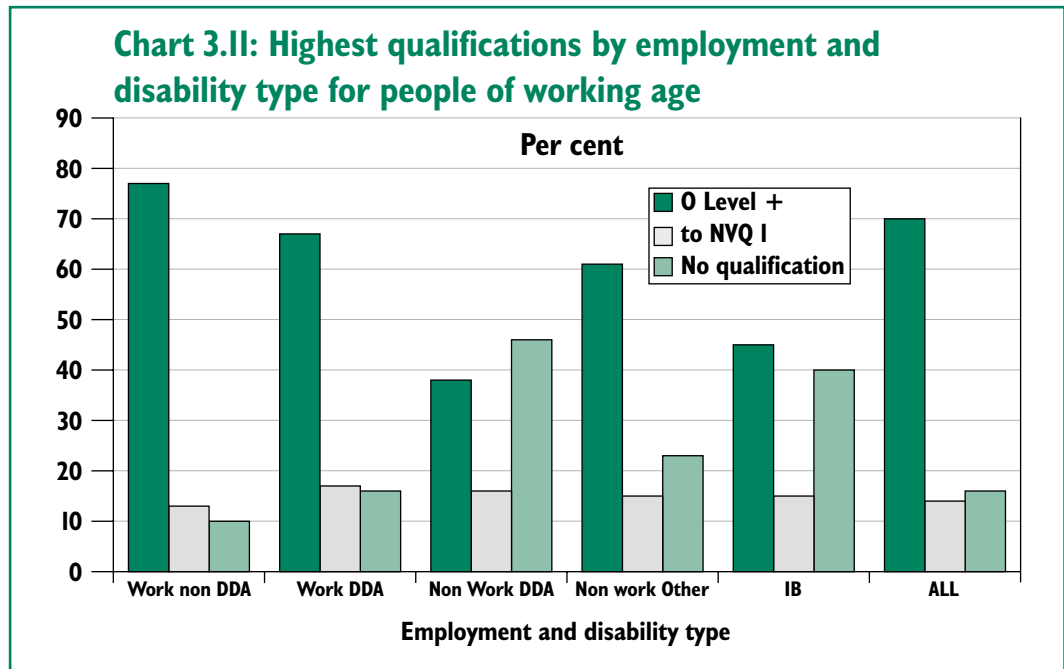


**3.35** This increase in the number of people on sickness and disability-related benefits cannot be explained by a general decline in the overall health of the population. Chart 3.10, below, shows that the proportions of men and women reporting a longstanding illness that limited their activities have risen only slightly over the last 20 years or so, but this increase is much less than that seen in the number of people on sickness and disability-related benefits up to the mid-1990s.

**3.36** Many people with a disability work or want to work. Just under half of people of working age with a disability, 3.2 million people, work. Another 1.4 million people with disabilities without a job would like to work. The challenge for policy is thus to support people with disabilities into employment.



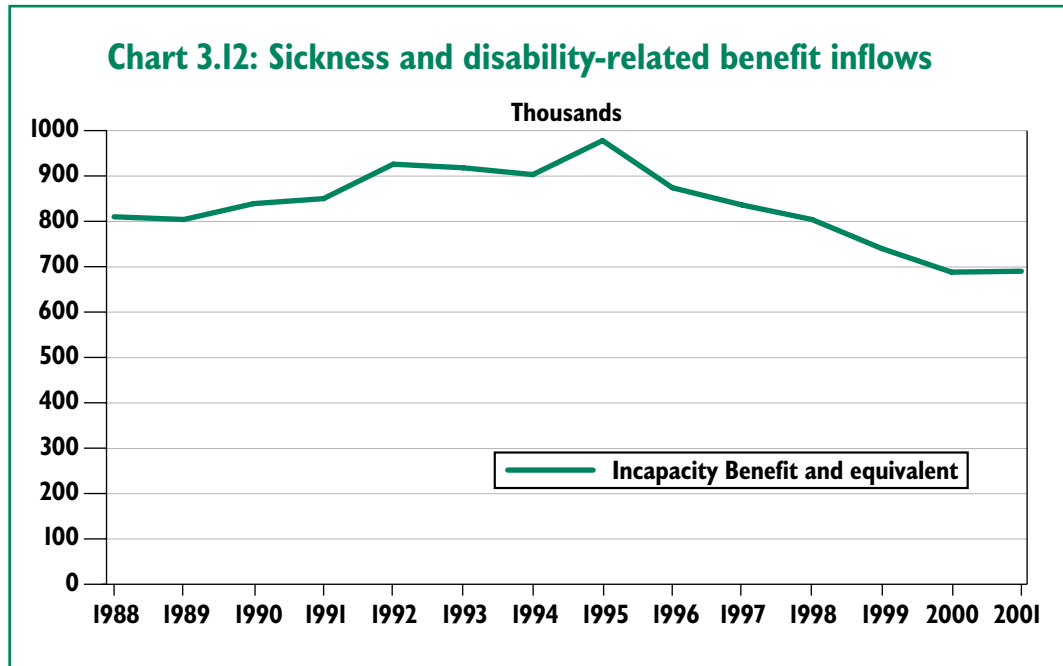
**3.37** Workless sick and disabled people have relatively low levels of qualifications and so have been affected by the decline in demand for low-skilled labour. Chart 3.11 below shows that both recipients of IB and people out work coming within the scope of the Disability Discrimination Act (DDA) are much more likely to have no qualifications compared to both DDA disabled people in work and non-disabled people who are not in work, or indeed compared to the population of working age generally.



**3.38** An analysis of the flows in and out of receipt of sickness and disability-related benefits also helps to explain what has happened to the numbers of people on these benefits. Chart 3.12 below shows inflows, the numbers of people starting a claim for IB and equivalent predecessor benefits since the late 1980s.<sup>10</sup> Inflows increased up to the mid-1990s and have fallen since.

**3.39** Rising inflows up to the mid-1990s cannot explain all the rise in the numbers in receipt of sickness and disability-related benefits up to that point. There has also been a significant increase in the time people spend on sickness and disability-related benefits. In 1979, the proportion of claimants who had been on benefit for more than 2 years was around a half – by 2001 this has risen to nearly three-quarters. Over the same period the proportion on benefit for more than 6 years doubled from 18 per cent to 38 per cent.

<sup>10</sup>Incapacity Benefit (IB) was introduced in 1995. Data for years before then are a constructed IB equivalent series.



**3.40** The probability of someone leaving IB after any given duration on the benefit has not changed significantly in recent years. But because people are less likely to leave IB the longer they have already been on it, and the proportion of people with long durations on IB has gone up, the overall proportion of people leaving IB has declined. This contrasts with the position for unemployed people on Jobseeker's Allowance where both duration-specific and overall outflow rates have risen in the improving labour market environment of recent years.

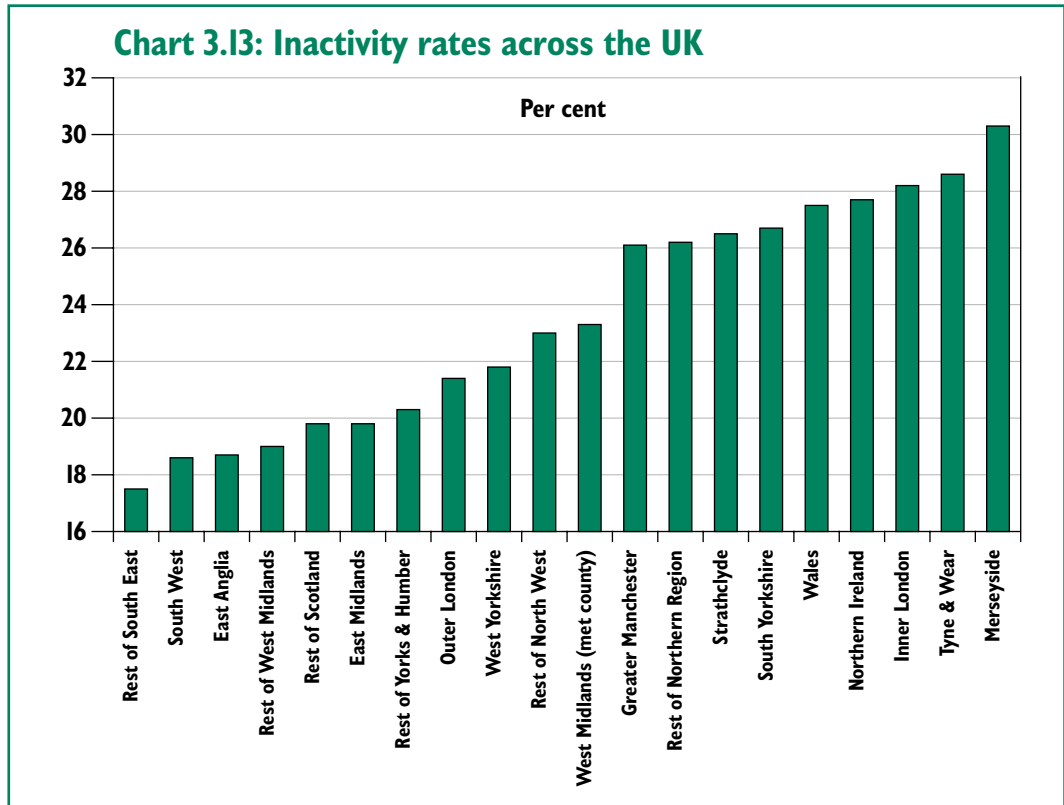
**3.41** IB claimants have not been able to take advantage of increasing employment opportunities, including low-skilled jobs for those with poor skill levels. In the past, the tax and benefit system did not support people to move from sickness and disability benefits into employment – and in many cases acted as a disincentive. Over the 1980s and most of the 1990s, people on sickness and disability-related benefits were offered little, if any, help by the benefit system. They received neither the advice nor the access to employment programmes offered to the unemployed. In addition, particularly from the late 1980s onwards, their work incentives deteriorated relative to those on unemployment benefits.

**3.42** The Government has sought to address these problems by introducing measures to provide advice and support to disabled people, notably the New Deal for Disabled People, to help them find work, and the Disabled Person's Tax Credit to improve their work incentives. More details on these policies and further steps are given in Chapter 4.

## LOCAL CONCENTRATIONS OF INACTIVITY

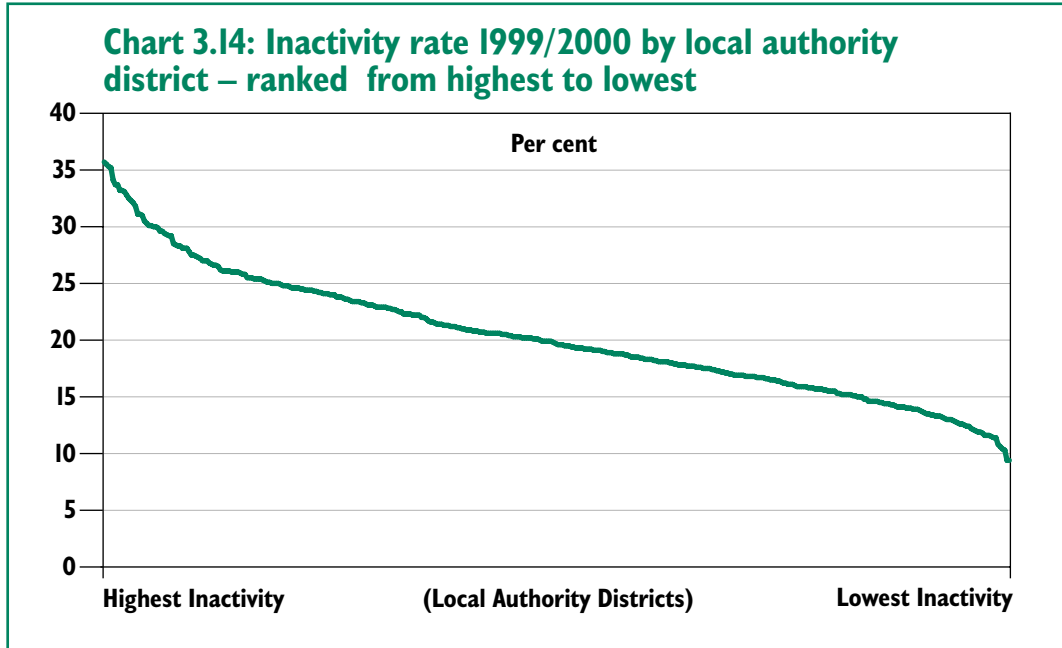
**3.43** By the late 1980s inactivity was concentrated in certain areas of the country. In 1998, when the overall inactivity rate peaked, the inactivity rate across the UK varied from 17.5 per cent in the South East (outside London) to 30.3 per cent in Merseyside – as shown in Chart 3.13 below. This pattern of inactivity was mirrored by the geographical distribution of workless households. In 1998, a quarter or more of households in Tyne and Wear, Merseyside, and Strathclyde were workless. At the other end of the spectrum, the prevalence of workless households was around half this rate in East Anglia and the South East outside London.

**3.44** These local differences in inactivity are even starker for people in disadvantaged groups. In 1999 areas with employment rates above 78 per cent had inactivity rates among less skilled men nearly half that in areas with employment rates below 70 per cent – 15 per cent compared to 28 per cent. For less skilled women, inactivity rates were at 39 per cent compared to 26 per cent, one and a half times higher in low employment areas than in high employment areas.<sup>11</sup>

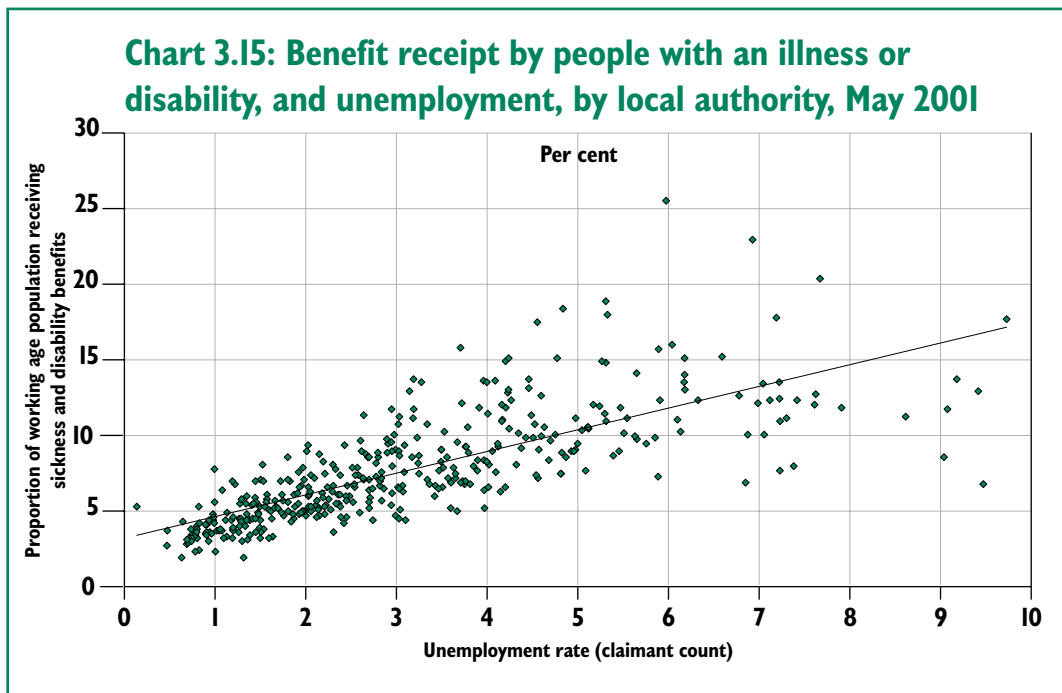


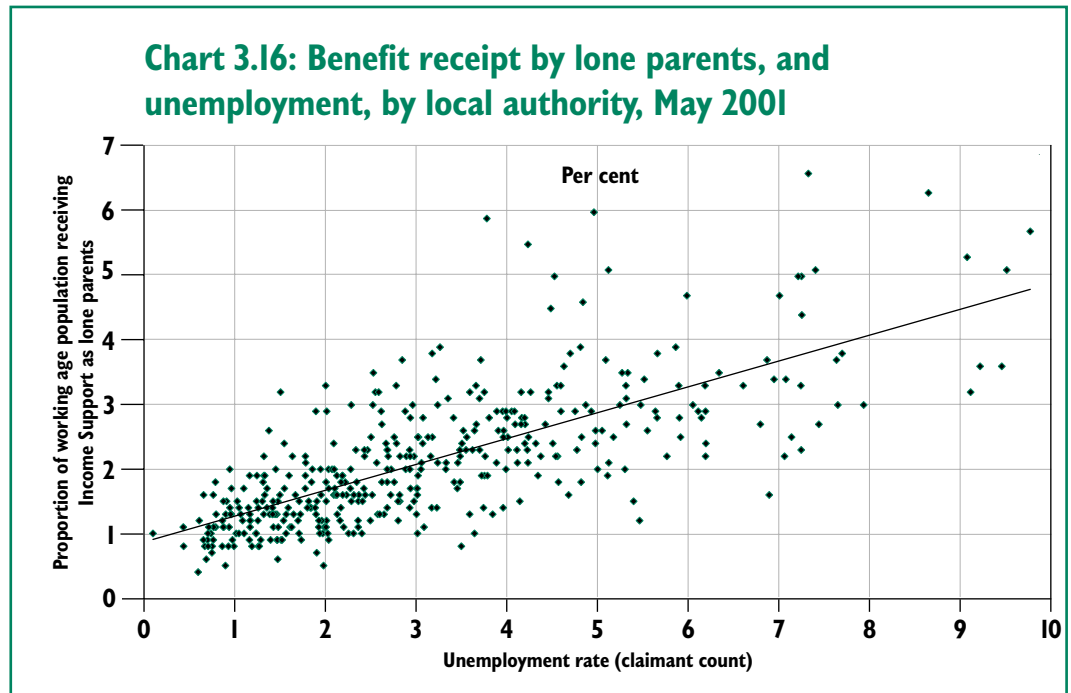
**3.45** The variation in inactivity is even greater at the local authority district level. Chart 3.14 below shows a tail of districts with particularly high inactivity rates. Twenty four districts (out of 408 British districts) had inactivity rates in excess of 30 per cent, compared to just one sub-region, Merseyside. These districts tend to be in large conurbations, for example Glasgow, East London and Merseyside, or in areas that were in the past dominated by mining or heavy industry, such as parts of the North East and the South Wales valleys and which suffered subsequent high degrees of structural unemployment. These also tend to be areas that have a high proportion of their local populations on either sickness and disability-related benefits, or lone parents on Income Support. In order to address such local concentrations of worklessness the Government has introduced Action Teams for Jobs in some of the most deprived areas as well as a number of other measures, see Chapter 4 below for details.

<sup>11</sup> Dickens, Gregg, and Wadsworth (2000), "New Labour and the Labour Market", in the *Oxford Review of Economic Policy*, Volume 16, No. 1, Spring 2000.



**3.46** Inactive benefits show similar geographical patterns. The percentage of people on inactive benefits tends to be higher in areas that have higher rates of unemployment – see Charts 3.15 and Charts 3.16 below. This higher percentage of people on inactive benefits in areas with relatively poorer performing labour markets is consistent with a link between changes in employment opportunities and the rise in numbers on benefits. This points to a key role for welfare to work policies and policies to make work pay in addressing worklessness among people on inactive benefits.





**3.47** A further geographical factor is the concentration of inactivity among people living in social housing. In 1999, 30 per cent of men of working age living in social housing were economically inactive. In addition, the rise in male inactivity between 1984 and 1999 was faster among those living in social housing than elsewhere. Some housing estates have very high rates of inactivity. A survey of seven estates in England revealed that nearly one in three heads of household on these estates were inactive compared to one in seven for England as a whole.<sup>12</sup>

<sup>12</sup>Brennan, Rhodes and Tyler (2000), "The Nature of Local Area Social Exclusion in England and the Role of the Labour Market", in the *Oxford Review of Economic Policy*, Volume 16, No. 1, Spring 2000.





**4.1** Since taking office in 1997, the Government has introduced a large number of policy reforms to tackle worklessness and improve the functioning of the British economy and labour market. Building on the foundation of macroeconomic stability, the Government's approach has been to address worklessness with a three pronged strategy – welfare to work policies to provide individuals with the advice and support they need to move into work, measures to make work pay and policies to enhance skills, especially among those with basic skills needs.

**4.2** This chapter sets out the measures that have been adopted since 1997 and further measures going forward to build on the success so far achieved in reducing unemployment to tackle the challenge of extending employment opportunities to the economically inactive.

### ACHIEVING MACROECONOMIC STABILITY

**4.3** The key task for macroeconomic policy – both monetary and fiscal – is to create a platform of stability that allows people and firms to plan ahead with confidence. In the past, the failure of policy to be sufficiently forward-looking and transparent often led to macroeconomic policy mistakes destabilising the economy in the process. The failure to provide a platform of stability proved costly to investment and long-term growth, and led to significant economic and social costs. In particular, many people drifted into long-term unemployment and some eventually into sickness and disability-related benefits. This trend was particularly concentrated among older workers and those with the lowest skills often after displacement from an industry which had lost employment.

**4.4** In designing the new macroeconomic framework the Government has taken into account the lessons of the past. Both monetary and fiscal policy are now highly transparent, forward looking, based on clear rules and targets and underpinned by legislation. By locking in low inflation and sound public finances, the framework, with its inbuilt capacity to react to new challenges, gives the UK the best possible prospect of economic stability.

### WELFARE TO WORK POLICIES

#### Policies to Reduce Unemployment

**4.5** An active labour market policy that keeps unemployed people attached to the labour market is important in preventing a drift into long-term unemployment and inactivity.

**4.6** Unemployed recipients of Jobseeker's Allowance are required to attend fortnightly interviews with Jobcentre advisers and sign a Jobseeker's Agreement setting out how they will actively seek work. Most unemployed people return to work quickly – 60 per cent leave Jobseeker's Allowance within 3 months. But for those who remain unemployed, additional help is provided, notably from the New Deal.

**4.7** The New Deal for Young People (NDYP) and the New Deal 25 plus (ND25+) provide help and support in finding employment. After an initial Gateway period of personal adviser contact and help with job search, each programme offers a number of alternative mandatory activities, including training and subsidized employment to those who are still workless, ending with a follow-through period for those who do not find work during their period of mandatory activity. So far NDYP has helped around 320,000 young people back into work.

**4.8** The New Deal 50 plus (ND50+) seeks to address the barriers to work facing older people who are workless – both those on unemployment-related benefits and those on inactive benefits – by offering a package of personal advice, help with job search, an in-work Employment Credit of £60 a week for full-time work and £40 a week for part-time work and in-work training and support. Evaluation evidence suggests over 40 per cent of claimants would not have taken the job they are in without the Employment Credit.

**4.9** Some of the most difficult employment problems have occurred as a result of large-scale job losses in areas particularly dependent on one industry or company, sometimes creating pockets of high inactivity in formerly prosperous areas. The Job Transition Service, together with Rapid Response Units, provide help for people made redundant to move into new jobs, preventing them from becoming detached from the labour market.

**4.10** Employment Zones (EZs) are testing an alternative approach to helping long-term unemployed people aged 25 to 49 years old. Assistance is tailored more specifically to the needs of the individual. Jobseekers and their personal advisers are able to set up Personal Job Accounts to make more flexible and innovative use of the funds available to overcome individual barriers to work. Providers are funded on the basis of successful outcomes, with the bulk of the funding linked to sustained employment.

**Policies for those  
outside the  
Labour Market**

**4.11** Policies directed towards economically inactive people seek to support them in re-entering the labour market and help them move into work.

**Lone Parents**

**4.12** The New Deal for Lone Parents (NDLP) provides a comprehensive package of support to enable lone parents to improve their prospects and living standards through employment. The programme provides a personal adviser, assistance with training, education and childcare, and advice on benefits, in-work financial support and self-employment. From November 2001, eligibility for NDLP was extended to include all lone parents who are not working, or are working less than 16 hours a week, whether or not they are on Income Support. This has made NDLP support available to an additional 106,000 lone parents.

**4.13** Evidence indicates that the NDLP is having a real and positive effect. By the end of August 2001, over 225,000 lone parents had participated in the New Deal, and over 96,500 had found employment.

**4.14** The Government is committed to enhancing the choices open to lone parents in the labour market. To ensure that they are offered the opportunity to work, and the support they need to do so, the Government has introduced personal adviser meetings for all lone parents across the country. From April 2001, lone parents on Income Support with children over the age of five have been required to attend a meeting to discuss the choices available to them. These choices, which were expanded from April 2001, now include help with education and training, the opportunity to try work of less than 16 hours per week while remaining on benefit, and extra financial support for those working more than 16 hours. Feedback from the pathfinder meetings suggests that many lone parents have found the programme valuable, either as a direct catalyst to work or as assurance that help will be available in the future.

**Childcare**

**4.15** The Government has also introduced a National Childcare Strategy to ensure that quality, affordable childcare is available to lone parents and others who want to work, thus removing one of the main barriers to work. The Government is providing significant investment to expand the number of childcare places available across the country. Between April 1997 and June 2001, new childcare places have helped 773,000 children. Taking into account turnover in existing places this has allowed an extra 455,000 children to benefit. By March 2004, the Strategy will have created additional childcare places benefitting around a million extra children in England alone.

**4.16** The Government has set an ambition to offer a childcare place to every lone parent entering employment in the most disadvantaged areas. Spending Review 2000 allocated an additional £255 million from 2001 to 2004 to tackle the 'childcare gap' between disadvantaged and more affluent areas. The New Opportunities Fund will provide a further £155 million over the same period. Together, these will fund the Neighbourhood Childcare Initiative, which will create 45,000 new day care places in up to 900 Neighbourhood Nursery Centres. The Initiative will also support the establishment of 25,000 new Neighbourhood Childminder places as part of a 145,000 increase in places nationwide. Funding will also cover a national business support package to promote and support sustainable childcare.

**People with Disabilities**

**4.17** The New Deal for Disabled People (NDDP) recognises that people with disabilities very often face greater difficulties when trying to move into work and so is testing a range of approaches to determine what works best in helping disabled people back into jobs. By the end of June 2001, over 20,000 disabled people had taken part in NDDP pilot schemes, with over 8,000 finding work as a result. In July 2001, the Government began extending NDDP to all areas of the UK, providing a gateway to engage those moving onto Incapacity Benefit, and a network of innovative job brokers to help disabled people move into secure employment.

**Local Concentrations of Worklessness**

**4.18** Action Teams have been established in local areas that suffer from particularly high levels of long-term unemployment. These set out to improve the employability of those living in these disadvantaged areas by:

- working closely with employers;
- using funding in more imaginative and innovative ways to overcome specific local barriers;
- targeting areas and groups which need help the most, including ethnic minorities; and
- working in partnership with private and voluntary sector organizations.

**4.19** Action Teams concentrate their resources on working with the long-term unemployed and economically inactive, searching for suitable vacancies and bringing the two together. Action Teams also tackle directly some of the principal barriers to employment, including providing funding for transport to enable people to take up nearby vacancies, which would otherwise remain inaccessible. The Government will build on the lessons drawn from evaluation of Action Teams in considering what possible further steps might be taken to tackle high levels of localised worklessness.

## MAKING WORK PAY

**4.20** The Government has introduced a series of reforms to help make work pay at all levels of the labour market, but especially for those on low incomes. The National Minimum Wage, introduced in April 1999, ensures fair minimum standards of pay, underpinning the Government's tax and benefit reforms. In October 2001, the National Minimum Wage rose to £4.10 an hour for workers aged 22 and over and £3.50 an hour for workers aged 18-21. Subject to economic conditions these rates will be increased to £4.20 and £3.60 respectively in October 2002.

**4.21** In April 2000, the basic rate of income tax was reduced to 22 pence – the lowest level for 70 years. The introduction of the 10 pence starting rate of income tax in April 1999 and the widening of the 10 pence band in April 2001 have halved the marginal tax rate for nearly 2 million people in low paid work.

**4.22** The Government's reforms to employees' National Insurance Contributions (NICs) have helped to ensure that jobs at the lower end of the earnings distribution now pay better. In April 2001, the threshold above which employees pay NICs was increased to align it with the Income Tax personal allowance. Also in April 2001, employer NICs was reduced by 0.3 percentage points and will be reduced by a further 0.1 percentage points in April 2002.

**4.23** Families with children have in the past faced particularly difficult work incentive problems. To address these problems WFTC was introduced in October 1999, and more than 1.25 million families are now receiving it, 400,000 more than received Family Credit. WFTC includes a generous childcare tax credit component which helps many families for whom the cost of childcare is a barrier to work. The credit is worth 70 per cent of eligible childcare costs up to £135 a week for a family with one child, and £200 for a family with two or more children. Currently around 145,000 families are benefiting from the childcare tax credit.

**4.24** The Disabled Person's Tax Credit (DPTC), launched alongside WFTC, helps to provide support for workers with disabilities. Currently, over 29,000 disabled workers are benefiting from DPTC, nearly 60 per cent more than received its predecessor Disability Working Allowance. DPTC provides greater financial support to disabled people.

**4.25** The DPTC is open to people who work 16 hours or more a week, have an illness or disability which puts them at a disadvantage in getting a job, and who are either receiving, or have recently been receiving a "qualifying benefit" (for example, certain rates of Incapacity Benefit) or who satisfy the special rules for the fast-track route to DPTC.

**4.26** From June 2001, DPTC, together with the National Minimum Wage, guarantees a minimum weekly income of £251 for a family with someone in full-time work and one child – at least £90 more for couples and £130 more for lone parents than the family would receive on Income Support. For families without children, the guaranteed minimum income is £166 for single people, and £207 for couples; at least £80 a week more than on Income Support for single people, and £92 more for couples.

**4.27** Budget 2000 announced that from April 2003, the Government will extend the principle of WFTC to low income workers without children, through a new tax credit for work as set out in the section on further reforms below.

## IMPROVING SKILLS

---

**4.28** A significant number of people in the UK lack basic literacy and numeracy skills. It is estimated that in 1999 20 per cent of the adult population had reading and writing skills below that of an 11-year old and that considerably more might have similarly low numeracy.

**4.29** This paper has demonstrated that people with poor skills stand at a significant disadvantage in the labour market. In order to address these adult basic skills problems, in April 2000 the Government established the Adult Basic Skills Strategy Unit. The unit is taking forward the Government's National Strategy for Basic Skills, which provides the blueprint for reaching the Government's target of helping 750,000 adults improve their skills by 2004. In order to meet this challenge the Government is substantially increasing funding for adult basic skills, with over £1.5 billion being spent over the next three years.

## TACKLING DISCRIMINATION

**4.30** The Government is determined to tackle discrimination in the workplace. While many employers recognise the business benefits of recruiting on merit, and ensuring that groups of people who often have valuable skills and experience are not overlooked, too many do not.

**4.31** To help tackle discrimination against disabled people, the Government has strengthened the protection of civil rights to ensure that disabled people could more easily take advantage of the sorts of opportunities available to others. The Government has introduced a Disability Rights Commission which is helping to inform and advise employers about complying with the Disability Discrimination Act (DDA) and, if necessary, enforce it. Better protection for disabled pupils and students has also been introduced because equality of opportunity in education is fundamental to having a skilled and motivated workforce.

**4.32** The Government is also committed to ensuring the DDA covers a range of employment and occupations which are currently excluded. The main change will be to cover all small businesses by the DDA's employment provisions in 2004. These changes will mean that the DDA will cover an additional 7 million jobs.

**4.33** In addition, the Government will be introducing a duty on the public sector to promote equality of opportunity for disabled people. If the public sector can be an exemplar in the way it treats disabled people this will help business see what an important resource they can be and make more effort to recruit and retain them.

**4.34** To help tackle age discrimination, the Government introduced a Code of Practice on Age Diversity in employment in June 1999. The Code is a key part of the Government's strategy: to raise awareness of age discrimination in employment; to promote the benefits of employing an age diverse workforce; and to counter the stereotyping of people's abilities based on their age. Initial findings from the interim evaluation of the Code<sup>13</sup> (published in March 2001) show that the incidence of the use of age in recruitment has halved since July 1999, and three quarters of new equal opportunities policies now include reference to age.

**4.35** The Government is committed to bringing forward legislation by 2006 to combat age discrimination in the workplace. This will build on the lessons from the evaluation of the Code. Legislation on its own will not be enough to change attitudes – so the Government is also conducting an 'Age Positive' campaign. The campaign focuses on raising employers' awareness of the business benefits of age diverse policies and encouraging them to use the Code of Practice on Age Diversity in Employment to inform their equal opportunities policies.

## FURTHER REFORMS

### Welfare to Work

**4.36** In order to assist people who encounter particularly great difficulties returning to work and who face persistent long-term worklessness, new transitional work pilots will be created. These pilots will guarantee a period of temporary work for the hardest to help. They will be paid at the National Minimum Wage, and jobsearch and personal adviser help will also be provided to those taking up these opportunities in order to help them build on the work experience gained so they can move into unsubsidised jobs in the regular labour market. These opportunities will be located in areas where sizeable pockets of long term unemployment remain.

<sup>13</sup> Department of Work and Pensions (2001), "The Evaluation of the Code of Practice on Age Diversity in Employment: Report of Research Findings".

**4.37** In order to further address the specific needs of people with disabilities wishing to return to work, the Government is introducing a range of new measures:

- from April 2002, people on Incapacity Benefit will be able to undertake small amounts of work without losing their benefit entitlement in order to encourage them to try out work and ease the transition into employment. New rules will allow claimants to work up to 16 hours each week, for one year. In addition, claimants will be allowed to earn up to £20 a week for an unlimited period while they remain on IB;
- to help prevent those who become sick or disabled at work from dropping out of the labour market, a series of regional pilots will be introduced from 2002 to provide help to workers at risk of losing their job because of illness or disability;
- to ensure that people on Incapacity Benefit will receive help and support in exploring opportunities to enter employment at least once every 3 years.

**Jobcentre Plus 4.38** On 22 October the Government launched Jobcentre Plus, a new business to deliver work-focused support for all those of working age on out of work benefits – both unemployed and economically inactive. Starting in 49 pathfinder offices across the country, Jobcentre Plus is at the centre of the Government's strategy for a work-first service for all people of working age. It marks a dramatic change in the way in which Government helps working age citizens, delivering an active service to help people become independent and move from welfare into work. All people, both unemployed and inactive, will on making a claim for benefit have a work-focused interview to discuss the opportunities available for taking up work.

**4.39** Jobcentre Plus brings together the Employment Service and the parts of the Benefits Agency dealing with working age people to deliver work for those who can and security for those who cannot. Building on the success of the New Deal and other policies to tackle unemployment and inactivity, Jobcentre Plus will provide a work-focused service with rights and responsibilities balanced at every stage, ending the old system where inactive benefit recipients were written off to a life on benefits with little, if any, help.

**4.40** By working closely with employers, Jobcentre Plus aims to help unemployed people and inactive welfare recipients by making available to them job vacancies, information, advice, training and support, and encouraging employers to open up more opportunities to them. The 'employment first' focus of Jobcentre Plus ensures that it offers high quality and demand-led services appropriate to the needs of employers. The employers in turn are helped to fill job vacancies quickly and effectively with well-prepared and motivated employees.

**4.41** An important aim of Jobcentre Plus is to ensure that people on working age benefits fulfil their responsibilities, whilst the position of those in greatest need is protected. At the same time, the most disadvantaged groups receive high quality help and support specific to their needs. Programmes such as the New Deal for Young People and Employment Zones help such groups to move closer to the labour market, compete for, and retain jobs.

**Job Transition Service 4.42** Even in a strong economy, it is inevitable that redundancies will occur, and the majority are naturally absorbed by a healthy labour market. However, some redundancies can have a devastating impact on local economies, especially when they occur in areas of high unemployment or where the local economy is overly dependent on one industry. To coordinate and enhance support for such areas, the Government has introduced a new Job Transition Service (JTS). The JTS provides support for communities affected by large-scale redundancies, focussing on the needs of individuals and works closely with employers who are able to offer new jobs.

**4.43** In recognition of increased uncertainty and risks to global growth and recovery, and in order to further enhance the strategic work of the JTS managers, the Government is allocating an additional £6 million to strengthen the JTS over the next two years. In addition, the Government is bringing together the JTS with the Rapid Response fund, which seeks to re-skill people affected by large-scale redundancy where a potential new employer has identified the skills required for such people to be offered new jobs.

**Making Work Pay 4.44** In order to counter the problems of poor work incentives and persistent poverty among people without children, the Government announced in Budget 2000 that the successful practice and principle of the Working Families' Tax Credit would be extended to those without children through the new Working Tax Credit. The Working Tax Credit will be introduced from 2003, complementing the new Child Tax Credit.

**4.45** The new Working Tax Credit for work will be a flexible way of supporting low income households with and without children according to their particular circumstances. It will build on the targeted help provided through the Employment Credit in the New Deal 50+, for people aged over 50 returning to work. Through the childcare tax credit, it will continue to recognise the extra burdens faced by working parents with childcare needs.

**4.46** A consultation document, *"New Tax Credits: Supporting Families, Making Work Pay and Tackling Child Poverty"*, was published by the Inland Revenue in July 2001. The consultation period ended formally on 12 October and the Government has carefully considered the representations that have been made in preparing the necessary primary legislation. The rates, thresholds and tapers for the new tax credits will be set as part of the Budget process.

**Basic Skills 4.47** In Budget 2001, the government stated it is willing to consider what else it can contribute to extending opportunity for all in work, particularly to obtain a qualification up to NVQ level 2. The Government is willing to consider a new tax credit for such training. Other possible financial incentives will need to be considered. But Government action alone cannot bring about the sort of changes that are necessary to make a real impact on the problem of low skills. It will be important that everyone; employers, individuals and the Government takes seriously their responsibility to deliver a high skill, high productivity economy. This is being considered in detail by the Performance and Innovation Unit's study on workforce development. Chapter 3 of the Pre-Budget Report 2001 sets out the Government's next steps on taking this agenda forward.





**5.1** The overall inactivity rate has been fairly stable over the last 20 years. But this apparent stability masks a big rise in inactivity amongst certain groups, notably lone parents, people aged over 50 and people with disabilities or health problems, between the late 1970s and the mid 1990s. Economic inactivity rose predominantly among people living in households with no one else in work. Accordingly the proportion of workless households more than doubled between the late 1970s and the mid 1990s.

**5.2** Insufficient help to reattach people to the labour market resulted in large numbers of people claiming inactive benefits; lone parents on Income Support and people on sickness and disability related benefits, often for long periods of time. Between the late 1970s and the mid 1990s numbers on these benefits trebled.

**5.3** Since 1997, the Government has introduced a range of measures to address these problems. The New Deal and other welfare to work policies have extended advice and assistance to help the economically inactive back into the labour market and into work. The National Minimum Wage and tax credits have ensured that work pays.

**5.4** The last few years have seen reductions in the inactivity rates of lone parents and the over 50s and increases in their employment rates. The number of children in workless households has been cut by more than 300,000.

**5.5** However there are still around 4 million people on inactive benefits. The challenge for Government is to extend employment opportunity still further, to include all those who are economically inactive. Jobcentre Plus will ensure for the first time that all working age benefit claimants, whether unemployed or inactive, get the advice and assistance required for them to enter work, delivering work for those who can and security for those who cannot. Complementing Jobcentre Plus, the new Working Tax Credit, and policies to address basic skills needs and tackle discrimination will work to overcome the barriers that people face in entering work.

**5.6** The Government will continue to look at ways of getting more people into work and it will introduce further measures to deliver that objective, as part of the next spending review.



# A

## APPENDIX A: DATA SOURCES FOR CHARTS

---

<b>Chart 2.1</b>	Office for National Statistics (ONS), Labour Force Survey (LFS); Department for Work and Pensions (DWP); and Table 1.1 from Nickell (1999), “Unemployment in Britain”, in Gregg and Wadsworth (ed), “The State of Working Britain”.
<b>Chart 2.2</b>	ONS, LFS
<b>Chart 2.3</b>	Table C from Armitage and Scott (1998), “British labour force projections: 1998-2011”, <i>Labour Market Trends</i> , June 1998; and ONS, LFS.
<b>Chart 2.4</b>	Gregg, Hansen and Wadsworth (1999), “The rise of the workless household”, in Gregg and Wadsworth (ed), “The State of Working Britain”. HMT updates using data from ONS, LFS.
<b>Chart 2.5</b>	Nickell and Quintini (2001), “The Recent Performance of the UK Labour Market”, paper presented to the Economics Section of the British Association for the Advancement of Science , 4 September 2001.
<b>Chart 2.6</b>	Nickell and Quintini (2001), “The Recent Performance of the UK Labour Market”, paper presented to the Economics Section of the British Association for the Advancement of Science , 4 September 2001.
<b>Chart 3.1</b>	ONS, LFS
<b>Chart 3.2</b>	ONS, LFS
<b>Chart 3.3</b>	DWP
<b>Chart 3.4</b>	ONS, LFS
<b>Chart 3.5</b>	Dickens, Wadsworth and Gregg (ed), (2001), “The State of Working Britain Update 2001”.
<b>Chart 3.6</b>	Dickens, Wadsworth and Gregg (ed), (2001), “The State of Working Britain Update 2001”.
<b>Chart 3.7</b>	ONS, LFS
<b>Chart 3.8</b>	ONS, LFS and DWP
<b>Chart 3.9</b>	DWP
<b>Chart 3.10</b>	ONS, General Household Survey
<b>Chart 3.11</b>	ONS, LFS
<b>Chart 3.12</b>	DWP
<b>Chart 3.13</b>	ONS, LFS
<b>Chart 3.14</b>	ONS, LFS annual Local Area Database. See Hastings (2001), “The 1999/2000 Labour Force Survey annual Local Area Database”, <i>Labour Market Trends</i> , April 2001.
<b>Chart 3.15</b>	DWP, ONS
<b>Chart 3.16</b>	DWP, ONS

